MONITOR VENTURES INC.

FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Monitor Ventures Inc.

Opinion

We have audited the accompanying financial statements of Monitor Ventures Inc. (the "Company"), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of income and comprehensive income, changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Monitor Ventures Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements, which indicates that the Company has a working capital deficiency of $1,054,958. As stated in Note 2, these events and conditions, along with other matters as set forth in Note 2, 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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.

We obtained Management's, Discussion and Analysis prior to the date of this auditors' report. 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 IFRS, 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 David Harris.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

February 13, 2019

MONITOR VENTURES INC.
BALANCE SHEETS
IN CANADIAN DOLLARS

	December 31	December 31
	2018	2017
	$	$
ASSETS		
Current assets		
Cash	**73,943**	23,512
Derivative assets (Note 5)	**17,494**	-
Amounts receivable	**-**	81,415
Total current assets	**91,437**	104,927
Reclamation deposit (Note 6)	**11,268**	42,449
Total assets	**102,705**	147,376
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 and 10)	**940,240**	2,781,672
Shareholder loan (Note 8)	**206,155**	204,114
Total liabilities	**1,146,395**	2,985,786
Shareholders' deficiency		
Share capital (Note 9)	**30,538,998**	30,538,998
Equity reserves	**3,905,996**	3,905,996
Deficit	**(35,488,684)**	(37,283,404)
Total shareholders’ deficiency	**(1,043,690)**	(2,838,410)
Total liabilities and shareholders’ deficiency	**102,705**	147,376

Basis of presentation and continuance of operations (Note 2)

On behalf of the Board:

Signed: “William Radvak” Director

Signed: “Brian E. Bayley” Director

MONITOR VENTURES INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
IN CANADIAN DOLLARS

	For the Years Ended December 31	
	2018	2017
	$	$
General and administrative expenses (recoveries):		
Audit and legal	**26,304**	23,931
Transfer agent, listing and filing fees	**18,833**	27,349
Investor relations and shareholder information	**7,074**	7,278
Office facilities and administrative services	**3,510**	6,755
Interest on shareholder loan (Note 8)	**2,041**	2,021
Consulting	**-**	39,575
Shipping and storage	**-**	(15,144)
Total general and administrative expenses	**(57,762)**	(91,765)
Gain on disposal of subsidiary (Note 4)	**1,229,591**	-
Gain on derecognition of accounts payable and accrued liabilities (Note 7)	**596,303**	92,207
Gain on sale of equipment and other (Note 5)	**81,404**	9,337
Foreign exchange (loss) gain	**(53,208)**	73,135
Loss on derivative assets (Note 5)	**(1,929)**	-
Interest income	**321**	240
Net income and comprehensive income	**1,794,720**	83,154
Basic and diluted income per share (Note 14)	**0.61**	0.03

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

MONITOR VENTURES INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
IN CANADIAN DOLLARS

	Share Capital	**Equity Reserves**	**Deficit**	**Total**
	$	**$**	**$**	**$**
Balance, December 31, 2016	30,478,198	3,905,996	(37,366,558)	(2,982,364)
Shares issued on settlement of debt	60,800	-	-	60,800
Net income for the year	-	-	83,154	83,154
Balance, December 31, 2017	30,538,998	3,905,996	(37,283,404)	(2,838,410)
Net income for the year	-	-	1,794,720	1,794,720
Balance, December 31, 2018	**30,538,998**	**3,905,996**	**(35,488,684)**	**(1,043,690)**

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

MONITOR VENTURES INC.
STATEMENTS OF CASH FLOWS
IN CANADIAN DOLLARS

	For the Years Ended December 31	
	2018	2017
	$	$
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net income	**1,794,720**	83,154
Items not involving cash:		
Gain on disposal of subsidiary	**(1,229,591)**	-
Gain on derecognition of accounts payable and accrued liabilities	**(596,303)**	(92,207)
Gain on sale of equipment and other	**(81,404)**	(9,337)
Foreign exchange loss (gain)	**53,208**	(73,135)
Accrued interest on shareholder loan	**2,041**	2,021
Loss on derivative assets	**1,929**	-
Changes in non-cash working capital balances:		
Amounts receivable	**15,066**	(15,144)
Accounts payable and accrued liabilities	**509**	46,676
Interest income	**(321)**	(240)
Net cash used in operating activities	**(40,146)**	(60,238)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	**174,981**	-
Acquisition of marketable securities	**(120,000)**	-
Decrease in reclamation deposit	**33,275**	-
Proceeds from sale of equipment and other	**7,000**	9,337
Payment on disposal of subsidiary	**(5,000)**	-
Interest income	**321**	240
Net cash from investing activities	**90,577**	9,577
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from advance	**75,000**	-
Repayment of advance	**(75,000)**	-
Net cash from financing activities	**-**	-
Change in cash for the year	**50,431**	(50,661)
Cash, beginning of year	**23,512**	74,173
Cash, end of year	**73,943**	23,512

