Gensource
POTASH CORP

# CONSOLIDATED FINANCIAL STATEMENTS
# YEARS ENDED DECEMBER 31, 2017 AND 2016
# (EXPRESSED IN CANADIAN DOLLARS)

# Independent Auditors' Report

To the Shareholders of Gensource Potash Corporation:

We have audited the accompanying consolidated financial statements of Gensource Potash Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations and other comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gensource Potash Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Gensource Potash Corporation's ability to continue as a going concern.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

March 12, 2018 — Licensed Public Accountants

MNP

# Gensource Potash Corporation
**Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**

| | As at December 31, 2017 | As at December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **$ 464,905** | $ 1,957,093 |
| Prepaid expenses and deposits | **181,124** | 88,174 |
| GST/HST and other receivables | **201,602** | 173,821 |
| **Total current assets** | **847,631** | 2,219,088 |
| **Non-current assets** | | |
| Investments | **9,820** | 9,199 |
| Exploration and evaluation assets (notes 4 and 12) | **11,447,375** | 6,904,051 |
| Property, plant and equipment (note 5) | **15,138** | 20,357 |
| **Total non-current assets** | **11,472,333** | 6,933,607 |
| **Total assets** | **$ 12,319,964** | $ 9,152,695 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **Current liabilities** | | |
| Amounts payable and other liabilities | **$ 41,852** | $ 2,269,499 |
| Flow-through premium obligation (note 6(b)(v)) | **166,702** | 306,629 |
| **Total current liabilities** | **208,554** | 2,576,128 |
| **Shareholders' equity** | | |
| Share capital (note 6) | **27,590,544** | 20,296,454 |
| Units to be issued | **3,552** | 15,400 |
| Contributed surplus | **3,832,401** | 2,415,432 |
| Deficit | **(19,315,087)** | (16,150,719) |
| **Total shareholders' equity** | **12,111,410** | 6,576,567 |
| **Total shareholders' equity and liabilities** | **$ 12,319,964** | $ 9,152,695 |

Nature of operations and going concern (note 1)
Commitments and Contingencies (note 15)
Subsequent events (note 16)

Approved by the Board of Directors:

"Michael Ferguson" (signed) Director
**Michael Ferguson, Director**

"Paul Martin" (signed) Director
**Paul Martin, Director**

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

## Gensource Potash Corporation
**Consolidated Statements of Operations and Comprehensive Loss**
**(Expressed in Canadian Dollars)**

| | Years Ended December 31, 2017 | Years Ended December 31, 2016 |
|---|---|---|
| **Expenses** | | |
| General and administrative (notes 11 and 12) | **$ 1,967,710** | $ 1,465,596 |
| Share-based payments (note 7 and 12) | **1,513,529** | 303,292 |
| Depreciation (note 5) | **5,219** | 5,798 |
| Write-off of exploration and evaluation assets (note 4) | **-** | 1,710,753 |
| Reassessed Goods and Service Tax (note 8) | **-** | 114,387 |
| Loss on disposition of equipment | **-** | 1,061 |
| | **3,486,458** | 3,600,887 |
| **Loss before under noted items** | **(3,486,458)** | (3,600,887) |
| Interest income | **4,142** | 5,878 |
| Unrealized gain on FVTPL investments | **621** | 5,091 |
| Flow-through premium obligation discharged | **317,327** | 638,435 |
| **Loss and comprehensive loss** | **$ (3,164,368)** | $ (2,951,483) |
| Basic and diluted net loss per share (note 9) | **$ (0.01)** | $ (0.01) |
| Weighted average number of common shares outstanding - basic and diluted (note 9) | **288,856,246** | 204,429,337 |

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

# Gensource Potash Corporation
**Consolidated Statements of Cash Flows**
**(Expressed in Canadian Dollars)**

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| **Operating activities** | | |
| Net loss | **$ (3,164,368)** | $ (2,951,483) |
| Adjustments for: | | |
| Depreciation | **5,219** | 5,798 |
| Share-based payments | **1,513,529** | 303,292 |
| Write-off of exploration and evaluation assets | **-** | 1,710,753 |
| Unrealized (gain) on FVTPL investments | **(621)** | (5,091) |
| Flow-through premium obligation discharged | **(317,327)** | (638,435) |
| Loss on disposal of equipment | **-** | 1,061 |
| | **(1,963,568)** | (1,574,105) |
| Changes in non-cash working capital | **(2,348,380)** | 2,042,852 |
| **Net cash (used in) provided by operating activities** | **(4,311,948)** | 468,747 |
| **Investing activities** | | |
| Proceeds from the disposal of property, plant and equipment | **-** | 2,047 |
| Purchase of property, plant and equipment | **-** | (9,236) |
| Acquisition and expenditures on exploration and evaluation assets | **(4,543,324)** | (5,898,532) |
| **Net cash used in investing activities** | **(4,543,324)** | (5,905,721) |
| **Financing activities** | | |
| Cash proceeds for shares to be issued | **2,108** | 15,400 |
| Cash proceeds from issuance of units | **6,672,142** | 5,233,651 |
| Cash proceeds from exercise of warrants | **975,716** | 801,123 |
| Cost of issuance | **(455,882)** | (450,364) |
| Cash proceeds from exercise of stock options | **169,000** | 13,000 |
| **Net cash provided by financing activities** | **7,363,084** | 5,612,810 |
| **Net change in cash** | **(1,492,188)** | 175,836 |
| **Cash, beginning of year** | **1,957,093** | 1,781,257 |
| **Cash, end of year** | **$ 464,905** | $ 1,957,093 |

