

Cartier Iron Corporation

Condensed Interim Financial Statements

June 30, 2018

(expressed in Canadian dollars)

(unaudited)

Management's Comments on Unaudited Condensed Interim Financial Statements

These unaudited condensed interim financial statements of Cartier Iron Corporation (the "Company") have been prepared by management and approved by the Board of Directors of the Company.

These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

Cartier Iron Corporation

Statements of Financial Position

(expressed in Canadian dollars)

(unaudited)

	Notes	As at June 30, 2018 \$	As at December 31, 2017 \$
Assets			
Current			
Cash		17,999	481,636
Receivables	4	33,019	30,538
Marketable securities	5	36,105	30,994
Prepaid expenses		28,093	18,179
		<u>115,215</u>	<u>561,347</u>
Investment in associate	6	350,866	370,383
Exploration and evaluation	7	612,489	177,518
		<u>1,078,569</u>	<u>1,109,248</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	13 and 14	588,198	1,035,518
Due to Eloro Resources Ltd.	8	221,976	88,168
Unrenounced flow-through share premium	10	-	43,092
		<u>810,173</u>	<u>1,166,778</u>
Shareholders' equity (deficiency)			
Share capital	9	8,056,577	8,056,577
Contributed surplus	9	256,000	240,000
Warrants	9	335,000	335,000
Deficit		<u>(8,379,181)</u>	<u>(8,689,107)</u>
		<u>268,396</u>	<u>(57,530)</u>
		<u>1,078,569</u>	<u>1,109,248</u>
Going concern	2		
Subsequent event	13		
Approved by the Board:			
	Thomas G. Larsen	Francis Sauve	
	Director	Director	

Cartier Iron Corporation

Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

(unaudited)

	Notes	3 months ended June 30,		6 months ended June 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Expenses					
Professional fees		8,499	5,623	15,499	10,719
Consulting fees	13	83,500	95,526	160,500	185,526
Stock-based compensation		16,000	-	16,000	-
General and administrative		54,046	25,473	102,040	49,415
Investor relations		29,643	4,000	46,547	17,293
Travel		-	16,851	-	16,851
Interest		-	1,755	-	3,491
Decrease in fair value of marketable securities		15,495	200	20,639	(2,550)
Impairment of exploration and evaluation	7	6,372	33,768	11,766	44,268
Refundable tax credit and mining tax credit		-	-	-	(103,752)
Gain on settlement of accounts payable	14	(659,849)	-	(659,849)	-
Part XII.6 tax		22	-	367	-
Other recoveries		-	-	139	(2,711)
		(446,273)	183,196	(286,351)	218,551
Income (loss) before loss on investment of an associate		446,273	(183,196)	286,351	(218,551)
Dilution gain on change in interest in associate	6	5,102	34,824	24,861	34,824
Share of loss of an associate	6	(26,874)	(37,547)	(44,378)	(41,623)
Income (loss) before income taxes		424,500	(185,919)	266,834	(225,350)
Deferred income taxes	10	24,727	-	43,092	-
Income (loss) and comprehensive income (loss)		449,227	(185,919)	309,926	(225,350)
Income per common share-basic and diluted		0.009	(0.005)	0.006	(0.006)
Weighted average number of common basic and diluted		47,222,721	35,572,721	47,222,721	35,572,721

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

Cartier Iron Corporation

Statements of Changes in Equity

(expressed in Canadian dollars)

(unaudited)

	Share capital \$	Contributed surplus \$	Warrants \$	Deficit \$	Total \$
Balance, December 31, 2017	8,056,577	240,000	335,000	(8,689,107)	(57,530)
Stock-based compensation	-	16,000	-	-	16,000
Income (loss)	-	-	-	309,926	309,926
Balance, June 30, 2018	8,056,577	256,000	335,000	(8,379,181)	268,397
Balance, December 31, 2016	7,290,564	240,000	-	(7,874,303)	(343,740)
Share issue costs	(1,230)	-	-	-	(1,230)
Loss	-	-	-	(225,350)	(225,350)
Balance, June 30, 2017	7,289,334	240,000	-	(8,099,653)	(570,319)