Supplemental Cash Flow Information

Non-cash financing activities

During the year ended December 31, 2017, the Company issued common shares valued at $60,800 to settle an account payable.

1. NATURE OF OPERATIONS

Monitor Ventures Inc. (the "Company") currently has no commercial operations. The Company has a significant working capital deficiency as a result of liabilities arising from previous commercial activities. In recent years it has improved its financial position by way of the sale of assets, debt forgiveness and the issuance of shares for debt. The Company seeks to further reduce its accounts payable and accrued liabilities and commence new commercial operations, but it will require additional financing to remain a going concern (Note 2).

The Company is incorporated under the *Canada Business Corporations Act* and its principal place of business is Suite #1703, 595 Burrard St., Vancouver, British Columbia, Canada. The Company's shares currently trade on the TSX-Venture Exchange (the "Exchange") under the symbol "MVI". Additional information on the Company is available on www.sedar.com.

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Statement of compliance

These financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared in accordance with IFRS in effect as at December 31, 2018. Significant accounting policies and the applicable basis of measurement used in the preparation of these financial statements are described in Note 3.

These financial statements were authorized by the Board of Directors on February 13, 2019.

Going concern

These financial statements have been prepared on the assumption that the Company will continue on a going concern basis. However, the Company has incurred negative operating cash flows since its incorporation and, as at December 31, 2018, the Company has a working capital deficit of $1,054,958 (December 31, 2017 - $2,880,859) and a shareholders' deficiency of $1,043,690 (December 31, 2017 - $2,838,410). Without operating cash flows, the Company will be required to raise additional financing to sustain its operations.

In recent years, the Company has been unable to raise the amounts required to fund its operations in equity markets and has relied on asset disposals and shareholder loans to fund the general and administrative expenses required for a publicly-traded entity. As a result of the Company's current financial position and challenging access to capital, there can be no assurance that the Company will be able raise additional funds in the future, in which case the Company may be unable to meet its financial obligations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Share consolidation

On July 20, 2017, the Company consolidated its common shares on the basis of 25 old shares for each consolidated share. All disclosures for the Company's outstanding common shares, options and warrants in these financial statements as well as information provided on a per share basis is presented as if the share consolidation was effective for all reported dates and periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has applied for its financial statements for the years ended December 31, 2018 and 2017. These policies have been applied to all periods presented in these financial statements.

Basis of consolidation

These financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

On October 3, 2018, the Company disposed of all shares in its wholly-owned subsidiary, American Vanadium US Inc. ("AVUSI") after which the Company no longer exercised control of AVUSI (Note 4). In addition to the assets, liabilities, income and expenses of the Company, these financial statements include these amounts for AVUSI which arose prior to October 3, 2018. All transactions and intercompany balances between the Company and AVUSI which occurred prior to October 3, 2018 have been eliminated on consolidation.

Basis of measurement and presentation currency

The balances in these financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for cash flow information and financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

Unless otherwise indicated, these financial statements are presented in Canadian dollars, which is also the functional currency of the Company and, prior to its disposal on October 3, 2018, AVUSI.

Foreign currency translation

Balances and transactions that are denominated in currencies other than the functional currency are translated to the functional currency as follows:

- Revenue and expense items are translated at the foreign exchange rates prevailing on the dates they occur.
- Non-monetary assets and liabilities are translated at historical foreign exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rate in effect at period end.
- Monetary assets and liabilities are translated at the foreign exchange rate in effect at period end.

Gains and losses arising from changes to the exchange rates used to translate foreign-denominated balances and transactions into the functional currency are recorded as a component of profit or loss in the period in which they occur.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

IFRS 9 became effective for the annual periods beginning on or after January 1, 2018, and replaces IAS 39, Financial Instruments: Recognition and measurement. The new standard provides a model for the classification and measurement of financial instruments, a single forward-looking "expected loss" impairment model, and a reformed approach for hedge accounting. As most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward into IFRS 9, the Company's accounting policy with respect to financial liabilities is unchanged.