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

# Gensource Potash Corporation

**Consolidated Statements of Changes in Equity**
**(Expressed in Canadian Dollars)**

| | Issued shares | Share capital | Units to be issued | Contributed surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | **169,941,205** | **$ 15,503,008** | **$ -** | **$ 2,123,740** | **$ (13,199,236)** | **$ 4,427,512** |
| Issuance of units (note 6(b)) | 61,480,277 | 5,233,651 | 15,400 | - | - | 5,249,051 |
| Issuance of units from exercise of warrants | 15,987,467 | 801,123 | - | - | - | 801,123 |
| Issuance cost - cash | - | (450,364) | - | - | - | (450,364) |
| Share-based payments (note 7) | - | - | - | 303,292 | - | 303,292 |
| Flow-through premium (note 6(b)) | - | (815,564) | - | - | - | (815,564) |
| Issuance of units from exercise of options | 200,000 | 24,600 | - | (11,600) | - | 13,000 |
| Loss and comprehensive loss for the year | - | - | - | - | (2,951,483) | (2,951,483) |
| **Balance, December 31, 2016** | **247,608,949** | **$ 20,296,454** | **$ 15,400** | **$ 2,415,432** | **$ (16,150,719)** | **$ 6,576,567** |
| | | | | | | |
| **Balance, December 31, 2016** | **247,608,949** | **$ 20,296,454** | **$ 15,400** | **$ 2,415,432** | **$ (16,150,719)** | **$ 6,576,567** |
| Units to be issued from exercise of warrants | - | (1,444) | 3,552 | - | - | 2,108 |
| Issuance of units (note 6(b)) | 62,557,989 | 6,687,540 | (15,400) | - | - | 6,672,140 |
| Issuance of units from exercise of warrants | 9,144,738 | 975,716 | - | - | - | 975,716 |
| Issuance cost - cash | - | (455,882) | - | - | - | (455,882) |
| Share-based payments (note 7) | - | - | - | 1,513,529 | - | 1,513,529 |
| Flow-through premium (note 6(b)) | - | (177,400) | - | - | - | (177,400) |
| Issuance of units from exercise of options | 1,950,000 | 265,560 | - | (96,560) | - | 169,000 |
| Loss and comprehensive loss for the year | - | - | - | - | (3,164,368) | (3,164,368) |
| **Balance, December 31, 2017** | **321,261,676** | **$ 27,590,544** | **$ 3,552** | **$ 3,832,401** | **$ (19,315,087)** | **$ 12,111,410** |

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

## 1. Nature of operations and going concern

Gensource Potash Corporation (the "Company" or "Gensource") is based in Saskatoon, Saskatchewan and is focused on developing resource opportunities with a specific focus on potash development. As is common with many exploration companies, it raises financing for its exploration and development activities. Its registered head office is located at the care of Peterson & McVicar LLP, 390 Bay Street, Suite 806, Toronto, Ontario, M5H 2Y2.

These consolidated financial statements were authorized and approved by the Board of Directors on March 12, 2018.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2017, the Company had working capital of $639,077, negative cash flows and an accumulated deficit in the amount of $19,315,087. The Company is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration.

The Company's ability to continue operations, as intended, is dependent on its ability to continue to raise adequate financing in order to sustain ongoing expenditures and to explore and evaluate resource properties. The Company has taken additional steps to preserve cash including deferrals to management compensation. However, there can be no assurance that the Company will be able to obtain sufficient financing to continue its operations or to recover its exploration and evaluation assets. Accordingly, there exists a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect any adjustments or other changes that may be required should the Company be unable to continue as a going concern. Such adjustments and changes could be material.

## 2. Summary of significant accounting policies

### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

### Basis of consolidation

The consolidated financial statements include the accounts of the Company together with its subsidiary. All intercompany transactions and balances have been eliminated. The financial statements of Gensource Potash Corporation and its subsidiary Gensource Technologies Corporation are consolidated from the date that control commences until the date that control ceases. A change in the ownership of its subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2. Summary of significant accounting policies (continued)

### Financial instruments

*Initial recognition and measurement*
Financial assets are classified, at initial recognition, as financial assets at fair value through profit and loss ("FVTPL"), available-for-sale, held to maturity or loans and receivables. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, transaction costs that are attributable to the acquisition of the financial asset. Financial liabilities are classified, at initial recognition, as either FVTPL or other liabilities.

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash, other receivables and investments. The Company's financial liabilities include amounts payable and other liabilities.

*Subsequent measurement*
Financial assets are subsequently measured as FVTPL, available-for-sale, held to maturity or loans and receivables. Financial liabilities are classified as either FVTPL or other liabilities. Initially, all financial assets and financial liabilities must be recorded on the statement of financial position at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to FVTPL securities are expensed as incurred. Transaction costs related to financial assets available for sale, held to maturity, and loans and receivables, and other liabilities are included in their carrying amounts, and are then amortized using the effective interest method over the expected life of the instrument. Financial assets held to maturity, loans and receivables and financial liabilities other than FVTPL assets and liabilities are measured at amortized cost. Available for sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired.

The Company has classified cash and investments as FVTPL, other receivables as loans and receivables and accounts payable and other liabilities as other liabilities.

