

FPX NICKEL CORP.

Consolidated Financial Statements

December 31, 2019 & 2018

(Stated in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FPX Nickel Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FPX Nickel Corp., which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of FPX Nickel Corp. as at December 31, 2019 and December 31, 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 are independent of FPX Nickel Corp. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the consolidated financial statements and our auditor's report thereon.

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, 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 FPX Nickel Corp.'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 FPX Nickel Corp. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing FPX Nickel Corp.'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 FPX Nickel Corp.'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 FPX Nickel Corp.'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 FPX Nickel Corp. 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.

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.

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



Chartered Professional Accountants

Vancouver, BC
March 26, 2020

FPX NICKEL CORP.
Consolidated Statements of Financial Position
(Stated in Canadian Dollars)

	December 31, 2019	December 31, 2018
	\$	\$
ASSETS		
Current		
Cash and cash equivalents (note 4)	1,728,445	1,449,593
Amounts receivable (note 5)	35,444	43,291
Prepaid expenses (note 6)	40,054	25,273
Total Current Assets	1,803,943	1,518,157
Reclamation deposits (note 7)	117,741	117,474
Marketable securities (note 8)	27,781	55,783
Right-of-use asset – office lease (notes 3 and 11)	82,660	-
Exploration and evaluation assets (note 9)	9,494,614	9,162,131
Total Assets	11,526,739	10,853,545
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 10)	61,858	55,675
Lease liability – current portion (notes 3 and 11)	29,345	-
Interest payable (note 12)	144,943	102,319
Total Current Liabilities	236,146	157,994
Lease liability – non-current portion (notes 3 and 11)	55,541	-
Loans payable (note 12)	7,927,001	7,884,328
Total Liabilities	8,218,688	8,042,322
EQUITY		
Share capital (note 13)	33,476,916	32,147,922
Other equity reserve (note 13)	6,446,378	6,045,124
Deficit	(36,586,200)	(35,340,630)
Accumulated other comprehensive loss	(29,044)	(41,193)
Total Shareholders' Equity	3,308,050	2,811,223
Total Liabilities and Shareholders' Equity	11,526,739	10,853,545
Nature and continuance of operations (note 1)		
Commitments (note 16)		
Subsequent events (note 20)		

Approved and authorized by the Board of Directors:

/s/ Peter M. D. Bradshaw

Peter M.D. Bradshaw, Director

/s/ James S. Gilbert

James S. Gilbert, Director

See notes to the consolidated financial statements

FPX NICKEL CORP.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31
(Stated in Canadian dollars)

	2019	2018
	\$	\$
EXPENSES		
Accounting, legal and audit	40,669	19,609
Communications	22,153	22,499
Depreciation	32,217	-
Foreign exchange loss (gain)	(271,660)	614,942
General exploration	2,914	5,066
Insurance	12,721	12,699
Interest expense (notes 11 and 12)	471,431	427,821
Management fees and salaries	357,400	238,596
Office and administration	17,279	18,279
Property tax and other	4,604	-
Rent	-	31,495
Share-based compensation (note 13)	434,892	420,729
Travel and promotion	100,265	79,050
Trust and filing fees	25,875	29,703
Loss before other items	(1,250,760)	(1,920,488)
OTHER ITEMS		
Interest income	20,492	15,711
Loss on sale of marketable securities (note 8)	(15,302)	(7,271)
	5,190	8,440
Net loss for the year	(1,245,570)	(1,912,048)
Other comprehensive loss		
Items that may be reclassified to income:		
Unrealized gain (loss) on marketable securities	(7,790)	(15,235)
Comprehensive loss for the year	(1,253,360)	(1,927,283)
Basic and diluted loss per share (note 13)	\$0.01	\$0.01
Weighted average number of common shares outstanding	148,537,805	143,503,216

See notes to the consolidated financial statements

FPX NICKEL CORP.

Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2019 and December 31, 2018
(Stated in Canadian Dollars)

	Share Capital		Other		Accumulated	
	Number	Amount	Equity	Deficit	Other	Total
	of Shares	\$	Reserve	\$	Comprehensive	\$
	#		\$		Loss	
					\$	
Balance, December 31, 2017	133,770,339	30,723,099	5,624,395	(33,428,582)	(50,749)	2,868,163
Private placement	12,250,000	1,470,000	-	-	-	1,470,000
Share issue costs	-	(45,177)	-	-	-	(45,177)
Share-based compensation	-	-	420,729	-	-	420,729
Adjustment on sale of marketable securities	-	-	-	-	24,791	24,791
Net loss for the year	-	-	-	(1,912,048)	-	(1,912,048)
Other comprehensive loss	-	-	-	-	(15,235)	(15,235)
Balance, December 31, 2018	146,020,339	32,147,922	6,045,124	(35,340,630)	(41,193)	2,811,223
Private placement	8,333,333	1,250,000	-	-	-	1,250,000
Share issue costs	-	(10,894)	-	-	-	(10,894)
Options exercised	375,000	89,888	(33,638)	-	-	56,250
Share-based compensation	-	-	434,892	-	-	434,892
Adjustment on sale of marketable securities	-	-	-	-	19,939	19,939
Net loss for the year	-	-	-	(1,245,570)	-	(1,245,570)
Other comprehensive loss	-	-	-	-	(7,790)	(7,790)
Balance, December 31, 2019	154,728,672	33,476,916	6,446,378	(36,586,200)	(29,044)	3,308,050