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value along with, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit and loss.

The Company classifies its financial assets and financial liabilities in the following measurement categories:

i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
ii) those to be measured at amortized cost.

A comparison between the classification of the Company's financial assets and financial liabilities under IFRS 9 and IAS 39 is as follows:

Financial Instrument	Classification Under IAS 39	Classification Under IFRS 9
Cash	Fair value through profit or loss	Fair value through profit or loss
Derivative assets	Fair value through profit or loss	Fair value through profit or loss
Amounts receivable	Loans and receivables – amortized cost	Amortized cost
Reclamation deposit	Loans and receivables – amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities – amortized cost	Amortized cost
Shareholder loan	Other liabilities – amortized cost	Amortized cost

Financial assets

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income.

The Company has classified its financial assets as follows:

- Cash and derivative assets are measured at fair value with changes to fair value subsequent to initial recognition being recorded in profit or loss for the period in which they occur.
- Amounts receivable and reclamation deposits are measured at amortized cost using the effective interest rate method. Interest income, where material, is recorded in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The Company has not recognized any impairment losses on its amounts receivable and reclamation deposits.

Financial liabilities

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). Any fair value changes due to credit risk for liabilities designated at fair value through profit and loss are recorded in other comprehensive income.

The Company's financial liabilities include accounts payable, accrued liabilities and its shareholder loan payable, all of which are measured at amortized cost using the effective interest rate method. Interest expense, where material, is recorded in profit or loss.

The Company derecognizes a financial liability when the liability is extinguished by way of discharge, cancellation or expiry.

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current period at the statutory tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Stock-based compensation

The Company recognizes a stock-based compensation charge in profit or loss for stock options granted to employees, officers and directors of the Company, as well as to external consultants. The stock-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in equity reserves. Any expense recorded for options that are forfeited because non-market vesting conditions are not satisfied is reversed in the period in which forfeiture occurs.

Warrants

Warrants are typically issued by the Company as compensation for services or as part of a share unit. Compensatory warrants are measured using the Black-Scholes option pricing model. Warrants issued as part of a share unit are valued at their residual value which is measured as the incremental difference between the value of the combined share and warrant unit and the fair value of the stand-alone shares. The value attributed to warrants is recorded as a component of equity reserves and is reclassified to share capital when the warrants are exercised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income or loss per share

Basic income or loss per share is calculated using the weighted-average number of shares outstanding during the period. Diluted income per share reflects the dilutive effect of options, warrants and other convertible instruments. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

Judgments, estimates and measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable (or receivable) by the Company.

Deferred tax assets are recognized to the extent that it is probable that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

Derivative assets

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants exercisable into shares of other companies. This model requires management to estimate the volatility of the other company's future share price, expected lives of warrants and future dividend yields. Consequently, there is significant measurement uncertainty in the carrying value of such warrants as well as any related fair value gains or losses.

EXPRESSED IN CANADIAN DOLLARS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future changes in accounting policies

The following are new accounting standard has been issued, but is not yet effective:

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

The eventual application of this standard is not expected to have a significant impact on the Company's financial statements.

4. DISPOSAL OF SUBSIDIARY

On October 3, 2018 the Company disposed of its wholly-owned subsidiary, AVUSI to an unrelated third party. On the date of disposition, AVUSI had net liabilities of $1,234,591. The Company paid $5,000 to the acquiror and, as a result, the Company recognized a $1,229,591 net gain on the disposal of AVUSI.

5. DERIVATIVE ASSETS

During the year ended December 31, 2018, the Company provided information regarding a formerly-leased mineral property to Prophecy Development Corp. ("Prophecy"), a TSX-listed company. As compensation for this information, the Company was paid $7,000 and received 500,000 warrants in Prophecy that are exercisable into common shares of Prophecy at $0.30 per share until April 23, 2021. At the time of receipt the warrants were valued at $74,404, resulting in a total gain of $81,404. Subsequent to their initial measurement, the Company exercised 400,000 warrants for $120,000 and sold the acquired shares for $174,981 resulting in a realized gain of $54,981. Following a reduction in the derivative asset balance for the net gain from the sale of the 400,000 warrants, the fair value of the 100,000 warrants still held by the Company as at December 31, 2018 is $17,494, resulting in a $1,929 loss on revaluation. The December 31, 2018 fair value of the 100,000 unexercised Prophecy warrants is determined using the Black-Scholes option pricing model based on the following inputs:

Risk-free interest rate	1.86%
Dividend yield	-
Expected stock price volatility	135%
Expected forfeiture rate	-
Expected life	2.0 years

6. RECLAMATION DEPOSIT

As at December 31, 2017 the Company had $42,449 (US$33,823) on deposit with government environmental agencies as security for the environmental reclamation of mineral properties previously leased by the Company. During the year-ended December 31, 2018, certain mineral rights were acquired by another company who assumed the related reclamation obligations and paid US$13,173 to the Company for the transfer of the related reclamation deposits. Additionally, the Company received US$12,390 following a reduction in required security for the Company's remaining obligation. The Company's $11,268 (US$8,260) deposit remaining as at December 31, 2018 will be refunded to the Company following final approval of environmental reclamation previously conducted.

EXPRESSED IN CANADIAN DOLLARS

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at December 31, 2017 included $564,641 in Euro-denominated amounts owing to the manufacturer of the energy storage systems previously marketed by the Company. During the year ended December 31, 2018, the Company was notified that it had been discharged of this obligation. As a result and after adjusting for changes in foreign exchange rates, the Company recognized a $596,303 gain on the derecognition of the accounts payable and accrued liabilities.

During the year ended December 31, 2017, the Company was discharged from certain accounts payable following a partial payment on one account and the issuance of common shares on another account. The value of consideration paid on these accounts was less than their carrying values, resulting in a gain of $92,207.

8. SHAREHOLDER LOAN

The Company has a $200,000 loan outstanding to a shareholder of the Company under a promissory note that is payable on demand and which accrues interest at a rate of 1% per annum. During the year ended December 31, 2018, the Company recorded interest expense of $2,041 (2017 - $2,021) and as at December 31, 2018, the combined balance of principal and accrued interest owing was $206,155 (December 31, 2017 - $204,114).

9. SHAREHOLDERS' DEFICIENCY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	**Amount**
		$
Outstanding, December 31, 2016	2,770,058	30,478,198
Shares issued for settlement of accounts payable	160,000	60,800
Outstanding, December 31, 2017 and 2018	**2,930,058**	**30,538,998**

In October 2017, the Company issued 160,000 common shares valued at $60,800 to settle an account payable of $80,000, resulting in a $19,200 gain on issue.

EXPRESSED IN CANADIAN DOLLARS

9. SHAREHOLDERS' DEFICIENCY (continued)

Warrants

The Company has granted warrants on a stand-alone basis as compensation to agents who have facilitated Company financings, as well as components to share units sold to equity investors. Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, December 31, 2016 and 2017	32,213	2.50	0.00
Warrants expired	(32,213)	2.50	0.00
Outstanding, December 31, 2018	**-**	**-**	**-**

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant. As at December 31, 2018, the stock option plan is suspended, and while existing options outstanding are unaffected, no new options can be granted until the plan is reinstated. Changes to the balance of stock options outstanding and exercisable are as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, December 31, 2016	94,900	5.54	2.10
Options cancelled or forfeited	(11,600)	10.33	4.29
Outstanding, December 31, 2017	83,300	4.87	1.80
Options cancelled or forfeited	(16,600)	14.40	6.20
Outstanding, December 31, 2018	**66,700**	**2.50**	**0.70**

The following incentive stock options were outstanding and exercisable at December 31, 2018:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
April 16, 2020	2.50	65,900	65,900
May 6, 2020	2.50	800	800
Outstanding, December 31, 2018		**66,700**	**66,700**

EXPRESSED IN CANADIAN DOLLARS

10. RELATED PARTY TRANSACTIONS

The Company is party to a corporate and administrative services agreement with Earlston Management Corp. ("Earlston"), whereby Earlston provides key management, corporate, and administrative services to the Company, resulting in the two entities being related. As at December 31, 2018, $155,579 is included in accounts payable and accrued liabilities (December 31, 2017 - $150,515) for amounts owing to Earlston, which includes sundry expenses paid for by Earlston on the Company's behalf in addition to those for management, corporate and administrative services incurred prior to 2017.

Included in accounts payable and accrued liabilities as at December 31, 2018 is $295,000 (December 31, 2017 - $295,000) owing to Bill Radvak, the Chief Executive Officer of the Company for salaries and benefits, and $5,395 (December 31, 2017 - $5,211) for travel and office expense claims.

