# AMERICAN MANGANESE INC.

Consolidated Financial Statements

Years ended July 31, 2019 and 2018

(Expressed in Canadian dollars)

DeVISSER GRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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# Independent Auditor's Report

To the Shareholders of American Manganese Inc.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of American Manganese Inc. (the "Company"), which comprise the statements of financial position as at July 31, 2019 and 2018, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and 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 Financial Statements* section of our report. We are independent of the Company 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company is dependent on equity issuances to fund operations and has an accumulated deficit of $41,190,452 as at July 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### 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 financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the 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.

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

The engagement partner on the audit resulting in this independent auditor's report is James D. Gray.

De Visser Gray LLP

**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC, Canada
November 28, 2019

# AMERICAN MANGANESE INC.

Consolidated Statements of Financial Position
As at July 31, 2019 and July 31, 2018
(Expressed in Canadian dollars, unless specifically indicated otherwise)

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents (Note 9b) | **$** | **487,132** | $ | 1,166,786 |
| Amounts receivable (Note 6) | | **13,176** | | 42,243 |
| Due from related parties (Note 7b) | | **11,934** | | - |
| Marketable securities | | **-** | | 2,500 |
| Prepaid expenses and advances | | **92,326** | | 292,344 |
| | | **604,568** | | 1,503,873 |
| **Non-current** | | | | |
| Reclamation deposits | | **40,102** | | 39,842 |
| Exploration and evaluation assets (Note 8) | | **420,684** | | 5,213,065 |
| **Total assets** | **$** | **1,065,354** | $ | 6,756,780 |
| | | | | |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (Note 6) | **$** | **45,092** | $ | 209,170 |
| Payable to related parties (Note 7b) | | **-** | | 13,423 |
| **Total liabilities** | | **45,092** | | 222,593 |
| | | | | |
| **Equity** | | | | |
| Share capital (Note 9) | | **28,625,654** | | 27,549,194 |
| Share subscriptions receivable | | **-** | | (24,500) |
| Share subscriptions received (Note 15) | | **20,000** | | - |
| Share-based payments reserve (Note 9) | | **5,588,082** | | 4,772,270 |
| Warrants reserve (Note 9) | | **5,560,119** | | 5,004,947 |
| Accumulated other comprehensive income | | **2,416,859** | | 2,368,057 |
| Deficit | | **(41,190,452)** | | (33,135,781) |
| **Total equity** | | **1,020,262** | | 6,534,187 |
| **Total liabilities and equity** | **$** | **1,065,354** | $ | 6,756,780 |

Nature and Continuance of Operations (Note 1)
Subsequent events (Note 15)

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

**Approved on behalf of the Board of Directors and authorized for issue on November 28, 2019**

*Larry W Reaugh* Director *Norm Tribe* Director

# AMERICAN MANGANESE INC.

Consolidated Statements of Comprehensive Loss
For the years ended July 31, 2019 and 2018
(Expressed in Canadian dollars, unless specifically indicated otherwise)

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Administration (Note 10) | $ | 3,172,224 | $ | 2,424,562 |
| Loss from operations | | 3,172,224 | | 2,424,562 |
| Finance income | | (396) | | (135) |
| Foreign exchange loss | | 925 | | 67 |
| Write-down of exploration and evaluation assets | | 4,879,733 | | - |
| Unrealized loss on marketable securities | | - | | 2,000 |
| Loss on sale of marketable securities | | 2,185 | | - |
| **Net loss for the year** | | **8,054,671** | | **2,426,494** |
| | | | | |
| **Other comprehensive income** | | | | |
| Foreign currency gain on translation of subsidiary | | 48,802 | | 201,418 |
| **Other comprehensive income for the year** | | **48,802** | | **201,418** |
| | | | | |
| **Total comprehensive loss for the year** | | **8,005,869** | | **2,225,076** |
| | | | | |
| **Basic and diluted loss per share** | **$** | **(0.05)** | **$** | **(0.02)** |
| **Weighted average shares outstanding (basic and diluted)** | | **170,663,702** | | **155,647,553** |

# AMERICAN MANGANESE INC.

Consolidated Statements of Changes in Equity
For the years ended July 31, 2019 and 2018
(Expressed in Canadian dollars, unless specifically indicated otherwise)

| | Number of shares (Note 9) | Share capital (Note 9) | Share subscriptions receivable | Prepaid share subscriptions | Share-based payments reserve (Note 9) | Warrants reserve (Note 9) | Deficit (Note 9) | Accumulated other comprehensive income (Note 9) | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, July 31, 2017** | **147,801,195** | **$ 25,772,440** | **$ -** | **$ 5,500** | **$ 4,102,225** | **$ 4,126,613** | **$ (30,709,287)** | **$ 2,166,639** | **$ 5,464,130** |
| Share-based payments | - | - | - | - | 692,665 | - | - | - | 692,665 |
| Issued pursuant to private placements | 9,945,708 | 2,302,417 | - | - | - | - | - | - | 2,302,417 |
| Cost of share issuance | - | (67,438) | - | - | - | 4,864 | - | - | (62,574) |
| Warrants issued with private placement | - | (996,743) | - | - | - | 996,743 | - | - | - |
| Issued pursuant to options exercise | 1,160,000 | 80,620 | - | - | (22,620) | - | - | - | 58,000 |
| Issued pursuant to warrants exercise | 6,142,500 | 457,898 | - | - | - | (123,273) | - | - | 334,625 |
| Prepaid share subscriptions | - | - | (24,500) | (5,500) | - | - | - | - | (30,000) |
| Net loss for the year | - | - | - | - | - | - | (2,426,494) | - | (2,426,494) |
| Other comprehensive income for the year | - | - | - | - | - | - | - | 201,418 | 201,418 |
| **Balance, July 31, 2018** | **165,049,403** | **$ 27,549,194** | **$ (24,500)** | **$ -** | **$ 4,772,270** | **$ 5,004,947** | **$ (33,135,781)** | **$ 2,368,057** | **$ 6,534,187** |
| Share-based payments | - | - | - | - | 838,274 | - | - | - | 838,274 |
| Issued pursuant to private placements | 10,783,225 | 1,637,484 | - | - | - | - | - | - | 1,637,484 |
| Cost of share issuance | - | (61,814) | - | - | - | - | - | - | (61,814) |
| Warrants issued with private placement | - | (418,856) | - | - | - | 418,856 | - | - | - |
| Issued pursuant to options exercise | 1,150,000 | 79,962 | - | - | (22,462) | - | - | - | 57,500 |
| Reclassification pursuant to extension of warrant expiry dates | - | (136,316) | - | - | - | 136,316 | - | - | - |
| Cancellation of unpaid shares | (100,000) | (24,000) | 24,000 | - | - | - | - | - | - |
| Prepaid share subscriptions | - | - | - | 20,000 | - | - | - | - | 20,000 |
| Share subscription receivable | - | - | 500 | - | - | - | - | - | 500 |
| Net loss for the year | - | - | - | - | - | - | (8,054,671) | - | (8,054,671) |
| Other comprehensive income for the year | - | - | - | - | - | - | - | 48,802 | 48,802 |
| **Balance July 31, 2019** | **176,882,628** | **$ 28,625,654** | **$ -** | **$ 20,000** | **$ 5,588,082** | **$ 5,560,119** | **$ (41,190,452)** | **$ 2,416,859** | **$ 1,020,262** |