See notes to the consolidated financial statements

FPX NICKEL CORP.
Consolidated Statements of Cash Flows
For the Years Ended December 31
(Stated in Canadian Dollars)

	2019	2018
	\$	\$
Cash provided by (used for):		
Operating activities		
Net loss for the year	(1,245,570)	(1,912,048)
Add items not involving cash:		
Depreciation	32,217	-
Accrued interest included in loans payable	164,323	427,820
Loss on sale of marketable securities	15,302	7,271
Unrealized foreign exchange (gain) loss on loan payable	(245,189)	611,419
Share-based compensation	434,892	420,729
Gain on lease modification	(840)	-
	(844,865)	(444,809)
Changes in non-cash working capital components:		
Amounts receivable	36,994	217,313
Prepaid expenses	(14,781)	(11,001)
Accounts payable and accrued liabilities	(19,980)	(10,235)
Interest payable	144,943	8,228
	(697,689)	(240,504)
Financing activities *		
Proceeds from shares issued	1,306,250	1,470,000
Share issue costs	(10,894)	(45,177)
Repayment of lease liability	(29,151)	-
Proceeds from long-term debt	4,000,000	-
Repayment of long-term debt and interest payable	(3,978,780)	-
Proceeds from sale of marketable securities	24,850	97,020
Loan payments	-	(96,893)
	1,312,275	1,424,950
Investing activities *		
Reclamation deposits	(267)	(290)
Exploration and evaluation expenditures	(335,467)	(294,699)
	(335,734)	(294,989)
Net cash and cash equivalents provided during year	278,852	889,457
Cash and cash equivalents – beginning of year	1,449,593	560,136
Cash and cash equivalents - end of year	1,728,445	1,449,593
* Supplemental disclosure of non-cash financing and investing activities:		
Interest received	20,403	15,614
Accounts payable related to mineral properties	26,162	11,855
British Columbia mineral exploration tax credits receivable included in exploration and evaluation assets	29,146	37,313

Also see Notes 11 and 12.

See notes to the consolidated financial statements

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Stated in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

FPX Nickel Corp. (the “Company”) is incorporated under the *Business Corporations Act* (Alberta) and is involved in the acquisition and exploration of mineral property interests that are considered potential sites of economic mineralization. On May 25, 2017, the Company’s shareholders approved a special resolution to change the Company’s name from First Point Minerals Corp. to FPX Nickel Corp. The name change became effective on May 30, 2017. At the date of these consolidated financial statements, the Company has not identified a known body of commercial grade ore on any of its properties and the ability of the Company to recover the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of these properties.

On September 4, 2019, the Company closed amended and new loan agreements to extend the maturity of its long-term debt from September 4, 2020 to September 4, 2022 and September 4, 2025. On closing of the new and amended loan agreements, the Company’s long-term debt is as follows:

- Loan from Peter Bradshaw, the Company’s Chairman and largest shareholder, with principal of C\$4 million and accrued interest due on September 4, 2025 (the “**Bradshaw Loan**”);
- Loan from a private shareholder with principal of US\$2.5 million and accrued interest due on September 4, 2022 (the “**Private Shareholder Loan**”).

The Loans bear a headline interest rate of 7.5%, of which 2% will be paid currently, on a semi-annual basis, and the remaining 5.5% is payable at the respective maturity dates of the Loans. The Private Shareholder Loan is secured by a fixed and specific charge against the Company’s Decar mineral claims. There are no covenant provisions associated with the Loans, which may be repaid, in whole or in part, prior to the respective maturity dates and without penalty, at the Company’s option. The terms of the Loans are more fully described in Note 12 – Loans Payable.

The Company has not generated revenue from operations. The Company incurred a net loss of \$1,245,570 (2018 – \$1,912,048) during the year ended December 31, 2019 and as of that date the Company’s deficit was \$36,586,200 (2018 - \$35,340,630). As the Company is in the exploration stage, the recoverability of the costs incurred to date on its exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties.

While the Company’s working capital position at December 31, 2019 was \$1,567,797 (2018 - \$1,360,163), the Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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

The head office and principal address of the Company is Suite 620 – 1155 West Pender Street, Vancouver, British Columbia V6E 2P4. The Company’s registered and records office is 4500 Bankers Hall East, 855 Second Street SW, Calgary, Alberta T2P 4K7.

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Stated in Canadian Dollars)

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of the Company for the year ended December 31, 2019, including comparatives for the prior year, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 26, 2020.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical costs basis except for financial instruments as described in Note 3 (c), which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Although management uses historical experience and its best knowledge of the amounts, events or actions to form the basis for judgments and estimates, actual results could differ from these estimates. See also Note 3 (t).

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

The consolidated financial statements include the accounts of the parent company, FPX Nickel Corp. and its subsidiary as listed below:

Name of Subsidiary	Jurisdiction	Nature of Operations	Equity Interest
First Point Mexico, S.A. de C.V.	Mexico	Exploration	100%

The financial statements of the Company’s subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to determine the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

(b) Foreign currencies

The functional currency of the Company and its subsidiary is the Canadian dollar and unless otherwise specified, all dollar amounts in these consolidated financial statements are expressed in Canadian dollars. The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 - *The Effects of Changes in Foreign Exchange Rates*.