### Valuation of investments
FVTPL investments are recorded at fair value with the difference between fair value and cost being reported in earnings (loss) as unrealized gain (loss) on FVTPL investments. In the case of securities listed on stock exchanges, the fair value means the latest bid price.

Fair value of investments in shares of private companies, for which market quotations or other benchmarks are not available, is determined by reviewing the most recent arms' length equity financing of the subject company and determining whether or not such financing is relevant for valuation purposes. In the absence of such financing, fair value is determined by applying the relative change in the quoted value of a peer group of listed companies having similar characteristics to the private company. A discount may be applied to the resulting fair value in order to reflect the liquidity risk associated with private company investments. Private company investments are not valued above original cost unless compelling evidence exists to support such an increase.

Investments for which reliable quotations are not readily available are valued at their fair value using a valuation model and market inputs.

## 2. Summary of significant accounting policies (continued)

### Fair value hierarchy and liquidity risk disclosure

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). Please refer to note 13 Financial risk management.

### Comprehensive income

Other comprehensive income is a component of shareholders' equity. Comprehensive earnings are composed of the Company's net earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale financial assets, foreign currency translation on net investments in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

The Company does not have any other comprehensive income components and, as such, comprehensive income (loss) is equal to net earnings (loss).

### 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.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

### Exploration and evaluation assets

The Company defers the costs of exploration on existing projects and carries them as assets until production commences. Deferred costs include all lease rental payments on project property and executive compensation for fees that relate to exploration activities. Pre-exploration costs are generally expensed unless it is probable that they will generate future economic benefits. The amounts at which exploration and evaluation assets are recorded do not necessarily reflect present or future values. If a project is economically feasible, the related exploration property and deferred exploration costs are amortized over the estimated economic life of the project. If a project has ceased because continuation is not economically feasible, the exploration properties and the exploration and evaluation assets are written off.

The Company reviews its evaluation and exploration assets on an annual basis to determine if events or changes in circumstances have transpired which indicate that its carrying value may not be recoverable. The recoverability of costs incurred on the exploration and evaluation assets is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is possible that conditions in the near-term could change the Company's assessment of the carrying value. When a project is considered to no longer have commercially viable prospects for the Company, exploration properties and exploration and evaluation assets in respect of that property are assessed as impaired and written off to the consolidated statement of operations and comprehensive loss. The Company also assesses exploration properties and exploration and evaluation assets for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

## 2. Summary of significant accounting policies (continued)

**Exploration and evaluation assets (continued)**
Once the technical feasibility and commercial viability of extracting a mineral resource has been determined, the property is considered to be a mine under development. Exploration properties and exploration and evaluation assets are tested for impairment before being transferred to development properties.

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

Consideration, in the form of cash and/or shares received under exploration property option agreements, is applied against the acquisition cost of the exploration property and related exploration and evaluation assets. Consideration, in excess of the acquisition cost and related exploration and evaluation on the exploration property, is reported as income for the period and is included as income in the consolidated statements of operations and comprehensive earnings (loss).

**Property, plant and equipment**
Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is recorded over the estimated useful life of assets on the diminishing balance or straight-line basis using the following rates:

Furniture and equipment 20%, diminishing balance
Computer hardware 30%, diminishing balance
Computer software 100%, diminishing balance
Leasehold improvements 5 years, straight-line

**Share-based payments**
The Company follows guidance provided by IFRS 2, which requires that a fair value based method of accounting be applied to all share-based payments. The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. For equity-settled share-based payment transactions for non-employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

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

## 2. Summary of significant accounting policies (continued)

### Taxes
Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, such asset is not recognized.

### Share capital
In situations where the Company issues units, the value of the warrants is not separated and is included in share capital in the consolidated statements of financial position. Costs associated with the issuance of share capital are netted against share capital.

### Flow-through shares
The Company may finance a portion of its exploration activities through the issuance of flow-through shares. Upon the sale of flow-through shares, the Company recognizes a liability for the excess purchase price paid (if any) by the investors over the fair value of common shares without the flow-through feature (the "premium") and records the fair value of the shares in equity. When the tax deduction of the expenditures is renounced to the investor, the liability is reversed and a deferred tax liability is recorded for the amount of the benefits renounced to the investors. To the extent the Company has unrecognized tax benefits from loss carry forwards or other tax pools in excess of book value, the Company will offset the future income tax liability resulting in the premium being recognized in the statements of operations and comprehensive loss.

### Revenue recognition
Interest income is recorded on the accrual basis.

### Loss per share
The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

### Recent accounting pronouncement

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on January 1, 2018. The Company has determined the impact of adoption will have an insignificant effect.

## 2. Summary of significant accounting policies (continued)

**Recent accounting pronouncement (continued)**

IFRS 16 - Leases ("IFRS 16"). In January 2016, the IASB issued IFRS 16, replacing IAS 17, "Leases". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

## 3. Critical judgments and accounting estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts 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 outcomes can differ from these estimates. The key sources of judgment and estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

**Exploration and evaluation assets**
The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of such expenditure is unlikely, the amount capitalized is written off in the consolidated statements of operations and comprehensive loss in the period the new information becomes available.

**Income taxes and loss carry-forwards**
Significant judgment is required in determining the provision for income taxes. Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## 4. Exploration and evaluation assets

*The Lothar Project*

Beginning in November 2011, the Company began acquiring freehold potash leases from private mineral titleholders in one prospect area (the "Lothar" potash prospect) in southeast Saskatchewan. The Lothar Project is comprised of 47 potash leases covering 10,277.82 acres of freehold subsurface mineral rights in the vicinity of the town of Lemberg, Saskatchewan. In December 2016, the Company has made the decision to not pursue the project and therefore recorded an impairment of the related exploration and evaluation assets.