# AMERICAN MANGANESE INC.

Consolidated Statements of Cash Flows
For the years ended July 31, 2019 and 2018
(Expressed in Canadian dollars, unless specifically indicated otherwise)

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net loss for the year | $ (8,054,671) | $ (2,426,494) |
| Add items not affecting cash | | |
| Impairment of exploration and evaluation assets | 4,879,733 | - |
| Share-based payments | 838,274 | 692,665 |
| Loss on sale of marketable securities | 2,185 | - |
| Unrealized loss on marketable securities | - | 2,000 |
| Net changes in non-cash working capital items related to operations: | | |
| Amounts receivable | 29,567 | 23,844 |
| Due from related parties | (11,934) | - |
| Prepaid expenses | 200,018 | (58,803) |
| Accounts payable and accrued liabilities | (164,078) | (165,782) |
| Payable to related parties | (13,423) | 6,330 |
| Net cash used in operating activities | (2,294,329) | (1,926,240) |
| **Cash flows from (used in) investing activities** | | |
| Exploration and evaluation expenditures | (42,228) | (20,329) |
| Proceeds from sale of marketable securities | 315 | - |
| Property cost recoveries | 3,430 | 24,139 |
| Net cash from (used in) investing activities | (38,483) | 3,810 |
| **Cash flows from financing activities** | | |
| Net proceeds from issuance of shares | 1,633,170 | 2,602,468 |
| Share subscriptions received | 20,000 | - |
| Net cash from financing activities | 1,653,170 | 2,602,468 |
| **Effect of foreign exchange rates on cash and cash equivalents** | (12) | 660 |
| **Increase (decrease) in cash and cash equivalents** | (679,654) | 680,698 |
| **Cash and cash equivalents, beginning of period** | 1,166,786 | 486,088 |
| **Cash and cash equivalents, end of period** | $ 487,132 | $ 1,166,786 |

## 1. Nature and Continuance of Operations

American Manganese Inc. (the "Company") was incorporated under the laws of British Columbia on July 8, 1987, and is a publicly-traded company with its shares listed on the TSX Venture Exchange trading under the symbol "AMY". The Company is principally engaged in the acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Arizona, USA. To date, the Company has not generated any revenues and is considered to be in the exploration stage.

The address of the Company's corporate office and principal place of business is Unit 2 – 17942 55th Avenue, Surrey, British Columbia, Canada, V3S 6C8.

These consolidated financial statements comprise the financial statements of American Manganese Inc. and its wholly owned subsidiary, Rocher Manganese Inc., incorporated in the state of Arizona, USA.

The business of exploring and developing mineral resource properties involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for capitalized exploration and development costs is dependent on the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material write-downs of the carrying values of exploration and evaluation interests.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

Management estimates that the Company will have adequate funds to meet its corporate, administrative and other obligations during the upcoming July 31, 2020 year-end. The Company has financed its exploration and research and development activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company and until such time as its operations provide positive cash flows. However, while, the Company has been successful in raising financing in the past, there is no guarantee that it will be able to do so in the future.

If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable value of its assets may decline materially from current estimates and the Company will be required to re-evaluate its plans for expenditures and allocate its resources in a matter that both the Board of Directors and senior management deem to be in Company's best interest. Such a plan may result in significant deviations from the Company's original plans for operations and main business purpose. The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations.

**1. Nature and Continuance of Operations (continued)**

As of July 31, 2019, and July 31, 2018, the Company reported the following:

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Comprehensive loss for the year | $ | (8,005,869) | $ | (2,225,076) |
| Deficit | | (41,190,452) | | (33,135,781) |
| Working capital (deficiency) | $ | 559,476 | $ | 1,281,280 |

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue operating as a going concern. If the going concern assumption is not appropriate for these financial statements, then potentially material adjustments may be necessary to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used.

**2. Basis of Presentation**

**a) Statement of compliance**

These consolidated financial statements were authorized for issue by the Board of Directors on November 28, 2019 and have been prepared in accordance with and in full compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention, except for share-based payment transactions (Note 9e).

**b) Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency. The functional currency of the Company's subsidiary is the United States dollar ("USD"). The accounts of the subsidiary have been translated to the Canadian dollar in accordance with Note 3(b).

**c) Critical accounting estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**2. Basis of Presentation (continued)**

**c) Critical accounting estimates and judgments (continued)**

*Key sources of estimation uncertainty*

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

**(i) Measurement and recoverability of the carrying value of exploration and evaluation assets**

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded. Management is required to review the carrying value of its exploration and evaluation assets for potential impairment.

Evaluating the recoverability during the exploration and evaluation phase requires judgments in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluation may be more complex where activities have not yet reached a stage which permits a reasonable assessment of the existence of reserves or resources.