The accounts of foreign operations are translated into Canadian dollars as follows: monetary assets and liabilities at the rates of exchange prevailing at the statement of financial position date; non-monetary assets and liabilities at applicable

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

historical exchange rates; revenues and expenses at the average rate of exchange for the year, except for non-monetary expenses which are recorded at the rates used for the translation of the related assets. Foreign exchange translation gains and losses are included in the statement of loss and comprehensive loss.

(c) Financial instruments

The Company recognizes financial assets and liabilities on the statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents (see (d) below) are classified as subsequently measured at amortized cost.

Amounts receivable, exclusive of GST and exploration tax credits, are non-interest bearing and are recognized at the face amount, except when fair value is materially different, and are subsequently measured at amortized cost. Amounts receivable recorded are net of lifetime expected credit losses. The Company applies the simplified approach to determining expected credit losses, which requires expected credit losses to be recognized upon initial recognition of the receivables. See Note 5.

Reclamation deposits are classified as subsequently measured at amortized cost. See Note 7.

Investments in marketable equity securities are classified, at the Company's election, as subsequently measured at fair value through other comprehensive income. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance. Fair values are determined by reference to quoted market prices at the statement of financial position date. See Note 8.

Financial liabilities

Trade payables are non-interest bearing if paid when due and are recognized at face amount, except when fair value is materially different. Trade payables are subsequently measured at amortized cost. See Note 10.

Lease liability is initially recorded at present fair. Lease liability and related interest payable are subsequently measured at amortized cost, calculated using the effective interest rate method. See Notes 3 (s) and 11.

Loans payable are initially recorded at fair value less transaction costs. Loans and related interest payable are subsequently measured at amortized cost, calculated using the effective interest rate method. See Note 12.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments having maturity dates of one year or less from the date of acquisition, which are readily convertible to known amounts of cash.

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
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(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of intangible assets (excluding goodwill)

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(f) Reclamation deposits

Cash which is subject to contractual restrictions on use imposed by government agencies as a condition of granting permits in connection with exploration and evaluation assets is classified separately as reclamation deposits.

(g) Exploration and evaluation assets

Once the legal right to explore a property has been acquired, the acquisition costs, including legal and other directly related fees, and the costs directly related to exploration and evaluation assets are recognized and capitalized. These direct expenditures include such costs as materials used, surveying costs, drilling costs, and payments made to contractors. Costs not directly attributable to exploration and evaluation assets activities, including general administrative costs, are expensed in the period in which they occur.

The Company may enter into option agreements, whereby the Company will transfer part of its interest in a mineral property, as consideration, for an agreement by the optionee to meet certain mineral property expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the optionee on the Company's behalf. Any cash or other consideration received from the optionee is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess accounted for as a gain on disposal.

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

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

Once the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
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(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Exploration and evaluation assets (continued)

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

(h) Government assistance

Government assistance received in respect to exploration and evaluations asset expenditures is offset against the costs incurred, or included in income if the costs applicable to such properties have been written off.

(i) Option agreements – exploration and evaluation assets

From time to time, the Company may acquire or dispose of exploration and evaluation assets pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation expenditures or recoveries when the payments are made or received.

(j) Comprehensive loss

Comprehensive income is the change in shareholders' equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The statements of loss and comprehensive loss list unrealized gains and losses for classifications of financial instruments that do not require such gains and losses to be included in net income.

(k) Income taxes

The Company accounts for and measures deferred tax assets and liabilities in accordance with the asset and liability method.

Under this method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, no net asset is recognized. Accordingly, the Company's accounting policy for deferred income taxes currently has no effect on the financial statements of any of the fiscal periods presented.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Share capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the date of share issuance.

Costs incurred to issue common shares are deducted from share capital.

(m) Flow-through shares

The Company from time to time issues flow-through common shares to finance a significant portion of its exploration programs. Pursuant to the terms of the applicable flow-through share subscription agreements, the tax deductibility of qualifying resource expenditures funded from the proceeds of the sales of such shares is transferred to the investors who purchased the flow-through shares. Under IFRS, on issuance of such shares, the Company bifurcates the flow-through share into: (i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and (ii) share capital. As the related exploration expenditures are incurred, the Company derecognizes the liability and recognizes an income tax recovery.

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

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the “Look-back” Rule, in accordance with flow-through regulations pursuant to the *Income Tax Act (Canada)*. When applicable, this tax is accrued as a financial expense until paid.

(n) Share-based payment transactions

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

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

(o) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share are calculated in a manner similar to that used to calculate basic earnings (loss) per share except that the weighted average shares outstanding are increased to include the additional shares resulting from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. Diluted loss per share does not adjust the loss attributed to common shareholders or the weighted average number of common shares outstanding when the effect of such adjustments is anti-dilutive.

FPX NICKEL CORP.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) **Provision for environmental rehabilitation**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets.

The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

At December 31, 2019, the Company does not have any provision for environmental rehabilitation.

(q) **Provisions**

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company's liability.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible capital assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as an accretion expense.

(r) **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) **Adoption of IFRS 16 Leases**

The Company has adopted the requirements of IFRS 16 Leases ("IFRS 16") as of January 1, 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize right of use assets and liabilities for leases. The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases. The details of the new accounting policy and the impact of the policy change are described below.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Adoption of IFRS 16 Leases (continued)

At inception of a contract, the Company must assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company must assess whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and if it has the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease.