Cartier Iron Corporation

Statements of Cash Flows

(expressed in Canadian dollars)

(unaudited)

	6 months ended June 30,	
	2018	2017
	\$	\$
Cash provided by (used in)		
Operating activities		
Income (loss)	309,926	(225,350)
Items not affecting cash		
Stock-based compensation	16,000	-
Interest not paid	-	3,491
Increase in fair value of marketable securities	20,639	(2,550)
Impairment of exploration and evaluation	11,766	44,268
Gain on settlement of accounts payable	(659,849)	-
Dilution gain on change in interest in associate	(24,861)	(34,824)
Share of loss of an associate	44,378	41,623
Deferred income tax recovery	(43,092)	-
Changes in non-cash working capital		
Receivables	(2,481)	(1,523)
Prepaid expenses	(9,914)	(6,794)
Accounts payable and accrued liabilities	212,529	132,815
	<u>(124,958)</u>	<u>(48,844)</u>
Financing activities		
Advances from Eloro Resources Ltd.	133,807	-
Share issue costs	-	(1,230)
	<u>133,807</u>	<u>(1,230)</u>
Investing activities		
Purchase of marketable securities	(25,750)	-
Exploration and evaluation	(446,737)	(44,267)
	<u>(472,487)</u>	<u>(44,267)</u>
Net decrease in cash	(463,637)	(94,341)
Cash, beginning of period	481,636	132,683
Cash, end of period	17,999	38,342
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

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

Cartier Iron Corporation

Notes to Condensed Interim Financial Statements

June 30, 2018

(expressed in Canadian dollars)
(unaudited)

1. Nature of operations

Cartier Iron Corporation (the "Company") is a public company engaged in the acquisition, exploration and development of mineral resource properties. The Company is incorporated under the laws of Ontario and its registered office is located at 20 Adelaide Street East, Suite 200, Toronto, Ontario, M5C 2T6.

2. Going concern

The Company is in the exploration stage and has no revenue. As at June 30, 2018, the Company had a working capital deficit of \$694,958 (December 31, 2017 - \$605,431) and for the 6 months ended June 30, 2018, the Company incurred a cashflow deficit from operations of \$124,958 (2017 - \$48,844). The working capital deficit and cashflow deficit from operations limit the Company's ability to fund operations and the acquisition, exploration and development of mineral resource properties. As a result, there is significant doubt about the Company's ability to continue as a going concern.

The continued operation of the Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and equity financings to meet its existing obligations and finance the acquisition, exploration and development of mineral resource properties. The Company is actively seeking to raise the necessary advances and equity financing, however, there can be no assurance that additional financing will be available.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation

Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board.

The accounting policies used in these interim condensed financial statements are consistent with those disclosed in the Company's audited financial statements for the year ended December 31, 2017.

These interim condensed financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2017.

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on August 24, 2018.

Changes in accounting standards

On January 1, 2018, the Company adopted the following amendment to standards:

IFRS 9, Financial Instruments ("IFRS 9")

This standard will replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

The adoption of this accounting standard had no impact on these financial statements.

New standards and interpretations not yet adopted

The following new standard will be effective for periods beginning on or after January 1, 2019:

IFRS 16, Leases ("IFRS 16")

This standard will replace *IAS 17, Leases*. IFRS 16 provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged from IAS 17. The Company has not determined the extent of the impact of IFRS 16 on its financial statements.

4. Receivables

The Company files a Québec Corporation Income Tax Return claiming a refundable tax credit on eligible exploration expenditures incurred in Québec ("Refundable Tax Credits") and a Québec Mining Duties Return claiming a credit on duties refundable for losses ("Credit on Duties"). It is the Company's policy to record an estimate of amounts to be received for unassessed claims for Refundable Tax Credits and Credits on Duties as a receivable and a reduction to exploration and evaluation assets when there is reasonable assurance that the Company has complied with all conditions needed to obtain the credits. The amount of the unassessed claims is subject to audit by Revenu Québec and Ressources naturelles et Faune Québec.