As such, it requires management to make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical an seismic data, the Company's financial ability to continue exploration and evaluation activities and the impact of the current and future mining processes for potential reserves.

The determination of historical costs applicable to the carrying value of residual exploration property interests, subsequent to their partial impairment or abandonment, is subject to significant estimation uncertainty.

*Critical judgements in applying accounting policies*

Significant judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

**(i) Going Concern**

The Company's ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances (see Note 1).

**2. Basis of Presentation (continued)**

**c) Critical accounting estimates and judgments (continued)**

**(ii) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs**

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently, to all periods presented in these consolidated financial statements and have been applied consistently by the Company and its subsidiary.

**a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiary as described in Note 1. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

**b) Foreign currency**

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of comprehensive loss.

Assets and liabilities of the subsidiary with a functional currency in US dollars are translated at the period end rates of exchange, and the results of its operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in other comprehensive income and cumulatively within accumulated other comprehensive income.

**c) Cash and cash equivalents**

Cash and cash equivalents include short-term investments that are readily convertible into cash with original maturities of three months or less.

**3. Significant Accounting Policies (continued)**

**d) Reclamation deposit**

The Company maintains cash deposits, as required by regulatory bodies, as assurance for the funding of decommissioning costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled, and are therefore classified as long term assets.

**e) Research and development**

Expenditures on research activities undertaken to develop a hydrometallurgical process to extract and recover high purity manganese from lower grade domestic resources within North American are expensed as incurred. Development expenditures are expensed in the period incurred unless the project meets certain strict accounting criteria for deferral and amortization. No development expenditures have met the criteria for deferral to date.

**f) Government assistance**

The Company is in receipt of funding from the National Research Council of Canadian Industrial Research Assistance Program ("NRC-IRAP") to continue the research and development of its hydrometallurgical process. Funds received under the NRC-IRAP program are credited to research and development expenses in the consolidated statement of comprehensive loss.

The Company is eligible for a refundable tax credit related to eligible exploration expenditures conducted in certain regions of British Columbia. The refundable mining exploration tax credits are recorded as government assistance against exploration and evaluation assets at fair value when there is reasonable assurance that they will be received.

**g) Exploration and evaluation assets**

General exploration and evaluation expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statements of comprehensive loss as incurred.

The Company's exploration and evaluation assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration/pre-development stage, which are incurred subsequent to the acquisition of the legal right to explore.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management.

**3. Significant Accounting Policies (continued)**

**g) Exploration and evaluation assets (continued)**

Exploration and evaluation expenditures in the relevant area of interest comprise costs which are directly attributable to:

- Drilling and related costs;
- Professional / technical fees;
- Surveying, geological and geotechnical;
- Land maintenance;
- Sampling and storage; and
- Mineral claims and permits.

Exploration and evaluation expenditures related to an area of interest where the Company has tenure are initially capitalized as incurred and are recorded at cost less impairment.

Exploration and evaluation expenditures also include the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operations activities in the relevant area of interest.

All capitalized exploration and evaluation expenditures are assessed during each financial reporting period for impairment if facts and circumstances indicate that impairment may exist under IFRS 6 or IAS 36. In circumstances where a property is abandoned, the cumulative capitalized costs relating to that property are written off in the period.

**h) Impairment of non-financial assets**

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows

from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statements of comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased

**3. Significant Accounting Policies (continued)**

**h) Impairment of non-financial assets (continued)**

carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statements of comprehensive loss.

**i) Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

*Current tax*

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred tax*

Deferred taxes are the taxes expected to be payable or recoverable on the difference between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

*Deferred tax liabilities:*

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

**3. Significant Accounting Policies (continued)**

**i) Income taxes (continued)**

*Deferred tax assets:*

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

Flow-through shares are accounted for as compound instruments comprising liability and equity components upon issuance, with any premium received that can be reasonably determined being attributed to the tax benefit provided and considered a liability. Upon qualifying expenditures being incurred, this liability is reversed and recognized in income, and any deferred tax liability in respect to the amounts renounced to investors is recorded. Costs related to the liability component are also charged to profit or loss.

The Company estimates the value of the liability component using the residual method, whereby the quoted price of the Company's non-flow-through shares issued is compared to the price investors paid for the flow-through shares and any difference forms the premium amount.

**j) Loss per share**

Basic loss per share is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the change in the number of share issued during the period, multiplied by a time-weighting factor.

Diluted loss per share would be calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating loss per share. All options and warrants are considered anti-dilutive when the Company is in a loss position.

**k) Segmented reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under two geographic regions, being Canada and the United States ("USA"). Refer to Note 13.

**3. Significant Accounting Policies (continued)**

**l) Share-based payments**

The Company has an equity settled share purchase stock option plan that is described in Note 9. Share-based payments to employees are measured at the fair value of the instruments issued at the grant date using the Black-Scholes pricing model, and are expensed over the vesting period, which is the period over which all of the specific vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

Share-based payments to non-employees are measured at the fair value of goods or services received, or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair values of share-based payments are determined using an estimated forfeiture rate. Compensation ultimately recognized is revised in subsequent periods to reflect final grant amounts.

**m) Decommissioning liabilities**

The Company records a liability for the reclamation of its exploration and evaluation interests based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate, and the liability is recognized at the time the environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The fair value of the provision for closure and reclamation liabilities is estimated using expected cash flows, based on engineering and environmental reports prepared by third party industry specialists, discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amount and timing of future site closure and reclamation cash flows. Future restoration costs are reviewed annually.

**n) Share capital**

The Company records proceeds from share issuances net of issuance costs. Shares issued for consideration other than cash are valued at the quoted price on the date the agreement to issue the shares was reached.

**o) Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. On initial recognition, financial assets are classified and measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI").

**3. Significant Accounting Policies (continued)**

**o) Financial instruments (continued)**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to holds assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the statement of loss and comprehensive loss.