Right-of-use asset

The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made and any initial direct costs incurred at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

Lease payments included in the measurement of the lease liability comprise: fixed payments; variable lease payments that depend on an index or a rate; amounts expected to be payable under any residual value guarantee; the exercise price under any purchase option that the Company would be reasonably certain to exercise; lease payments in any optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for any early termination of a lease unless the Company is reasonably certain not to terminate early. The Company has elected to include non-lease components related to premises leases in the determination of the lease liability.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

On the transition date of January 1, 2019, there was no impact on the Company's financial statements. The reconciliation of the lease liability as at January 1, 2019 is as follows:

	2019
Future aggregate minimum lease payments	\$ 48,719
Property taxes	(6,169)
	42,550
Effect of discounting at the incremental rate of borrowing	(2,082)
Lease liability as at January 1, 2019	\$ 40,468

See Note 11.

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Significant accounting judgments and estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

- the recoverability and probability of future economic benefits of amounts capitalized as exploration and evaluation assets;
- the measurement of the lease liability does not include the three-year extension option included in the lease relocation and extension agreement because management is not reasonably certain that the option will be exercised;
- the increase in operating expenses included in the measurement of the lease liability are based on the percentage increase in the base rent for the second and third year of the lease;
- the incremental rate of borrowing used in the measurement of the lease liability was based on the interest rate of the Company's restructured loans payable;
- the inputs used in determining the various commitments which are accrued in the consolidated statements of financial position; and
- the estimate of British Columbia mineral exploration tax credits receivable.

(u) Anticipated changes to International Financial Reporting Standards

The Company does not expect that the changes to IFRS that are effective as of January 1, 2020 will have a significant impact on the Company's results of operations or financial position.

4. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on deposit	\$ 132,425	\$ 358,341
Liquid short-term investments	<u>1,596,020</u>	<u>1,091,252</u>
Cash and cash equivalents	<u>\$ 1,728,445</u>	<u>\$ 1,449,593</u>

5. AMOUNTS RECEIVABLE

The Company's receivables arise mainly from amounts due from Canadian government taxation authorities in relation to GST receivable and mineral exploration cost recoveries.

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6. PREPAID EXPENSES

The Company's prepaid expenses consist of the following:

		2019	2018
Insurance	\$	3,122	\$ 3,100
Vendor prepayments		36,932	22,173
Total	\$	40,054	\$ 25,273

7. RECLAMATION DEPOSITS

The Company has provided deposits as security against potential future reclamation work relating to three of its mineral properties. As at December 31, 2019, a total of \$117,741 (2018 - \$117,474) has been provided in the form of cash and Guaranteed Investment Certificates posted with the Minister of Finance for the Province of British Columbia for the benefit of the provincial Ministry of Energy and Mines.

8. MARKETABLE SECURITIES

Marketable securities consist of equity securities over which the Company does not have control or significant influence. Unrealized gains and losses due to period end revaluations to fair value are included in other comprehensive loss for the period. At December 31, 2019, the Company owned 163,416 (2018 - 278,916) shares of Aquila Resources Inc., the shares of which are traded on the Toronto Stock Exchange.

		2019	2018
Marketable securities – fair value	\$	27,781	\$ 55,783
Marketable securities – cost	\$	56,809	\$ 96,961

During the year ended December 31, 2019 115,500 shares (2018 – 300,000 shares) were sold for proceeds of \$24,850 (2018 – \$97,020).

9. EXPLORATION AND EVALUATION ASSETS

As at December 31, 2019, the Company holds a 100% interest in five nickel properties, four of which are located in British Columbia (Decar, Wale, Orca and Klow), and one located in the Yukon Territory (Mich). With the exception of the Decar district, the Company's nickel properties are all in the early stage of exploration.

Canada

Nickel Properties, British Columbia and Yukon Territory

Under the terms of an option agreement entered into in November 2009, Cliffs held the right to earn an initial 51% interest in the Decar district by spending US\$4,500,000 on the property over four years. Pursuant to an amended agreement dated September 12, 2011, by agreeing to complete the scoping study within 18 months, Cliffs was deemed to have earned an initial 51% interest in the Decar district and the Company was deemed to have earned a 1% NSR royalty in the Decar district. On delivery of the Preliminary Economic Assessment in April 2013, Cliffs earned an additional 9% interest in Decar, bringing its aggregate interest to 60%. In August 2015, the structure of ownership of the Decar district converted to a contractual joint venture, with initial ownership interests fixed at 60% for Cliffs and 40% for FPX Nickel.

On November 18, 2015, the Company purchased Cliffs' 60% ownership of the Decar district for an acquisition price of US \$4.75 million (CDN \$6.27 million). The Company owns 100% of the Decar district

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9. EXPLORATION AND EVALUATION ASSETS *(continued)*

During the year ended December 31, 2014, deferred acquisition and exploration costs incurred on three of the Company's British Columbia nickel properties (Wale, Orca and Klow) totaling \$2,441,636 were written off as the Company has no plans at this time to perform significant work on those properties. The Company retains the underlying mineral claims for these properties in good standing. As of December 31, 2019, these properties are carried at a nominal value of \$1 per property.

Honduras

Camporo Property

The Company acquired a 60% interest in the Camporo property in southern Honduras, subject to a 0.6% NSR royalty interest, from Minera Battle Mountain Gold Company ("BMG") by incurring exploration expenditures of US\$1,000,000 and issuing 700,000 common shares. As of December 31, 2017 the property was carried at a nominal value of \$1.

During the year ended December 31, 2018, the Company vended its interest in the Camporo property to a private company for consideration of \$1.