During the year ended December 31, 2018, Brian Bayley, a director of the Company deposited $75,000 into a brokerage account held by the Company to facilitate the exercise of warrants and sale of shares in Prophecy. No interest was charged on this amount, which has been repaid as at December 31, 2018.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
	$	$
Income before taxes	**1,794,720**	83,154
Expected income tax expense at statutory tax rates	**485,000**	22,000
Effect of disposal of AVUSI	**1,776,000**	-
Permanent differences between IFRS and taxable net income	**(498,000)**	-
Change in statutory, foreign tax, foreign exchange rates and other	**14,000**	3,673,000
Changes in unrecognized deductible temporary differences	**(1,777,000)**	(3,695,000)
Total income tax expense	**-**	-

The significant components of the Company's deferred tax assets that have not been included on the balance sheets are as follows:

	December 31 2018	December 31 2017
	$	$
Deferred tax assets:		
Capital losses	**3,499,000**	-
Non-capital losses	**3,203,000**	6,248,000
Share issue costs	**1,000**	10,000
Capitalized exploration costs	**-**	2,219,000
Equipment	**-**	3,000
Total deferred tax assets	**6,703,000**	8,480,000
Deferred tax assets not recognized	**(6,703,000)**	(8,480,000)
Net deferred tax assets	**-**	-

11. INCOME TAXES (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the balance sheets are as follows:

	December 31 2018	**Expiry Date Range**	December 31 2017	Expiry Date Range
	$		$	
Allowable capital losses	**12,958,000**	**No expiry date**	-	-
Non-capital losses	**11,863,000**	**2026-2038**	26,371,000	2026-2037
Share issue costs	**2,000**	**2039-2040**	37,000	2038-2040
Capitalized exploration costs	**-**	**-**	10,569,000	No expiry date
Equipment	**-**	**-**	16,000	No expiry date

Tax attributes are subject to review and potential adjustment by tax authorities.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2018, the Company's financial instruments comprise cash, derivative assets, amounts receivable, reclamation deposits, accounts payable and accrued liabilities, and a shareholder loan. With the exception of cash and derivative assets, all financial instruments held by the Company are measured at amortized cost. The fair values of financial instruments measured at amortized cost approximate their carrying value due to their short-term maturities. Fair values of financial instruments measured at fair value are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	73,943	**-**	**-**
Derivative assets	-	**-**	17,494

The Company is exposed to certain risks to the carrying values of its financial instruments, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses were previously incurred in U.S. dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

As at December 31, 2018, the Company's net financial liabilities included US$154,660. A prolonged 10% increase (decrease) in the value of the Canadian dollar compared with the U.S dollar would result in a $19,000 foreign exchange gain (loss) on U.S. dollar-denominated net financial liabilities as at December 31, 2018.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has a working capital deficiency as at December 31, 2018 and additional financing is required for the Company to settle its existing obligations and fund future obligations. As such, the Company is exposed to liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest-bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash, which is mitigated by maintaining its cash with a large Canadian chartered bank. The Company does not have cash that is invested in asset backed commercial paper.

Equity price risk

As at December 31, 2018, the Company's derivative assets include 100,000 warrants in Prophecy, exercisable into common shares at $0.30 per share. The ultimate fair value of these warrants will be determined by whether the Company exercises the warrants and can sell the common shares at a gain. As a result, the value of the derivative assets is significantly affected by the market pricing and liquidity of Prophecy's common shares.

13. CAPITAL MANAGEMENT

The Company manages its capital, which comprises the components of shareholders' deficiency, and makes adjustments to it, based on the funds available to the Company and operational requirements. The Board of Directors does not establish quantitative 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 Company will require additional financing to settle outstanding debt and to maintain operations as a publicly-listed entity. The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to managing capital during the year ended December 31, 2018.

EXPRESSED IN CANADIAN DOLLARS

14. INCOME PER SHARE

The numerators and denominators of basic and diluted income per share for the years ended December 31, 2018 and 2017 are as follows:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Net income - numerator	**$1,794,720**	$83,154
Basic and diluted weighted average number of common shares outstanding - denominator	**2,930,058**	2,809,510
Basic and diluted income per share	**$0.61**	$0.03

The impact of stock options and warrants has been excluded from the calculation of diluted income per share for the years ended December 31, 2018 and 2017, as they were out-of-the-money during these years.