The Company's financial instruments are classified and subsequently measured as follows:

| Account | Classification |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Amounts receivable (excluding sales tax receivable) | Amortized cost |
| Due from related parties | Amortized cost |
| Marketable securities | FVTPL |
| Reclamation deposits | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Payable to related parties | Amortized cost |

*Impairment*

The Company recognizes an allowance using the Expected Credit Loss ("ECL") model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all amounts recoverable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

**3. Significant Accounting Policies (continued)**

**p) Leases**

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leases in which the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases, which are recognised as an expense on a straight-line basis over the lease term.

**q) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive loss.

**r) Share purchase warrants**

The Company has adopted the Black Scholes Valuation model with respect to the measurement of warrants issued as private placement units. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair values. The fair value attributed to the warrants is credited to warrants reserve. When warrants are exercised, the value is transferred from warrants reserve to share capital. If the warrants expire unexercised, the related amount remains in warrants reserve.

**4. Recent Accounting Pronouncements**

<u>Accounting standards adopted during the current year</u>

- IFRS 9, Financial Instruments

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and de-recognition of financial instruments and to include guidance on hedge accounting and allowing entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

**4. Recent Accounting Pronouncements (continued)**

Accounting standards adopted during the current year (continued)

Effective August 1, 2018, the Company adopted IFRS 9 retrospectively without restatement.

The Company also completed an assessment of its financial instruments as at August 1, 2018 and the only change in classification identified from the original classification under IAS 39 to IFRS 9 is that of marketable securities which was originally from fair value through other comprehensive income to fair value through profit or loss. The Company does not have any available-for-sale marketable securities classified as strategic investments.

Accounting standards issued but not yet effective

Effective for annual periods beginning on or after January 1, 2019:

- IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, according to which all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expense. The standard is effective for annual periods beginning on or after January 1, 2019.

**5. Cash and cash equivalents**

Cash and cash equivalents is comprised of cash at banks and on hand. Cash at banks earn interest at floating rates based on daily bank deposit rates.

**6. Amounts Receivable and Accounts Payable and Accrued Liabilities**

Amounts receivable are all current and include the following:

| | **July 31, 2019** | July 31, 2018 |
|---|---|---|
| Trade receivable | **$ -** | $ - |
| GST receivable | **13,176** | 42,243 |
| | **$ 13,176** | $ 42,243 |

All amounts receivable are current. No allowance is deemed to be required.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 6. Amounts Receivable and Accounts Payable and Accrued Liabilities (continued)

Accounts payable and accrued liabilities include the following:

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Trade payables | $ | **38,924** | $ | 174,883 |
| Payroll remittances | | **6,168** | | 7,287 |
| Other accruals | | **-** | | 27,000 |
| | $ | **45,092** | $ | 209,170 |

During the year ended July 31, 2013 the Company accrued severance payable to directors, officers and management of the Company (Note 7b).

## 7. Related Party Transactions

### a) Investment in subsidiaries

The wholly owned subsidiary of the Company has been incorporated in the USA and is included in these consolidated financial statements as disclosed in Note 1.

### b) Transactions with related parties

At July 31, 2019, $11,934 (July 31, 2018 - $13,423 payable) was receivable from the CEO of the Company for advances for business expenses. The amounts were non-interest bearing, unsecured and have no fixed terms of repayment.

### c) Compensation of key management personnel

Total compensation expense for key management personnel and the composition thereof, is as follows:

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Short term benefits | $ | 347,000 | $ | 215,000 |
| Share based compensation | | 140,300 | | 106,431 |
| | $ | 487,300 | $ | 321,431 |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 8. Exploration and Evaluation Assets

| Rocher Deboule Property, British Columbia | Balance July 31, 2017 | Expenditures | Translation adjustments | Balance July 31, 2018 | Expenditures | Translation adjustments | Balance July 31, 2019 |
|---|---|---|---|---|---|---|---|
| Acquisition and staking | $ 164,452 | $ - | $ - | $ 164,452 | $ - | $ - | $ 164,452 |
| Assays & analysis | 73,767 | - | - | 73,767 | - | - | 73,767 |
| Camp & supplies | 59,504 | - | - | 59,504 | - | - | 59,504 |
| Drilling | 146,826 | - | - | 146,826 | - | - | 146,826 |
| Geological and geophysical | 574,024 | 11,329 | - | 585,353 | - | - | 585,353 |
| Travel and accommodation | 21,197 | - | - | 21,197 | - | - | 21,197 |
| Freight and transport | 97,638 | - | - | 97,638 | - | - | 97,638 |
| Mineral property option | - | (24,500) | - | (24,500) | - | - | (24,500) |
| BC Mining Exploration Tax Credit | (280,438) | (4,139) | - | (284,577) | (3,430) | - | (288,007) |
| Impairment | (532,000) | - | - | (532,000) | - | - | (532,000) |
| | $ 324,970 | (17,310) | $ - | $ 307,660 | $ (3,430) | $ - | $ 304,230 |
| **Lonnie Property British Columbia** | | | | | | | |
| Acquisition and staking | $ 54,121 | $ - | $ - | $ 54,121 | $ - | $ - | $ 54,121 |
| Assays & analysis | 4,528 | - | - | 4,528 | - | - | 4,528 |
| Drilling | 60,073 | - | - | 60,073 | - | - | 60,073 |
| Geological and geophysical | 45,915 | - | - | 45,915 | 36,110 | - | 82,025 |
| Travel and accommodation | 186 | - | - | 186 | - | - | 186 |
| Mineral property option | (56,000) | - | - | (56,000) | - | - | (56,000) |
| BC Mining Exploration Tax Credit | (28,480) | - | - | (28,480) | - | - | (28,480) |
| | $ 80,343 | - | $ - | $ 80,343 | $ 36,110 | $ - | $ 116,453 |
| **Artillery Peak Property Arizona** | | | | | | | |
| Acquisition and staking | $ 3,047,301 | $ 9,000 | 131,948 | $ 3,188,249 | $ 6,118 | $ 32,082 | $ 3,226,449 |
| Assays & analysis | 396,586 | - | 17,121 | 413,707 | - | 4,163 | 417,870 |
| Drilling | 2,966,215 | - | 128,058 | 3,094,273 | - | 31,137 | 3,125,410 |
| Equipment and rentals | 11,256 | - | 486 | 11,742 | - | 118 | 11,860 |
| Geological and geophysical | 4,604,521 | - | 198,787 | 4,803,308 | - | 48,334 | 4,851,642 |
| Travel and accommodation | 219,704 | - | 9,485 | 229,189 | - | 2,306 | 231,495 |
| Property maintenance | 38,704 | - | 1,671 | 40,375 | - | 406 | 40,781 |
| Other fieldwork | 4,455 | - | 192 | 4,647 | - | 47 | 4,694 |
| Impairment | (6,672,368) | - | (288,060) | (6,960,428) | (4,879,733) | (70,039) | (11,910,200) |
| | $ 4,616,374 | $ 9,000 | $ 199,688 | $ 4,825,062 | $ (4,873,615) | $ 48,554 | $ 1 |
| **Total** | **$ 5,021,687** | **$ (8,310)** | **$ 199,688** | **$ 5,213,065** | **$ (4,840,935)** | **$ 48,554** | **$ 420,684** |