*The Lazlo Project*

In January 2013, the Company began the process of acquiring freehold potash leases from private mineral titleholders in area surrounding the town of Craik in central Saskatchewan (the "Lazlo" potash prospect). The Company currently has signed 14 lease agreements covering 6,162.56 acres of freehold subsurface mineral rights in the vicinity of the town of Craik, Saskatchewan. Each of the freehold potash leases grants to the Company the exclusive rights to explore, prospect and remove subsurface minerals for a term of twenty-one years subject to the Crown Royalty rate on potash sold and a $1.00 per acre annual rental.

## 4. Exploration and evaluation assets (continued)

*The Vanguard Project*

The Vanguard Area is located in central Saskatchewan and comprises two mineral leases that have been acquired from Yancoal Canada Resources (“YCR”).

On April 6, 2016, the Company announced that it has entered into a definitive Asset Purchase Agreement (“APA”) which included an off-take term sheet (“Term Sheet”) for the sale of potash. Collectively, these transactions offer the Company the opportunity to advance its business plan of becoming a future potash producer in Saskatchewan. The agreement is between the Company and YCR.

APA closed and all conditions have been met. The APA defined the terms for the purchase by the Company of two potash exploration permits (“Permit” or “Permits”) conditional upon their conversion into mineral production leases (“Lease” or “Leases”). It also contained a Term Sheet that defined key terms for the future sale of potash product from the proposed facility. Key terms of the transaction included a purchase price of $2,480,000 (paid in full in July 2016), payable as two installments: (i) $1,240,000 in cash at closing within 30 days of the effective date of the APA; and, (ii) a convertible debenture to YCR in the principal amount of $1,240,000 that is due on the later of 90 days of the effective date of the APA and the close of the transaction, paid by cash or convertible to shares in the Company if sufficient funds are not raised. The shares would have been issued at an exercise price equal to the 20 day VWAP prior to the maturity date. The Company has paid the full $2,480,000 purchase price as well as approximately $300,000 for the Lease conversion costs, and the debenture was cancelled.

On April 21, 2017, the Company announced that the offtake agreement with Yancoal Canada Resources was terminated.

On April 3, 2017, the Company executed a shareholder agreement (“Shareholder Agreement”) with Essel Group ME Limited (“EGME”) to create a joint venture company, Vanguard Potash Corp. (“JV” or “Vanguard”), pursuant to the memorandum of understanding between the two parties announced on November 29, 2016. The purpose of the JV was to finance, construct and operate a new potash production facility in Saskatchewan located on Gensource’s wholly owned subsurface mineral lease KL 245. The Shareholder Agreement defined commitments for both parties as well as conditions precedent to the JV. One condition precedent carried a specific deadline, that of initial capitalization (termed the Initial Contribution in the Shareholder Agreement) of the JV by EGME. Despite an extension of the deadline for the Initial Contribution and planning meetings for the JV, as of October 2, 2017, Vanguard has not received the Initial Contribution. On that basis, the Company considers the JV Shareholder Agreement null and void.

**(Expressed in Canadian Dollars)**

## 4. Exploration and evaluation assets (continued)

| **Cost** | **Lothar** | **Lazlo** | **Vanguard** | **Total** |
|---|---|---|---|---|
| **Balance, December 31, 2015** | **$ 1,703,714** | **$ 1,012,558** | **$ -** | **$ 2,716,272** |
| Additions: | | | | |
| Property acquisition and surface access fees | 7,039 | 7,868 | 2,824,389 | 2,839,296 |
| Geological and project management | - | 68,450 | 377,798 | 446,248 |
| Engineering | - | - | 675,946 | 675,946 |
| Drilling | - | - | 1,937,042 | 1,937,042 |
| Impairment | (1,710,753) | - | - | (1,710,753) |
| **Balance, December 31, 2016** | **$ -** | **$ 1,088,876** | **$ 5,815,175** | **$ 6,904,051** |
| Additions: | | | | |
| Property acquisition and surface access fees | - | 14,797 | 288,365 | 303,162 |
| Geological and project management | - | 9,000 | 236,613 | 245,613 |
| Engineering | - | - | 2,463,515 | 2,463,515 |
| Drilling | - | - | 567,727 | 567,727 |
| Seismic | - | - | 905,720 | 905,720 |
| Environmental | - | - | 57,587 | 57,587 |
| **Balance, December 31, 2017** | **$ -** | **$ 1,112,673** | **$ 10,334,702** | **$ 11,447,375** |

Executive compensation capitalized as exploration and evaluation assets was $67,500 for the year ended December 31, 2017 (year ended December 31, 2016 - $120,000).