Consolidated Schedule of Costs – Exploration and Evaluation Assets

	Balance Dec. 31, 2017 \$	Acquisition Costs \$	Exploration Costs \$	Recoveries \$	Costs Written Off \$	Balance Dec. 31, 2018 \$
CANADA						
Decar	8,048,525	-	296,474	(37,313)	-	8,307,686
Wale	1	-	-	-	-	1
Orca	1	-	-	-	-	1
Klow	1	-	-	-	-	1
Mich	844,362	10,080	-	-	-	854,442
Subtotal, Canada	<u>8,892,890</u>	<u>10,080</u>	<u>296,474</u>	<u>(37,313)</u>	<u>-</u>	<u>9,162,131</u>
HONDURAS						
Camporo	<u>1</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Subtotal, Honduras	<u>1</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Total Costs – Exploration & Evaluation Assets	<u>8,892,891</u>	<u>10,080</u>	<u>296,474</u>	<u>(37,314)</u>	<u>-</u>	<u>9,162,131</u>

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9. EXPLORATION AND EVALUATION ASSETS *(continued)*

Consolidated Schedule of Costs – Exploration and Evaluation Assets

	Balance December 31, 2018 \$	Acquisition Costs \$	Exploration Costs \$	Recoveries \$	Costs Written Off \$	Balance December 31, 2019 \$
CANADA						
Decar	8,307,686	1,312	350,237	(29,146)	-	8,630,089
Wale	1	-	-	-	-	1
Orca	1	-	-	-	-	1
Klow	1	-	-	-	-	1
Mich	854,442	10,080	-	-	-	864,522
Total Costs – Exploration & Evaluation Assets	9,162,131	11,392	350,237	(29,146)	-	9,494,614

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are broken down as follows:

	2019	2018
Trade payables	\$ 41,858	\$ 15,675
Accrued liabilities	20,000	40,000
Total	\$ 61,858	\$ 55,675

11. RIGHT-OF-USE ASSET/LEASE LIABILITY

(a) Right-of-use asset

As at December 31, 2019, the right-of-use asset recorded for the Company's office premises was as follows:

	2019
As at December 31, 2018	\$ -
IFRS 16 adoption	40,468
Lease modification – reduction in unit size	(21,582)
Lease modification – increase in lease term	95,991
Depreciation	(32,217)
As at December 31, 2019	\$ 82,660

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11. RIGHT-OF-USE ASSETS/LEASE LIABILITY *(continued)*

(b) Lease liability

Minimum lease payments in respect of lease liabilities and the effect of discounting are as follows:

	2019
Undiscounted minimum lease payments:	
Less than one year	\$ 34,742
Two to three years	59,110
	93,852
Effect of discounting	(8,966)
Present value of minimum lease payments	84,886
Less current portion	(29,345)
Long-term portion	\$ 55,541

(c) Lease liability continuity

The net change in the lease liability is as follows:

	2019
As at December 31, 2018	\$ -
IFRS 16 adoption	40,468
Cash flows:	
Principal payments	(29,151)
Non-cash changes:	
Lease modification - reduction in unit size	(22,422)
Lease modification – increase in lease term	95,991
As at December 31, 2019	\$ 84,886

During the year ended December 31, 2019, interest of \$4,297 (2018 – nil) is included in interest expense.

On August 1, 2019, the Company entered into a three-year lease relocation and extension agreement for its office premises.

See Note 3 (s).

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12. LOANS PAYABLE

Loans payable for the Company is comprised of the following:

	2019	2018
Bradshaw Loan:		
Principal	\$ 4,000,000	\$ -
Accrued interest	96,816	-
	<u>4,096,816</u>	<u>-</u>
Reclassified to interest payable	(80,000)	-
	<u>4,016,816</u>	<u>-</u>
Private Shareholder Loan:		
Principal	3,247,000	6,955,289
Accrued interest	728,128	1,031,358
	<u>3,975,128</u>	<u>7,986,647</u>
Reclassified to interest payable	(64,943)	(102,319)
	<u>3,910,185</u>	<u>7,884,328</u>
Total	\$ 7,927,001	\$ 7,884,328

On September 4, 2019, the Company closed a loan agreement with the Company's Chairman, Peter M.D. Bradshaw, through which a trust controlled by Mr. Bradshaw loaned C\$4 million to the Company (the "Bradshaw Loan"). 100% of the proceeds were used to make an early, partial repayment of 50% of the principal (US\$ 2.5 million; C\$3,315,650) and accrued interest (US\$500,000; C\$663,130) of the Private Shareholder Loan. The maturity date of the Bradshaw Loan is September 4, 2025.

On September 4, 2015, the Company entered into an arm's-length loan agreement with an individual shareholder of the Company (the "Private Shareholder"), through which the Private Shareholder lent US \$5.0 million (C\$6.68 million) to the Company for a five-year period at a 6.5% headline interest rate (the "Private Shareholder Loan"). Of this, 1.5% was paid currently, on a semi-annual basis, and the remaining 5% was accrued and is payable at the end of the loan term. In addition, the Private Shareholder received a drawdown fee equal to 4% of the loan amount and a 1% NSR royalty over the Decar mineral claims. On September 4, 2019, the Company closed an amended and restated loan agreement with the Private Shareholder to extend the loan's maturity date from September 4, 2020 to September 4, 2022.