### a) Rocher Deboule property, British Columbia

The Rocher Deboule property consists of mineral claims covering approximately 998 hectares near New Hazelton, British Columbia. The Company initially acquired four staked claims consisting of 1,325 hectares in May 2011, and expanded the area of the property through additional staking. The Company owns a 100% interest in the Rocher Deboule property. During the year ended July 31, 2016 the Company allowed 31 of the 33 claims to expire and wrote off estimated costs of $532,000 incurred in respect to the claims dropped.

In November 2017 the Company entered into an option agreement with New World Cobalt Limited, formerly Liaz Pty Ltd (‘Liaz’), an Australian public company, which has since been acquired by Longford Resources Limited (‘LRL’), whereby Liaz may earn a 60% interest in the Rocher Deboule property. Consideration will consist of an initial payment of $10,000 (received), an additional payment of $5,000 or 50,000 shares of LRL (shares received); completion of exploration expenditures of $2,000,000 over four years; and $10,000 cash plus $5,000 cash or 50,000 shares of LRL each subsequent year until the 60% interest has been fully earned, of which $10,000 was also received during the 2018 fiscal year. In November 2018, Liaz informed the Company that it will be withdrawing from the option agreement.

**8. Exploration and Evaluation Assets (continued)**

**b) Lonnie property, British Columbia**

The Lonnie property is a niobium exploration property which covers approximately 2,480 hectares in the Omineca mining division of British Columbia. The Company initially staked mineral claims covering an area of approximately 692 hectares. In October 2007, the Company acquired additional claims covering approximately 1,788 hectares at a cost of $10,000 and 100,000 shares of the Company.

In May 2011, the Company entered into an option agreement with Echelon Petroleum Corp. (Formerly Rara Terra Capital Corp.) (“Echelon”) where Echelon has the right to earn a 60% interest in the Lonnie property in exchange for a cash payment of $60,000 ($24,603 paid) and issuance of 285,000 common shares of Echelon (150,000 received). To acquire the 60% interest, Echelon must also incur $500,000 in exploration work on the property.

In 2012, the Company and Echelon agreed to amend the amount due on the first anniversary from $20,000 to $4,603 in light of the additional costs incurred by Echelon in exploring the property during the year.

In April, 2013 Echelon terminated the option agreement and transferred all claim blocks back to the Company. The Company owns a 100% interest in the property.

**c) Artillery Peak project, Arizona, USA**

The Artillery Peak project includes 31 unpatented mineral claims covering approximately 620 acres, and is prospective for manganese.

During the year ended July 31, 2015 the Company decided to suspend conventional exploration on the Artillery Peak Property and wrote off a total of $5,977,294 in deferred costs. The residual balance was based on an estimate of the cumulative hydrometallurgical and related exploration costs incurred in connection with the patented technologies which have since been further developed by the Company.

These technologies are related in part to the recovery of manganese and accordingly, in the view of management, provided the potential to positively impact the future exploration and development of the Artillery Peak project. Current costs specifically related to the research and development process in respect to these technologies are being expensed as incurred as disclosed at Note 10.

Pursuant to a purchase agreement dated May 31, 2007, the Company purchased 90 unpatented lode claims (of which it currently retains 13) from Primus Resources, L.C. for $96,000 USD and 1,000,000 common shares of the Company. The purchase agreement also provides for a 2% NSR royalty in favour of the vendors. The Company has the right to repurchase 1% of the NSR for $2,000,000 USD.

At July 31, 2019, the Company elected to write off the balance of the remaining costs down to a nominal amount on the basis that there had been an extended period of limited direct exploration activity.

**9. Share Capital, Share-Based Payments and Reserves**

**a) Authorized capital**

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

**b) Issued shares**

In September 2017, the Company issued 30,555 units at a purchase price of $0.18 per Unit for aggregate gross proceeds of $5,500. Each Unit is comprised of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.25 during the two years following the Warrant's date of issuance.

In November and December 2017, the Company issued a total of 1,378,666 units at a purchase price of $0.18 per Unit for aggregate gross proceeds of $248,160. Each Unit is comprised of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.25 during the two years following the Warrant's date of issuance.

In February and March 2018, the Company issued a total of 8,536,487 units at a price of $0.24 per Unit for aggregate gross proceeds of $2,048,757. Each Unit is comprised of one common share in capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one Share at a price of $0.30 during the two years following the Warrant date issuance.

In December 2018, the Company issued 3,382,999 units at a price of $0.15 per Unit for aggregate proceeds of $507,450. Each Unit consists of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.20 during the two years following the Warrant's date of issuance. The warrants attached to this issuance were valued at

$131,748 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. The Company paid $30,294 in share issue costs pursuant to this issuance.

In December 2018, the Company issued 400,000 flow-through units at a price of $0.20 per Unit for aggregate proceeds of $80,000. Each Unit consist of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.30 during the two years following the Warrant's date of issuance. The warrants attached to this issuance were valued at $13,151 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. At July 31, 2019, the Company had a remaining obligation to incur approximately $44,000 in flow-through expenditures pursuant to this financing.