(Expressed in Canadian Dollars)

## 5. Property, plant and equipment

### Cost

| | Furniture and equipment $ | Computer hardware $ | Computer software $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|---|
| **Balance, December 31, 2016** | **106,692** | **90,836** | **12,350** | **95,853** | **305,731** |
| **Balance, December 31, 2017** | **106,692** | **90,836** | **12,350** | **95,853** | **305,731** |

### Accumulated depreciation

| | Furniture and equipment $ | Computer hardware $ | Computer software $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|---|
| **Balance, December 31, 2015** | **98,076** | **76,205** | **12,350** | **95,853** | **282,484** |
| Depreciation for the year | 2,644 | 3,154 | - | - | 5,798 |
| Disposals | (2,908) | - | - | - | (2,908) |
| **Balance, December 31, 2016** | **97,812** | **79,359** | **12,350** | **95,853** | **285,374** |
| Depreciation for the year | 1,776 | 3,443 | - | - | 5,219 |
| **Balance, December 31, 2017** | **99,588** | **82,802** | **12,350** | **95,853** | **290,593** |

### Carrying amount

| | Furniture and equipment $ | Computer hardware $ | Computer software $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|---|
| **At December 31, 2016** | **8,880** | **11,477** | **-** | **-** | **20,357** |
| **At December 31, 2017** | **7,104** | **8,034** | **-** | **-** | **15,138** |

## 6. Share capital

a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares. The common shares have no par value.

b) Common shares

At December 31, 2017, the Company has 321,261,676 common shares (December 31, 2016 – 247,608,949) issued and outstanding.

i) On May 6, 2016, the Company completed a non-brokered private placement of 28,571,429 units at a price of $0.07 per unit for aggregate gross proceeds of $2,000,000. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of $0.12 for a period of twenty-four months. These warrants were assigned a value of $700,000 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.56%;
- Expected life: 2 years;
- Expected volatility: 140% based on historical trends; and
- Weighted average share price: $0.08.

The Company paid a total of $62,513 in finder's fees and issued 893,050 broker warrants associated with the closing. Each broker warrant entitles the holder thereof to purchase one unit, which consists of one common share and one-half of one common share purchase warrant, at an exercise price of $0.07 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until May 5, 2018 at the exercise price of $0.12 per share. These warrants were assigned a value of $36,615 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.56%;
- Expected life: 2 years;
- Expected volatility: 140% based on historical trends; and
- Weighted average share price: $0.07.

**6. Share capital (continued)**

b) Common shares (continued)

ii) On September 19, 2016, the Company completed a brokered private placement of 13,592,731 flow-through shares ("Flow-through Shares)" at a price of $0.11 per Flow-through Share and 16,825,558 non-flow-through shares ("Units") at a price of $0.09 per Unit for aggregate gross proceeds of $3,009,501. Each Unit consists of one common share and one purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of $0.15 for a period of 24 months. These warrants were assigned a value of $673,022 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.58%;
- Expected life: 2 years;
- Expected volatility: 125% based on historical trends; and
- Weighted average share price: $0.08.

As a result of the issuance of flow-through units, a flow-through premium of $815,564 was calculated. The entire balance of flow-through premium has been presented as a current liability in the consolidated statements of financial position.

The Company paid a total of $320,841 in finder's fees and issued 991,055 broker warrants associated with the closing, entitling the holder thereof to purchase one common share at an exercise price of $0.11 for a period of 24 months. These warrants were assigned a value of $46,580 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.58%;
- Expected life: 2 years;
- Expected volatility: 130% based on historical trends; and
- Weighted average share price: $0.08.

The Company also issued 1,266,467 broker warrants associated with the closing, entitling the holder thereof to purchase one unit, which consists of one common share and one common share purchase warrant, at an exercise price of $0.09 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until September 19, 2018 at a exercise price of $0.15 share. These warrants were assigned a value of $62,057 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.58%;
- Expected life: 2 years;
- Expected volatility: 130% based on historical trends; and
- Weighted average share price: $0.09.

**6. Share capital (continued)**

b) Common shares (continued)

iii) October 26, 2016, the Company completed a brokered private placement of 2,490,559 units ("Units") at a price of $0.09 per Unit for aggregate gross proceeds of $224,150. Each Unit consists of one common share and one purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of $0.15 for a period of 24 months. These warrants were assigned a value of $102,113 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.56%;
- Expected life: 2 years;
- Expected volatility: 127% based on historical trends; and
- Weighted average share price: $0.08.

The Company paid a total of $14,532 in finder's fees and issued 161,467 broker warrants associated with the closing, entitles the holder thereof to purchase one unit, which consists of one common share and one common share purchase warrant, at an exercise price of $0.09, for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until October 26, 2018 at a exercise price of $0.15 share. These warrants were assigned a value of $7,750 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.56%;
- Expected life: 2 years;
- Expected volatility: 127% based on historical trends; and
- Weighted average share price: $0.09.

iv) On January 20, 2017, the Company has completed a non-brokered private placement financing consisting of the sale of 27,272,728 units (the “Units”) at $0.11 per Unit for aggregate gross proceeds of $3,000,000. Each Unit consisted of one (1) common share in the capital stock of the Company (“Common Share”) and one-half (1/2) of one Common Share purchase warrant (each whole warrant, a “Warrant”). Each Warrant entitles the holder thereof to acquire an additional Common Share at a price of $0.17 for a period of 24 months from the date of issuance. These warrants were assigned a value of $1,274,199 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.77%;
- Expected life: 2 years;
- Expected volatility: 124% based on historical trends; and
- Weighted average share price: $0.16.

The Company also paid a total of $122,109 in finder’s fees and issued 1,110,085 broker warrants (“Broker Warrants”) to eligible finders in connection with the Offering. Each Broker Warrant will entitle the holder thereof to purchase one Unit at an exercise price of $0.11 for a period of 24 months following the closing date of the Offering. Each whole common share purchase warrant entitles the holder to purchase one common share until January 20, 2019 at a exercise price of $0.17 share. These warrants were assigned a value of $117,619 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.77%;
- Expected life: 2 years;
- Expected volatility: 124% based on historical trends; and
- Weighted average share price: $0.16.