	In respect returns filed for years ended December 31,		
	2017	2016	2015
		\$	\$
Refundable Tax Credits			
As filed	166,069	22,476	251,079
As assessed	—	—	251,079
Received	—	—	(251,079)
Included in receivables at June 30, 2018	—	—	—
Credit on Duties			
As filed	34,162	4,641	71,699
As assessed	—	—	—
Received during the period	—	—	—
Included in receivables at June 30, 2018	—	—	—

5. Marketable securities

Marketable securities consist of the following investment in a related party:

	June 30, 2018		December 31, 2017	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Champion Iron Limited	6,500	3,373	6,400	3,373
Tartisan Resources Corp.	29,605	40,750	24,594	15,000
	36,105	44,123	30,994	18,373

One director of the Company is a director of Champion Iron Limited.

6. Investment in associate

As at June 30, 2018, the Company held 2,543,500 Eloro common shares (December 31, 2017 - 2,543,500) with a fair value of \$1,653,275 (December 31, 2017 - \$2,696,110), representing 7.28% of the outstanding Eloro common shares (December 31, 2017 - 7.72%). The Company continues to account for its investment in Eloro as an investment in associate. Although the Company holds less than 20% of the voting rights of Eloro, the Company continues have significant influence in Eloro as three directors of the Company are also directors of Eloro.

	Number of Eloro common shares held	\$
Balance at December 31, 2017	2,543,500	370,383
Dilution gain	—	24,861
Share of loss	—	(44,378)
Balance at June 30, 2018	2,543,500	350,886

The following is a summary of Eloro's balance sheet and reconciliation to carrying amounts as at June 30, 2018:

	\$
Assets	
Cash	481,867
Due from the Company	221,876
Other current assets	250,252
	953,995
Exploration and evaluation	4,238,464
	5,192,459
Liabilities and shareholders' equity	
Current liabilities	789,791
Shareholders' equity	4,402,667
	5,192,458

Reconciliation to carrying amount:

Share percentage ownership of Eloro	7.28%
	\$
Company's share of net assets of Eloro	378,011
Difference between the Company's share of net assets of Eloro and carrying value	17,069
Carrying value of investment in Eloro	360,942

The following is a summary of the statement of income of Eloro for the year ended June 30, 2018:

	\$
Expenses	
Expenses	196,544
Stock-based compensation	139,000
Loss on sales of marketable securities	189,468
Unrealized loss on marketable securities	(157,545)
Writedown of exploration and evaluation	2,225
	369,693
Loss	(369,693)
Other comprehensive income	1,624
Comprehensive loss	(368,069)

7. Exploration and evaluation

	December 31, 2017 \$	Acquisition costs \$	Exploration expenditures \$	Writedowns \$	June 30, 2018 \$
Property					
Gagnon	—	—	11,766	(11,766)	—
Big Easy	177,518	—	434,970	—	612,489
	177,518	—	446,736	(11,766)	612,489

Gagnon, Quebec

The Company owns a 55% interest in Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie) and Jeannine, consisting of 141 claims covering 74.68 square kilometres in the Fermont Iron Ore District in the Labrador Trough in northeastern Québec (“Gagnon”).

A joint venture was formed between the Company and Champion to incur additional exploration expenditures. If a joint venture partner does not fund its proportionate interest in the joint venture, its interest will be diluted and, when its interest is reduced below 10%, its interest would be reduced solely to a 1% royalty. The other joint venture partner will have the option to reduce the royalty from 1% to 0.5% by making a payment of \$3,000,000.

In the event that a joint venture partner proposes to acquire any property within 10 kilometres of Gagnon, the acquirer must offer the property at cost to the other party for inclusion in Gagnon.

As at June 30, 2018, facts and circumstances suggested that the carrying amount of Gagnon may exceed its recoverable amount. As required by International Financial Reporting Standard 6, *Exploration for and Evaluation of Mineral Resources* (“IFRS 6”), the Company assessed Gagnon for impairment. The Company concluded that there were a number of indicators of impairment, and accordingly, recorded an impairment of exploration and evaluation of \$7,570.