In January 2019, the Company issued 878,334 units at a price of $0.15 per Unit for aggregate proceeds of $131,750. Each Unit consists of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.20 during the two years following the Warrant's date of issuance. The warrants attached to this issuance were valued at $35,591

(Expressed in Canadian dollars, unless specifically indicated otherwise)

**9. Share Capital, Share-Based Payments and Reserves (continued)**

**b) Issued shares (continued)**

using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. The Company paid $2,500 in share issue costs pursuant to this issuance.

In March 2019, the Company issued 2,334,733 units at a price of $0.15 per Unit for aggregate proceeds of $350,210. Each Unit consists of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.20 during the two years following the Warrant's date of issuance. The warrants attached to this issuance were valued at $86,549 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. The Company paid $24,670 in share issue costs pursuant to this issuance.

In May 2019, the Company issued 3,787,159 units at a price of $0.15 per Unit for aggregate proceeds of $568,074. Each Unit consists of one common share in the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one Share at a price of $0.20 during the two years following the Warrant's date of issuance. The warrants attached to this issuance were valued at $151,817 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. The Company paid $4,350 in share issue costs pursuant to this issuance.

During the year ended July 31, 2019, 1,150,000 share purchase options with an exercise price of $0.05 per option were exercised for proceeds of $57,500. These options were originally valued at $22,462 using the Black Scholes Valuation Model and the value of these options was reclassified from the share-based payments reserve to share capital upon exercise.

In February 2019, 100,000 units issued at a price of $0.24 per unit pursuant to the February and March 2018 private placement were cancelled due to the non-receipt of $24,000 of proceeds.

**c) Issued warrants**

Changes in the Company's share purchase warrants during the years ended July 31, 2019 and July 31, 2018 are summarized as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| **Balance outstanding at July 31, 2017** | **21,082,816** | **0.17** |
| Issued | 9,945,708 | 0.29 |
| Exercised | (6,142,500) | 0.05 |
| **Balance outstanding at July 31, 2018** | **24,886,024** | **0.25** |
| Issued | 10,783,225 | 0.20 |
| Cancelled | (100,000) | 0.30 |
| **Balance outstanding at July 31, 2019** | **35,569,249** | **0.23** |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 9. Share Capital, Share-Based Payments and Reserves (continued)

### c) Issued warrants (continued)

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

| Expiry Date | Number of warrants | Exercise price | Weighted average remaining contractual life (years) |
|---|---|---|---|
| December 31, 2019 | 9,818,790 | 0.25 | 0.42 |
| February 13, 2020 | 3,782,000 | 0.30 | 0.54 |
| March 3, 2020* | 4,654,487 | 0.30 | 0.59 |
| June 21, 2020** | 2,218,500 | 0.25 | 0.89 |
| June 29, 2020** | 2,903,026 | 0.25 | 0.92 |
| August 16, 2020** | 30,555 | 0.25 | 1.05 |
| November 1, 2020*** | 650,222 | 0.25 | 1.26 |
| December 1, 2020*** | 728,444 | 0.25 | 1.34 |
| December 4,2020 | 3,382,999 | 0.20 | 1.35 |
| December 27, 2020 | 400,000 | 0.30 | 1.41 |
| January 11, 2021 | 878,334 | 0.20 | 1.45 |
| March 29, 2021 | 2,334,733 | 0.20 | 1.66 |
| May 3, 2021 | 3,787,159 | 0.20 | 1.76 |
| | 35,569,249 | | 0.91 |

*100,000 warrants were cancelled in February 2019 as part of the cancellation of 100,000 units issued pursuant to the February and March 2018 private placement due to the non-receipt of $24,000 proceeds.

**During the year ended July 31, 2019, the expiry dates of these options were extended by one year. The values of these warrants were recalculated using the Black Scholes Valuation Model at the date of extension and a total value of $136,316 was reallocated from share capital to the warrants reserve.

***See Note 15

The fair values of warrants issued pursuant to private placements were estimated using the Black Scholes Valuation Model with the following assumptions used:

| | 2019 | 2018 |
|---|---|---|
| Dividend yield | 0.00% | 0.00% |
| Expected volatility | 84.57% - 87.98% | 184.03% - 224.36% |
| Risk-free interest rate | 1.55% - 2.12% | 1.41% - 1.78% |
| Expected lives (years) | 2.00 | 2.00 |
| Issue date fair value | $0.0393 - $0.0534 | $0.1287 - $0.2238 |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 9. Share Capital, Share-Based Payments and Reserves (continued)

### d) Broker warrants

Changes in the Company's broker warrants for years ended July 31, 2019 and July 31, 2018 are summarized as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| **Balance outstanding at July 31, 2017** | **20,000** | **0.09** |
| Issued | 26,578 | 0.25 |
| Exercised | (16,000) | 0.05 |
| **Balance outstanding at July 31, 2018** | **30,578** | **0.25** |
| Expired | (4,000) | 0.25 |
| **Balance outstanding at July 31, 2019** | **26,578** | **0.25** |

As at July 31, 2019, the following broker warrants were outstanding:

| Expiry Date | Number of warrants | Exercise price | Weighted average remaining contractual life (years) |
|---|---|---|---|
| November 1, 2019 | 17,778 | 0.25 | 0.25 |
| December 1, 2019 | 8,800 | 0.25 | 0.33 |
| | 25,778 | | 0.30 |

### e) Share-based payments

In November 2016, the Company has adopted an incentive stock option plan, under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire up to 27,148,600 shares of the Company. Under the stock option plan, the option exercise price of any option granted shall not be less than the discounted market price of the Company's common shares. If options are granted within 90 days of a distribution by prospectus, the minimum exercise price per share is the greater of the discounted market price and the share price paid by investors pursuant to the distribution. For the purposes of the stock option plan, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of the grant of the options.

The options may be granted for a maximum term of 5 years and vest 25% on the date of grant and 25% every 6 months thereafter for 18 months. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4-month period subsequent to the exercise of options.