Pursuant to the loan agreements:

- The headline interest rate is 7.5%, of which 2% will be paid currently, on a semi-annual basis, and the remaining 5.5% will be accrued on a non-compounding basis and paid at the loan maturity dates.
- There are no covenant provisions associated with the loans, which may be repaid, in whole or in part and without penalty, at the Company's option prior to the maturity dates on any semi-annual interest payment date.
- In the event of a change of control (as defined) of the Company prior to September 4, 2022, whether or not the loans have been settled by early repayment prior to September 4, 2022, a premium of 7.5% of the Bradshaw Loan principal of C\$4 million and of the Private Shareholder Loan principal of US\$2.5 million will be payable to Mr. Bradshaw and the Private Shareholder, respectively.
- In the event of a change of control of the Company between September 4, 2022 and September 4, 2025, whether or not the Bradshaw Loan has been settled by early repayment prior to September 4, 2025, a premium of 10% of the Bradshaw Loan principal of C\$4 million will be payable to Mr. Bradshaw.
- The Private Shareholder Loan continues to hold a fixed and specific charge against the Company's Decar mineral claims. At inception, the Bradshaw Loan is unsecured. On the eventual settlement of all amounts owed to the Private Shareholder, the Bradshaw Loan will be secured against the Decar mineral claims and all of the

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12. LOANS PAYABLE *(continued)*

Company's rights, title and interests in, to and under the present and after-acquired personal property related to, derived from or recovered in connection with the Decar mineral claims.

- The Private Shareholder Loan continues to receive a 1% NSR royalty over the Decar mineral claims.

The Company's policy is to present interest payable on the loans in the next 12 months as a current liability. Accordingly, at December 31, 2019, \$80,000 (2018 – nil) and \$64,943 (2018 - \$102,319) has been reclassified from loans payable to interest payable for the Bradshaw and Private Shareholder Loans, respectively. As at December 31, 2019, the loans payable balance includes accrued interest of \$16,816 (2018 – nil) and \$663,185 (2018 – \$929,039) for the Bradshaw and Private Shareholder loans, respectively.

At December 31, 2019, the fair value of the loans payable were approximately as follows:

- Bradshaw Loan – \$3,706,000 (2018 – nil). Present value was calculated using the following attributes – future lump sum of \$5,320,000, 68 months to maturity, and a discount rate of 7.5% discounted annually.
- Private Shareholder Loan – \$3,911,000 (2018 – \$8,102,000). Present value was calculated using the following attributes – future lump sum of \$4,432,155, 32 months to maturity, an exchange rate of CDN \$1 = US \$0.77, and a discount rate of 7.5% discounted annually.

Fair value was determined using an income approach. An income approach is a present value technique that takes into account the future cash flows that would be expected to be received from holding the loan payable as an asset.

Debt restructuring includes replacing existing debt with new debt from a new lender ("debt replacement"), changing the terms of existing debt ("debt modification") and replacing existing debt with new debt from the same lender with different economic terms ("debt exchange"). Under IFRS 9 *Financial Instruments*, debt replacement results in the existing debt being de-recognized in the financial statements, with the difference between the carrying amount of the existing debt and the fair value of the consideration paid being recognized in profit or loss. The accounting treatment for debt modification and debt exchange depends on whether the modification is considered to be "substantial" or the existing debt has been exchanged for new debt with "substantially" different terms. A change is assumed to be substantial if one of the following tests are met:

- Quantitative (10%) test – the net present value of the cash flows under the new terms discounted at the original effective interest rate is at least 10% different from the carrying amount of the original debt; and
- Qualitative test – a significant change in the terms and conditions that is so fundamental that immediate de-recognition is required with no additional quantitative analysis.

If debt modification or exchange are considered to be substantial, the transaction is accounted for as an extinguishment of the existing debt, with the original debt being de-recognized, the recognition of the new debt at its fair value and the difference between the carrying amount of the existing debt and the fair value of the new debt being recorded in profit or loss. If debt modification or exchange are considered to be not substantial, the resulting gain or loss is recorded in profit or loss.

Based on management's assessment of the Company's debt restructuring, there was no gain or loss on the debt replacement and the debt modification was determined to be not substantial and the resulting gain being not material.

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12. LOANS PAYABLE *(continued)*

The net change in the loans payable is as follows:

Balance at December 31, 2018	\$ 7,884,328
Cash proceeds received	4,000,000
Cash repayment - principal	(3,315,650)
Cash repayment – accrued interest	(663,130)
Accrued interest	466,254
Foreign exchange movement	(299,858)
Reclassified to interest payable	(144,943)
Balance at December 31, 2019	<u>\$ 7,927,001</u>

13. SHARE CAPITAL

- (a) Authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of first and second preferred shares. None of the preferred shares have been issued.

- (b) Issued and outstanding

On September 17, 2019, the Company closed a private placement of 8,333,333 shares at a price of \$0.15 per share, for gross proceeds of \$1,250,000. Finders' fees of \$2,700 were paid on a portion of the proceeds.

During the year ended December 31, 2019, the Company issued 375,000 shares as the result of a like number of options being exercised. The amount recorded as share capital was \$89,888 which amount consisted of cash of \$56,250 and an additional sum of \$33,638, the latter being the fair value originally attributable to the options upon vesting, which amount was removed from other equity reserve.

On March 19, 2018, the Company closed a private placement of 12,250,000 shares at a price of \$0.12 per share, for gross proceeds of \$1,470,000. Finders' fees of \$33,181 were paid on a portion of the proceeds.