**6. Share capital (continued)**

b) Common shares (continued)

v) On May 31, 2017, the Company completed tranche one of a brokered private placement by issuing 8,870,000 flow-through shares ("Flow-through Shares)" at a price of $0.20 per Flow-through Share and 1,634,110 non-flow-through shares at a price of $0.18 per share for aggregate gross proceeds of $2,068,140.

As a result of the issuance of flow-through units, a flow-through premium of $177,400 was calculated. The current balance of the flow-through premium has been presented as a current liability in the consolidated statements of financial position.

The Company paid a total of $169,851 in finder's fees and issued 861,884 broker warrants associated with the closing, entitling the holder thereof to purchase one common share at exercise price of $0.18 for a period of 18 months. These warrants were assigned a value of $65,965 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.69%;
- Expected life: 1.5 years;
- Expected volatility: 106% based on historical trends; and
- Weighted average share price: $0.165.

vi) On June 29, 2017, the Company completed tranche two of a brokered private placement by issuing 75,000 non-flow-through shares at a price of $0.18 per Unit for aggregate gross proceeds of $13,500.

The Company paid a total of $810 in finder's fees and issued 3,000 broker warrants associated with the closing, entitling the holder thereof to purchase one common share at exercise price of $0.18 for a period of 18 months. These warrants were assigned a value of $187 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.09%;
- Expected life: 1.5 years;
- Expected volatility: 106% based on historical trends; and
- Weighted average share price: $0.145.

vii) On November 29, 2017, the Company completed tranche one of a non-brokered private financing by issuing 10,360,768 common shares at a price of $0.065 per share for aggregate gross proceeds of $673,450.

The Company paid commissions to certain finders consisting of cash payments of $34,580 and the issuance of 532,000 agent's warrants, exercisable into Common Shares at $0.065 per agent's warrant for a period of 18 months. These warrants were assigned a value of $21,300 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.41%;
- Expected life: 1.5 years;
- Expected volatility: 95% based on historical trends; and
- Weighted average share price: $0.08.

**(Expressed in Canadian Dollars)**

**6. Share capital (continued)**

b) Common shares (continued)

viii) On December 15, 2017, the Company completed tranche two of a non-brokered private financing by issuing 14,345,383 common shares at a price of $0.065 per share for aggregate gross proceeds of $932,450.

The Company paid commissions to certain finders consisting of cash payments of $40,280 and the issuance of 615,076 agent's warrants, exercisable into Common Shares at $0.065 per agent's warrant for a period of 18 months. These warrants were assigned a value of $24,600 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.53%;
- Expected life: 1.5 years;
- Expected volatility: 95% based on historical trends; and
- Weighted average share price: $0.08.

c) Warrants

The Company has the following warrants outstanding as a result of equity issues:

| | Number of warrants | Weighted average exercise price ($) |
|---|---|---|
| **Balance, December 31, 2015** | **43,443,096** | **0.08** |
| Issued (note 6(b)(i),(ii),(iii)) | 36,913,871 | 0.13 |
| Exercised | (15,987,467) | (0.05) |
| Expired | (8,400,033) | (0.05) |
| **Balance, December 31, 2016** | **55,969,467** | **0.13** |
| Issued (note 6(b)(iv),(v),(vi),(vii),(viii)) | 17,298,207 | 0.16 |
| Exercised | (9,144,738) | (0.11) |
| Expired | (12,615,381) | (0.12) |
| **Balance, December 31, 2017** | **51,507,555** | **$0.14** |

**(Expressed in Canadian Dollars)**

### 6. Share capital (continued)

c) Warrants (continued)

| **Issue date** | **Expiry date** | **Exercise price** | **Number of warrants** |
|---|---|---|---|
| May 6, 2016 | May 5, 2018 | $0.12 | 12,943,365 |
| May 6, 2016 (1) | May 5, 2018 | $0.07 | 367,245 |
| September 19, 2016 | September 19, 2018 | $0.15 | 16,747,641 |
| September 19, 2016 (2) | September 19, 2018 | $0.11 | 894,485 |
| September 19, 2016 (3) | September 19, 2018 | $0.09 | 1,144,384 |
| October 26, 2016 | October 26, 2018 | $0.15 | 2,520,372 |
| October 26, 2016 (4) | October 26, 2018 | $0.09 | 131,654 |
| January 20, 2017 | January 20, 2019 | $0.17 | 13,636,364 |
| January 20, 2017(5) | January 20, 2019 | $0.11 | 1,110,085 |
| May 31, 2017(6) | November 30, 2018 | $0.18 | 861,884 |
| June 29, 2017(6) | December 29, 2018 | $0.18 | 3,000 |
| November 29, 2017 | May 29, 2019 | $0.065 | 532,000 |
| December 15, 2017 | June 15, 2019 | $0.065 | 615,076 |
| Weighted average exercise price | | $0.14 | 51,507,555 |

(1) Each broker warrant entitles the holder thereof to purchase one unit, which consists of one common share and one-half of one common share purchase warrant, at an exercise price of $0.07 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until May 5, 2018 at the exercise price of $0.12 per share

(2) Each broker warrant entitles the holder thereof to purchase one common share at an exercise price of $0.11 for a period of 24 months.