In December 2016, the Company entered into a stock option agreement granting 600,000 common share purchase options exercisable at a price of $0.24 per share.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 9. Share Capital, Share-Based Payments and Reserves (continued)

### e) Share-based payments (continued)

In October 2016, the Company entered into a stock option agreement granting 3,400,000 common share purchase options exercisable at a price of $0.15 per share.

In June 2018 the Company entered into a stock option agreement granting 6,750,000 common share purchase options exercisable at a price of $0.24 per share.

In July 2018, the Company entered into a stock option agreement granting 500,000 common share purchase options exercisable at a price of $0.24 per share.

The fair value of each option granted is estimated at the time of the grant using Black Scholes option pricing model with weighted average assumptions for grants as follows:

| | 2019 | 2018 |
|---|---|---|
| Dividend yield | - | 0% |
| Expected volatility | - | 278.79% |
| Risk-free interest rate | - | 2.14% |
| Expected lives | - | 5.00 |
| Grant date fair value | $ - | $ 0.2068 |

Stock option transactions for the years ended July 31, 2019 and July 31, 2018 are as follows:

| | **Number of options** | | **Weighted average exercise price** |
|---|---|---|---|
| **Balance outstanding as at July 31, 2017** | **10,850,000** | **$** | **0.09** |
| Granted | 7,250,000 | $ | 0.24 |
| Exercised | (1,160,000) | $ | 0.05 |
| **Balance outstanding as at July 31, 2018** | **16,940,000** | **$** | **0.16** |
| Exercised | (1,150,000) | $ | 0.05 |
| **Balance outstanding as at July 31, 2019** | **15,790,000** | **$** | **0.16** |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

**9. Share Capital, Share-Based Payments and Reserves (continued)**

**e) Share-based payments (continued)**

As at July 31, 2019, the following stock options were outstanding:

| Expiry date | Number of options | Exercise price | Weighted average remaining contractual life (years) |
|---|---|---|---|
| April 12, 2021 | 4,940,000 | 0.05 | 1.70 |
| October 26, 2021 | 3,000,000 | 0.15 | 2.24 |
| December 20, 2021 | 600,000 | 0.24 | 2.39 |
| June 8, 2023 | 6,750,000 | 0.24 | 3.86 |
| July 5, 2023 | 500,000 | 0.24 | 3.93 |
| | 15,790,000 | | 2.82 |

**f) Share-based payments reserve**

The share-based payments reserve is used to recognize the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in share-based payments reserve is credited to share capital.

**g) Warrants reserve**

The warrants reserve is used to recognize the fair value of warrants issued. When warrants are subsequently exercised, the fair value of such warrants in warrants reserve is credited to share capital.

**h) Dilutive common shares**

For the year ended July 31, 2019, potentially dilutive common shares relating to share purchase warrants and options outstanding totalling 35,669,249 and 15,790,000 respectively (July 31, 2018 – 24,886,024 and 16,940,000), were not included in the computation of loss per share as the effect would be anti-dilutive.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 10. Expenses by Nature

General and administration expenses for the years ended 2019 and 2018 consist of the following:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Bank charges and interest | $ | **1,988** | $ | 3,246 |
| Consulting fees | | **91,050** | | 25,500 |
| Filing agent and transfer fees | | **32,051** | | 45,654 |
| Insurance | | **12,453** | | 10,954 |
| Management fees | | **3,970** | | 3,503 |
| Office and miscellaneous | | **116,268** | | 71,495 |
| Office rent and property taxes | | **10,860** | | 10,150 |
| Professional fees | | **56,149** | | 59,619 |
| Research and development | | **1,353,430** | | 926,743 |
| Shareholder communications | | **339,240** | | 318,503 |
| Share-based payments | | **838,274** | | 692,665 |
| Telephone | | **4,409** | | 4,880 |
| Travel | | **20,553** | | 21,466 |
| Wages and benefits | | **291,529** | | 230,184 |
| Total | $ | **3,172,224** | $ | 2,424,562 |

## 11. Financial Instruments and Financial Risk Management

### a) Financial assets and liabilities by category

The Company classifies its cash and cash equivalents, amounts receivable (excluding sales tax receivable), due from related parties and reclamation deposits as financial assets measured at amortized costs and its marketable securities as financial assets measured at fair value through profit or loss. Accounts payable and accrued liabilities and payable to related parties are classified as other financial liabilities measured at amortized cost.

As of July 31, 2019, the statement of financial position carrying amounts of these financial instruments closely approximate their fair values, except for accounts payable and accrued liabilities, and payable to related parties where the fair value may be less than carrying amounts due to liquidity risks.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 11. Financial Instruments and Financial Risk Management (continued)

### b) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. Where quoted market prices are not available, the Company uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics. The fair value of current financial instruments approximates their carrying values as long as they are short term in nature or bear interest at market rates.

### c) Fair value hierarchy

Financial instruments that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

**Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Cash and cash equivalents and marketable securities are valued using a market approach based upon unadjusted quoted prices for identical assets in an active market obtained from securities exchanges.

**Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels 1, 2 and 3 during the years ended July 31, 2019 and July 31, 2018.

| | Fair value at July 31, 2019 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | |
| Cash and cash equivalents | 487,132 | - | - |

| | Fair value at July 31, 2018 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | |
| Cash and cash equivalents | 1,166,786 | - | - |

**11. Financial Instruments and Financial Risk Management (continued)**

**d) Financial risk management**

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. 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 limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

In the normal course of operations, the Company is exposed to various risks such as interest rate, foreign exchange, credit and liquidity risks. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risks are as follows:

- Maintaining sound financial condition;
- Financing operations; and
- Ensuring liquidity to all operations.

There have been no changes in risks that have arisen or how the Company manages those risks during the years ended July 31, 2019 and July 31, 2018.

**(i) Interest rate risk**

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents, which is invested on a short-term basis to enable adequate liquidity for payment of operational and capital expenditures.

**(ii) Foreign currency risk**

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, reclamation deposits and accounts payable and accrued liabilities that are denominated in US dollars. As at July 31, 2019, total net monetary assets and liabilities denominated in US dollars amounted to a net asset of $143,719 ($111,456 USD). Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss and comprehensive loss by less than $14,372 with all other variables remaining constant.