The Company has incurred the following cumulative exploration and evaluation expenditures on Gagnon:

	\$
Balance, December 31, 2017	3,861,605
Expenditures	11,766
<u>Balance, June 30, 2018</u>	<u>3,873,371</u>

As at June 30, 2018, Champion held 11,519,971 common shares of the Company (December 31, 2017 - 11,519,971), representing 24.4% of the outstanding common shares of the Company (December 31, 2017 - 24.4%). Pursuant to a standstill agreement, Champion may not sell or transfer more than 2,000,000 common shares during any 30-day period.

One director of the Company is a director of Champion Iron Limited, the parent company of Champion.

Big Easy, Newfoundland and Labrador

The Company owns a 100% interest in Big Easy consisting of 467 mining claims (December 31, 2017 - 278) covering 116.8 square kilometres (December 31, 2017 - 69.5) located in Newfoundland and Labrador.

Pursuant to the definitive agreement, in order to complete the acquisition of Big Easy, the Company must issue common shares and incur exploration expenditures, as follows:

	Common shares	Exploration expenditures \$
Upon signing of definitive agreement (issued)	500,000	—
November 21, 2018	500,000	500,000
November 21, 2019	500,000	800,000
November 21, 2020	1,000,000	1,200,000
	<u>2,500,000</u>	<u>2,500,000</u>

The Company agreed to issue 100,000 common shares as a finder’s fee, of which, 50,000 common shares with a fair value of \$4,500 have been issued and 50,000 common shares will be issued upon completion of the acquisition.

In the event that the Company does not issue common shares or incur exploration expenditures, the definitive agreement will terminate and the Company will transfer the mining licences and claims to the vendor.

The property was subject to a 3% net smelter royalty (“NSR”). On November 21, 2017, the Company exercised an option to reduce the NSR from 3% to 2% by electing to make a payment of \$200,000, as follows:

Due date	\$
November 21, 2017 (paid)	25,000
December 31, 2017 (paid)	25,000
November 21, 2018	75,000
November 21, 2019	75,000

The Company also has options to further reduce the NSR by:

- (a) 0.25% until November 21, 2021 by making a payment of \$250,000; and
- (b) a further 0.25% until November 21, 2022 by making a payment of \$250,000.

In the event that the Company wishes to sell any or all of the property prior to November 21, 2020, the Company must obtain the permission of the vendor.

With respect to the common shares to be issued to the vendor:

- a) the vendor will not grant a security interest in the common shares;
- b) the vendor has the right to sell tranches of less than 300,000 common shares;
- c) until November 21, 2021, the Company has a right of first refusal in the event that the vendor receives a third party offer to acquire any tranche of more than 300,000 common shares; and
- d) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote against any resolution put before the shareholders of the Company upon the recommendation of the Board of Directors
- e) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote in favour of:
 - (i) the election of board nominees that have not been proposed by the then Board of Directors, or
 - (ii) any shareholder resolution or proposal unless the Board of Directors recommends voting in favour of such shareholder resolution or proposal.

8. Due to Eloro Resources Ltd.

The amount due to Eloro is unsecured, non-interest bearing and payable on demand. Three directors of the Company are directors of Eloro.

9. Share capital

Authorized

An unlimited number of Class A preferred shares 5% voting, redeemable, convertible, non-cumulative dividend, which are redeemable at \$0.10 per share and convertible on the basis of one common share for each Class A preferred share.

An unlimited number of common shares.

Issued

	Number of common shares	\$
Balance, December 31, 2017 and June 30, 2018	47,222,721	8,056,577

See note 13 for subsequent event.

Stock options

The Company may grant options to its directors, officers, employees and consultants for up to 10% of the number of common shares outstanding. Options granted vest immediately and the maximum term of each option is 5 years. The exercise price shall not be less than the closing price of the common shares on a stock exchange in Canada on the last trading day immediately preceding the date of the grant, less any discount permissible under the rules of the principal stock exchange on which the common shares are listed for trading. In the event that the common shares are not listed for trading on any stock exchange, the exercise price shall be the fair market value as determined by the Board of Directors. As at June 30, 2018, there were 4,722,272 stock options (December 31, 2017 - 4,722,272) authorized to be issued under the stock option plan, of which, 3,025,000 stock options (December 31, 2017 - 3,025,000) were outstanding.