- (c) Stock options

The Company has an incentive stock option plan that conforms to the requirements of the TSX Venture Exchange. Options to purchase common shares have been granted to directors, employees and consultants of the Company at exercise prices determined by their market value on the date of the grant. The options vest immediately on the date of the grant or as otherwise determined at the discretion of the Board.

On March 28, 2019, the Company granted directors, officers, and employees an aggregate of 2,900,000 options to purchase shares at an exercise price of \$0.20 per share, all of which vested immediately. The options will expire on March 28, 2024.

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13. SHARE CAPITAL *(continued)*

(c) Stock options *(continued)*

Stock option transactions during the years ended December 31, 2018 and 2019, and the number of stock options outstanding and exercisable at December 31, 2019 are summarized as follows:

	Number of Options	Weighted- Average Exercise Price (\$)	Weighted-Average Contractual Remaining Life (Years)
Balance, December 31, 2017	8,450,000	0.17	3.04
Granted	3,800,000	0.15	
Expired	(1,075,000)	0.43	
Balance, December 31, 2018	11,175,000	0.14	3.05
Granted	2,900,000	0.20	
Exercised	375,000	0.15	
Expired	(1,000,000)	0.15	
Balance, December 31, 2019	12,700,000	0.15	2.81
Exercisable at December 31, 2019	12,700,000		

Summary of stock options outstanding at December 31, 2019:

Number Outstanding	Exercise Price (\$)	Expiry Date
2,950,000	0.10	May 12, 2021
2,550,000	0.15	March 30, 2022
250,000	0.15	September 6, 2022
250,000	0.10	November 21, 2022
3,800,000	0.15	March 23, 2023
2,900,000	0.20	March 28, 2024
12,700,000		

(d) Share-based compensation

The weighted average fair value of stock options granted during the years ended December 31, 2019 and 2018 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Expected dividend yield	0%	0%
Risk-free interest rate	1.5%	2%
Expected stock price volatility	142%	143%
Expected life of options	5 years	5 years
Weighted average fair value per stock option	\$0.15	\$0.1107

Share-based compensation expense of \$434,892 was recorded during the year ended December 31, 2019 (2018 – \$420,729). The offsetting credit was to other equity reserve.

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13. SHARE CAPITAL *(continued)*

(d) Share-based compensation *(continued)*

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

(e) Other equity reserve

The following is a summary of the components of other equity reserve at December 31, 2019 and 2018:

	2019	2018
Share options	\$ 6,088,731	\$ 5,687,477
Finders' warrants	357,647	357,647
Total other equity reserve	\$ 6,446,378	\$ 6,045,124

14. LOSS PER SHARE

Loss per share has been calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share has not been calculated as it is anti-dilutive.

15. RELATED PARTY TRANSACTIONS

At December 31, 2019, liabilities included \$14,459 (2018 – \$29,444) due to related parties. Amounts due to related parties are unsecured and non-interest bearing.

During the year ended December 31, 2019, the Company entered into the following related party transactions:

- paid or accrued \$250,000 (2018 - \$175,000) in fees and bonuses to Martin Turenne Consulting Ltd., a private company controlled by Martin Turenne, the Company's President and Chief Executive Officer, for management and administrative services.
- paid or accrued \$57,190 (2018 - \$47,670) in fees to Adera Company Management Inc., a private company controlled by J. Christopher Mitchell, the Company's Chief Financial Officer and Corporate Secretary, for management and administrative services.
- paid or accrued \$18,675 (2018 - \$28,238) in fees to P.J. Marshall Consulting Inc., a private company controlled by Peter Marshall, a Director of the Company, for advisory services.

The amounts charged to the Company for the services provided have been determined by negotiations between the parties and are covered by a signed agreement. These services were in the normal course of operations and management believes that they were incurred on a basis consistent with comparable transactions between other non-related parties.

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15. RELATED PARTY TRANSACTIONS (continued)

The Company considers its Officers to be key management personnel. Amounts paid to the key management personnel during the years ended December 31, 2019 and 2018 are shown in the following table:

	2019	2018
Salaries or fees	\$ 307,190	\$ 222,670
Share-based payments	160,000	199,260
Total key management personnel	\$ 467,190	\$ 421,930

16. COMMITMENTS

As of December 31, 2019, the Company's aggregate commitments are as follows:

	< 1 year	1 – 3 years	4 -6 years	Total
Accounts payable and accrued liabilities	\$ 61,858	\$ -	\$ -	\$ 61,858
Office lease - undiscounted	34,742	59,110	-	93,852
Interest payable and loan payable	144,943	4,722,035	5,560,000	10,426,978
Totals	\$ 244,543	\$ 4,781,145	\$ 5,560,000	\$10,582,688

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

	December 31, 2019	December 31, 2018
	Level 1	Level 1
Cash and cash equivalents	\$ 1,728,445	\$ 1,449,593
Marketable securities	27,781	55,783

The carrying value of receivables, reclamation bonds and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under the direction and guidance of the Board of Directors. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the statements of financial position and arises from the Company's cash and cash equivalents, marketable securities, receivables, excluding GST receivable and British Columbia mineral exploration tax credits receivable, and reclamation deposits.