(3) Each broker warrant entitles the holder thereof to purchase one unit, which consists of one common share and one common share purchase warrant, at an exercise price of $0.09 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until September 19, 2018 at the exercise price of $0.15 per share.

(4) Each broker warrant entitles the holder thereof to purchase one unit, which consists of one common share and one common share purchase warrant, at an exercise price of $0.09 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until October 26, 2018 at the exercise price of $0.15 per share.

(5) Each broker warrant entitles the holder thereof to purchase one unit, which consists of one common share and one-half common share purchase warrant, at an exercise price of $0.11 for a period of 24 months. Each whole common share purchase warrant entitles the holder to purchase one common share until January 20, 2019 at the exercise price of $0.17 per share.

(6) Each broker warrant entitles the holder thereof to purchase one common share at an exercise price of $0.18 for a period of 18 months.

**(Expressed in Canadian Dollars)**

## 7. Stock options

Stock option transactions for the years presented are as follows:

| | Number of stock options | Weighted average exercise price ($) |
|---|---|---|
| **Balance, December 31, 2015** | **13,610,607** | **0.08** |
| Granted (1)(2)(3)(4)(5)(6) | 7,700,000 | 0.07 |
| Expired/forfeited | (4,600,000) | (0.08) |
| Exercised | (200,000) | (0.07) |
| **Balance, December 31, 2016** | **16,510,607** | **0.08** |
| **Balance,** December 31, 2016 | **16,510,607** | **0.08** |
| Granted (7)(8)(9)(10)(11)(12) | 12,050,000 | 0.14 |
| Expired/forfeited | (200,000) | (0.10) |
| Exercised | (1,950,000) | (0.09) |
| **Balance, December 31, 2017** | **26,410,607** | **0.11** |

The weighted average grant date fair value of options granted during the year ended December 31, 2017 was $0.14 (December 31, 2016 - $0.08).

(1) On April 20, 2016, the Company granted 1,500,000 options to certain directors and officers of the Company. The stock options each have an exercise price of $0.07 per share and are exercisable for a period of 5 years. The options will vest after 1 year from the date of grant. The estimated fair value of these options at the grant date was $121,500 using the Black-Scholes valuation model. During the year ended December 31, 2017, $24,411 was expensed (year ended December 31, 2016 - $84,884). The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.8%;
- Expected life: 5.0 years;
- Expected volatility: 141% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.09.

(2) On June 7, 2016, the Company granted 3,200,000 options, of which 3,000,000 were granted to certain directors and officers of the Company and 200,000 were granted to employees. The stock options each have an exercise price of $0.06 per share and are exercisable for a period of 5 years. The options will vest after 1 year from the date of grant. The estimated fair value of these options at the grant date was $230,400 using the Black-Scholes valuation model. During the year ended December 31, 2017, $99,735 was expensed (year ended December 31, 2016 - $130,665). The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.63%;
- Expected life: 5.0 years;
- Expected volatility: 141.7% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.08.

**7. Stock options (continued)**

(3) On June 7, 2016, the Company granted 500,000 options to a consultant of the Company. The stock options each have an exercise price of $0.08 per share and are exercisable for a period of 5 years. The options will vest upon signing of a definitive agreement with NMDC, which at this time the Company is uncertain of how long it will take. As a result, during the year ended December 31, 2017 and December 31, 2016, no expense was recorded. The estimated fair value of these options at the grant date was $35,500 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.63%;
- Expected life: 5.0 years;
- Expected volatility: 141.7% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.08.

(4) On September 8, 2016, the Company granted 1,000,000 options to a director of the Company. The stock options each have an exercise price of $0.08 per share and are exercisable for a period of 5 years. The options vested after 1 year from the date of grant. The estimated fair value of these options at the grant date was $75,000 using the Black-Scholes valuation model. During the year ended December 31, 2017, $51,575 was expensed (year ended December 31, 2016 - $23,425). The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.68%;
- Expected life: 5.0 years;
- Expected volatility: 140% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.085.

(5) On September 19, 2016, the Company granted 1,000,000 options to an employee of the Company. The stock options each have an exercise price of $0.06 per share and are exercisable for a period of 5 years. The options will vest after 1 year from the date of grant. The estimated fair value of these options at the grant date was $72,000 using the Black-Scholes valuation model. During the year ended December 31, 2017, $51,682 was expensed (year ended December 31, 2016 - $20,318). The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.73%;
- Expected life: 5.0 years;
- Expected volatility: 140% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.08.

**7. Stock options (continued)**

(6) On December 6, 2016, the Company granted 500,000 options to a consultant of the Company. The stock options each have an exercise price of $0.10 per share and are exercisable for a period of 5 years. The options vested immediately. The estimated fair value of these options at the grant date was $44,000 using the Black-Scholes valuation model. During the year ended December 31, 2017, $nil was expensed (year ended December 31, 2016 -$44,000). The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.02%;
- Expected life: 5.0 years;
- Expected volatility: 137% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.10.

(7) On February 21, 2017, the Company granted 5,300,000 stock options (including 4,500,000 stock options to directors and officers of the Company) at an exercise price of $0.13 and are exercisable for a period of 5 years. The options will vest after 1 year from the date of grant. The estimated fair value of these options at the grant date was $796,917 using the Black-Scholes valuation model. During the year ended December 31, 2017, $683,383, was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.17%;
- Expected life: 5.0 years;
- Expected volatility: 133% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.17.