A summary of the Company's stock options is presented below:

	Expiry date	Weighted- average exercise price \$	Number of stock options outstanding and exercisable
Balance, December 31, 2017	July 9, 2020	0.10	3,025,000
Granted	April 10, 2023	0.15	200,000
Balance, June 30, 2018		0.10	3,225,000

Grant of stock options

On April 10, 2018, the Company granted 200,000 stock options to a consultant, entitling the holder to purchase one common share for \$0.15 until April 10, 2023.

The fair value of the stock options granted was calculated using the Black-Scholes option pricing model with the following assumptions:

Date of issue	April 10, 2018
Expiry date	April 10, 2023
Stock options granted	200,000
Exercise price	\$0.15
Share price	\$0.09
Risk-free interest rate	2.03%
Expected volatility based on historical volatility	154%
Expected life of stock options	5 years
Expected dividend yield	0%
Fair value	16,000
Fair value per stock option	\$0.08

Warrants

A continuity of the Company's warrants is presented below:

	Weighted- average exercise price \$	Number of warrants
Balance, December 31, 2017 and June 30, 2018	0.21	5,780,467

A summary of the Company's outstanding warrants is presented below:

Exercise price	Expiry date	Number of warrants
\$0.20	June 6, 2019	4,178,500
\$0.25	June 6, 2019	1,601,967
		5,780,467

The weighted average remaining contractual life of the outstanding warrants is 0.93 years.

10. Deferred income tax recovery

During the year ended December 31, 2017, the Company issued \$360,000 of flow-through common shares pursuant to the Income Tax Act (Canada). The deductions for income tax purposes of the related expenditures were renounced to the subscribers of the flow-through shares. As the renouncement was prospective, a flow-through share premium of \$48,000 representing the income tax benefits the expenditures renounced by the Company to the subscribers, was recorded in the statement of financial position as an increase to unrenounced flow-through share premium and a reduction of share capital. During the 6 months ended June 30, 2018, flow-through expenditures of \$323,191 were incurred reducing unrenounced flow-through share premium by \$43,092 which was recorded as a deferred income tax recovery.

11. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash, accounts payable and accrued liabilities and due to Eoro

The fair values of cash, accounts payable and accrued liabilities and due to Eoro approximated their respective carrying value due to their short term to maturity.

Marketable securities

The fair value of marketable securities is estimated based on observable inputs.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted prices in active markets for identical assets and liabilities;

Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market data

Marketable securities are classified as Level 1 financial assets.

12. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and due from Eoro. The Company's limits its exposure to credit risk on its cash by holding deposits with high credit quality Canadian chartered bank.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due, other than amounts owing to related parties. Accounts payable and accrued liabilities are subject to normal trade terms and the amount due to Eoro.

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

Equity price risk

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at June 30, 2018 had changed by 25%, with all other variables held constant, the income would have increased or decreased by \$9,026.

Currency risk

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. As all of the Company's purchases are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash in Canadian dollars.

Interest rate risk

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

Capital management

Capital of the Company consists of share capital, contributed surplus, warrants and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company and has no revenues, its principal source of capital is from the issuance of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

13. Related party transactions

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

	6 months ended June 30,		Outstanding at	
	2018	2017	June 30, 2018	December 31, 2017
	\$	\$		\$
Consulting fees	160,500	180,000	265,405	823,129

Additional related party transactions are disclosed in notes 5, 6, 7 and 8. These transactions were in the normal course of business.

See note 14 for subsequent event.

14. Subsequent event

Settlement of accounts payable to related parties

On August 1, 2018, after receiving shareholder and regulatory approval, the Company settled unpaid management fees of \$848,849 owed to current and former officers or companies controlled by them as at March 31, 2018 through a combination of debt forgiveness of \$511,349 and the issue of 2,700,000 common shares at a deemed price of \$0.125 per common share in settlement of the remaining debt of \$337,500.

When issued, the common shares had a fair value of \$189,000 and the Company realized an additional gain on the settlement of accounts payable of \$148,500 representing the difference between the fair value and deemed value.

At June 30, 2018, the Company recorded a combined gain on settlement of accounts payable of \$659,849.