**(iii) Commodity price risk**

The value of the Company's exploration and evaluation assets are dependent on the price of manganese and the outlook for this mineral. Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside the Company's control, including but not limited to, levels of worldwide production short term changes in supply and demand,

## 11. Financial Instruments and Financial Risk Management (continued)

### (iii) Commodity price risk (continued)

industrial and retail demand, as well as certain other factors related specifically to manganese. If manganese prices decline for a prolonged period below the cost of production, it may not be economically feasible to continue towards production.

### (iv) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and trade receivables. The Company limits its exposure to credit risk on cash and short-term investment as these financial instruments are held with major Canadian and international banks, from which management believes the risk of loss to be remote.

### (v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and cash equivalents. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As disclosed in Note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash and cash equivalents is primarily invested in bank accounts and guaranteed investment certificates which are cashable on demand.

## 12. Capital Management

The Company classifies its share capital, share-based payments reserve and warrants reserve as capital, which at July 31, 2019 totalled $39,773,855 (July 31, 2018 - $37,326,411). When managing capital, the Company's objectives are to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish qualitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the years ended July 31, 2019 and July 31, 2018. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 13. Segmented Information

The Company operates in one segment – the exploration for and development of mineral property interests. Geographic information for the Company is as follows:

| | **July 31, 2019** | | July 31, 2018 | |
|---|---|---|---|---|
| | **Canada** | **USA** | Canada | USA |
| Current assets | **$ 601,018** | **$ 3,550** | $ 1,502,525 | $ 1,348 |
| Non-current assets | **434,683** | **26,103** | 402,003 | 4,850,904 |
| Total assets | **$ 1,035,701** | **$ 29,653** | $ 1,904,528 | $ 4,852,252 |
| | | | | |
| Current liabilities | **$ 45,092** | **$ -** | $ 222,593 | $ - |
| Total liabilities | **$ 45,092** | **$ -** | $ 222,593 | $ - |

## 14. Income Taxes

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The difference between the expected income tax expense and the actual income tax provision are summarized as follows:

| | **2019** | 2018 |
|---|---|---|
| Income tax (loss) before income taxes | **$ (8,054,671)** | $ (2,426,494) |
| Statutory income tax rate | **27.00%** | 26.59% |
| Expected income tax expense (recovery) | **(2,174,761)** | (645,314) |
| | | |
| Differences resulting from: | | |
| Non-deductible items | **1,528,629** | 168,031 |
| Change in deferred tax assets not recognized | **646,132** | 477,283 |
| Provision for income taxes | **$ -** | $ - |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

### 14. Income Taxes (continued)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at July 31, 2019 and 2018 are comprised of the following:

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| **Deferred income tax assets - Canada** | | | | |
| Non-capital loss carry forwards | **$** | **4,983,930** | $ | 4,339,170 |
| Fixed assets | | **1,943** | | 1,928 |
| Financing costs | | **40,779** | | 39,912 |
| Exploration and evaluation assets | | **816,562** | | 827,229 |
| Capital loss carry forwards | | **282** | | - |
| | | **5,843,496** | | 5,208,239 |
| Deferred tax asset not recognized | | **(5,843,496)** | | (5,208,239) |
| Net deferred tax asset | **$** | **-** | $ | - |

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| **Deferred income tax assets – US** | | | | |
| Non-capital loss carry forwards | **$** | **194,130** | $ | 191,160 |
| Exploration and evaluation assets | | **3,383,661** | | 2,047,182 |
| | | **3,577,791** | | 2,238,342 |
| Deferred tax asset not recognized | | **(3,577,791)** | | (2,238,342) |
| Net deferred tax asset | **$** | **-** | $ | - |

(Expressed in Canadian dollars, unless specifically indicated otherwise)

## 14. Income Taxes (continued)

The Company has non-capital loss carryforwards of approximately $18,459,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

| | | |
|---|---|---|
| 2026 | $ | 96,000 |
| 2027 | | 266,000 |
| 2028 | | 940,000 |
| 2029 | | 1,008,000 |
| 2030 | | 1,031,000 |
| 2031 | | 2,620,000 |
| 2032 | | 4,349,000 |
| 2033 | | 1,422,000 |
| 2034 | | 555,000 |
| 2035 | | 376,000 |
| 2036 | | 188,000 |
| 2037 | | 1,447,000 |
| 2038 | | 1,773,000 |
| 2039 | | 2,388,000 |
| Total | $ | 18,459,000 |

The Company has net operating loss carryforwards of approximately $719,000 which may be carried forward to apply against future year income tax for US tax purposes:

| | | |
|---|---|---|
| 2027 | $ | 6,000 |
| 2028 | | 40,000 |
| 2029 | | 74,000 |
| 2030 | | 72,000 |
| 2031 | | 209,000 |
| 2032 | | 149,000 |
| 2033 | | 75,000 |
| 2034 | | 32,000 |
| 2035 | | 19,000 |
| 2036 | | 18,000 |
| 2037 | | 15,000 |
| 2038 | | 5,000 |
| 2039 | | 5,000 |
| Total | $ | 719,000 |

Deferred tax assets have not been recognized because at this stage of the Company’s development, it is not determinable that taxable profit will be available against which the Company can utilize such deferred income tax assets.

## 15. Subsequent Events

In August 2019, the Company entered into a stock option agreement granting 5,880,000 common stock options exercisable at a price of $0.21 per share.

In October 2019, the Company extended the expiry date of 650,222 share purchase warrants exercisable at $0.25 per common share from November 1, 2019 to November 1, 2020, and extended the expiry date of 578,444 share purchase warrants exercisable at $0.25 per common share from December 1, 2019 to December 1, 2020.

Subsequent to July 31, 2019, the Company completed the following share issuances:

- Issued 1,074,800 common shares pursuant to the exercise of share purchase warrants at a price of $0.20 per common share, receiving proceeds of $214,960; and
- Issued 540,000 common shares pursuant to the exercise of stock options, including 100,000 stock options exercised at $0.15 per common share and 440,000 stock options exercised at $0.05 per share, receiving proceeds of $37,000.