The Company's cash and cash equivalents and marketable securities are held in accounts with Canadian chartered banks and a brokerage firm. Cash in excess of the amounts needed to fund the Company's day-to-day operating expenses is invested in securities guaranteed by the federal or British Columbia government. The reclamation deposits are in the form of Guaranteed Investment Certificates pledged to the Minister of Finance for the Province of British Columbia to cover the estimated cost of reclaiming the Company's exploration projects.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had cash and cash equivalent balances of \$1,728,445 to settle current liabilities of \$236,146. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Since inception, the Company has financed its cash requirements primarily by issuing securities. On September 4, 2020, the Company entered into new and amended loan agreements. The Loans bear a headline interest rate of 7.5%, of which 2% will be paid currently, on a semi-annual basis, and the remaining 5.5% is payable at the respective maturity dates of the Loans. The timing of cash outflows relating to financial liabilities are outlined in Note 16 – Commitments. At December 31, 2019, the Company had met all the obligations associated with its financial liabilities.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash and cash equivalents balances and periodically monitors the investments it makes and is satisfied with the credit ratings of the financial institutions it deals with and the securities in which its funds are invested. The interest rate on the Company's loans, which mature on September 4, 2022 and September 4, 2025, is 7.5%, and the loans are repayable before maturity at any time at the Company's option without penalty.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(b) Foreign currency rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. In addition, one of the Company's loans payable, which matures on September 4, 2022, is denominated in United States dollars. The Company funds certain operations, exploration and administrative expenses in the United States and other foreign countries by converting funds from its Canadian dollar bank accounts and wiring US funds to the foreign counterparty. Management does not currently hedge its foreign exchange risk.

Sensitivity Analysis

The Company works toward its capital management objectives to the extent possible while facing the challenges of market conditions and the public's assessment of the Company's risk profile. Its capital management objectives have not changed over the period presented.

The carrying value of cash and cash equivalents, marketable securities, receivables, reclamation deposits, accounts payable and current liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be materially affected by credit risk, liquidity risk or market risk.

The Company is not subject to any financial covenants. The Company monitors its financing requirements through cash forecasting, consideration of current economic conditions and reviews of economic and political commentaries in respect of future developments. Financing decisions are based on the timing and extent of expected operating and capital cash outlays. Factors considered when determining whether to issue equity include the amount of cash sought, the availability of these sources and their terms.

18. CAPITAL MANAGEMENT

At December 31, 2019, the Company had working capital of \$1,567,797 (2018 - \$1,360,163). The Company manages its cash, cash equivalents and common shares as capital. The Company's objectives in managing its capital are to:

- Maintain sufficient cash and cash equivalents to last a minimum of one year;
- Have the flexibility to achieve its on-going business objectives, including but not limited to funding work programs on its exploration and evaluation assets and pursuing new business opportunities as they arise, and
- Minimize dilution to existing shareholders.

The Directors have not specified a quantitative return on capital criteria for management, but rather rely on the expertise of management to sustain future development of the business.

The Company's exploration and evaluation assets are in the development stage and the Company does not generate a positive cash flow. As a consequence, the Company relies on accessing the capital markets to obtain the funds needed to carry on its business. It is the Company's intention to utilize its existing working capital and to raise additional funds as needed. The additional funds will be raised primarily through the issuance of its securities in private placements.

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19. INCOME TAXES

The tax effects of temporary differences between amounts recorded in the Company's accounts and the corresponding amounts as computed for income tax purposes give rise to deferred tax assets as follows:

	2019	2018
Equipment	\$ 67,337	\$ 67,337
Mineral properties and deferred exploration costs	695,782	694,995
Share issue costs and other	21,466	41,971
Capital loss carryforwards	228,007	225,941
Non-capital loss carryforwards	4,143,960	3,833,730
Unrecognized benefit of tax assets	(5,156,552)	(4,863,974)
Net deferred income tax assets	\$ -	\$ -

A reconciliation of the income tax expense for the year is as follows:

	2019	2018
Net loss for the year	\$ (1,245,570)	\$ (1,912,048)
Expected income tax rate	27.00%	27.00%
Expected income tax recovery	(336,304)	(516,253)
Net effect of non-deductible amounts	33,192	269,504
Deferred tax assets not recognized	303,112	246,749
Income tax expense for the year	\$ -	\$ -

As at December 31, 2019, the Company has accumulated non-capital losses for Canadian income tax purposes totalling approximately \$15.4 million (2018 - \$14.2 million). The losses expire in the following periods:

Year of Origin	Year of Expiry	Non-capital losses
2006	2026	\$ 452,000
2007	2027	344,000
2008	2028	194,000
2009	2029	159,000
2010	2030	690,000
2011	2031	1,848,000
2012	2032	2,279,000
2013	2033	1,927,000
2014	2034	1,237,000
2015	2035	2,429,000
2016	2036	887,000
2017	2037	839,000
2018	2038	941,000
2019	2039	1,123,000
		<u>\$ 15,349,000</u>

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20. SUBSEQUENT EVENTS

On March 11, 2020, the Company closed a private placement of 8,333,332 shares at a price of \$0.18 per share, for gross proceeds of \$1,500,000. Finders' fees of \$22,140 were paid on a portion of the proceeds.

On March 11, 2020, the Company granted directors, officers, and employees an aggregate of 3,100,000 options to purchase shares at an exercise price of \$0.20 per share, all of which vested immediately. The options will expire on March 11, 2025.

Subsequent to December 31, 2019, the Company issued 250,000 shares as the result of a like number of options being exercised, resulting in gross proceeds to the Company of \$25,000.

On March 20, 2020, the Company made an early, partial repayment (US\$500,000; C\$724,743) of accrued interest owing under the terms of the Private Shareholder Loan.