(8) On February 21, 2017, the Company granted 750,000 stock options at an exercise price of $0.17 and are exercisable for a period of 5 years. 450,000 options vested immediately and the the remaining 300,000 options will vest with the following terms: 75,000 options on May 21, 2017, 75,000 options on August 21, 2017, 75,000 options on November 21, 2017, 75,000 options on February 21, 2018. The estimated fair value of these options at the grant date was $110,593 using the Black-Scholes valuation model. During the year ended December 31, 2017, $109,017, was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.17%;
- Expected life: 5.0 years;
- Expected volatility: 133% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.17.

**7. Stock options (continued)**

(9) On April 24, 2017, the Company granted 3,000,000 options to consultants of the Company. The stock options each have an exercise price of $0.18 per share and are exercisable for a period of 5 years. The options vested 750,000 immediately, 750,000 in one year and 1,500,000 when Vanguard 1 reaching design capacity. The estimated fair value of these options at the grant date was $465,000 using the Black-Scholes valuation model. During the year ended December 31, 2017, $233,057 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.03%;
- Expected life: 5.0 years;
- Expected volatility: 132% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.18.

(10) On May 10, 2017, the Company granted 500,000 options to a consultant of the Company. The stock options each have an exercise price of $0.18 per share and are exercisable for a period of 5 years. The options vested immediately. The estimated fair value of these options at the grant date was $77,500 using the Black-Scholes valuation model. During the year ended December 31, 2017, $77,500 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.06%;
- Expected life: 5.0 years;
- Expected volatility: 131% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.18.

(11) On May 10, 2017, the Company granted 1,500,000 options to a consultant of the Company. The stock options each have an exercise price of $0.14 per share and are exercisable for a period of 5 years. The options vest 500,000 in one year and 1,000,000 on final closing of JV Partnership, but not sooner that one year. The estimated fair value of these options at the grant date was $237,000 using the Black-Scholes valuation model. During the year ended December 31, 2017, $124,069 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.06%;
- Expected life: 5.0 years;
- Expected volatility: 131% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.18.

**(Expressed in Canadian Dollars)**

## 7. Stock options (continued)

(12) On November 14, 2017, the Company granted 1,000,000 options to a director of the Company. The stock options each have an exercise price of $0.08 per share and are exercisable for a period of 5 years. The options vest immediately. The estimated fair value of these options at the grant date was $59,100 using the Black-Scholes valuation model. During the year ended December 31, 2017, $59,100 was expensed. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 1.51%;
- Expected life: 5.0 years;
- Expected volatility: 128% based on historical trends;
- Forfeiture rate: nil;
- Expected dividend yield: 0%; and
- Weighted average share price: $0.07.

The following table reflects the stock options issued and outstanding as of December 31, 2017:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) | Number of options unvested |
|---|---|---|---|---|---|
| January 23, 2019 | 0.10 | 1.06 | 2,791,748 | 2,791,748 | - |
| October 24, 2019 | 0.06 | 1.81 | 1,200,000 | 1,200,000 | - |
| April 16, 2020 | 0.07 | 2.29 | 1,868,859 | 1,868,859 | - |
| October 1, 2020 | 0.07 | 2.75 | 1,300,000 | 1,300,000 | - |
| April 19, 2021 | 0.07 | 3.30 | 1,000,000 | 1,000,000 | - |
| June 6, 2021 | 0.06 | 3.43 | 3,200,000 | 3,200,000 | - |
| June 6, 2021 | 0.08 | 3.43 | 500,000 | - | 500,000 |
| September 7, 2021 | 0.08 | 3.69 | 1,000,000 | 1,000,000 | - |
| September 18, 2021 | 0.06 | 3.72 | 1,000,000 | 1,000,000 | - |
| December 6, 2021 | 0.10 | 3.93 | 500,000 | 500,000 | - |
| February 20, 2022 | 0.13 | 4.14 | 5,300,000 | - | 5,300,000 |
| February 20, 2022 | 0.17 | 4.14 | 750,000 | 675,000 | 75,000 |
| April 23, 2022 | 0.18 | 4.31 | 3,000,000 | 750,000 | 2,250,000 |
| May 9, 2022 | 0.18 | 4.36 | 500,000 | 500,000 | - |
| May 9, 2022 | 0.14 | 4.36 | 1,500,000 | - | 1,500,000 |
| November 13, 2022 | 0.09 | 4.87 | 1,000,000 | 1,000,000 | - |
| | **0.11** | **3.41** | **26,410,607** | **16,785,607** | **9,625,000** |

## 8. Reassessed Goods and Service Tax ("GST")

During the year ended December 31, 2016, the Company made a payment of $114,587 as a result of reassessed GST returns filed for the period from July 1, 2011 to December 31, 2012. The amount of $114,587 includes interest and penalties up to March 16, 2016, the date of the latest Canada Revenue Agency reassessment. The Company is in the process of appealing the reassessment and will reverse the reassessed GST expense if the appeal is successful.

**(Expressed in Canadian Dollars)**

## 9. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2017 was based on the loss attributable to common shareholders of $3,164,368 (year ended December 31, 2016 – $2,951,483) and the weighted average number of common shares outstanding of 288,856,246 (year ended December 31, 2016 – 204,429,337). All outstanding options and warrants were excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

## 10. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2016 – 27%) to the effective tax rate is as follows:

| | 2017 | 2016 |
|---|---|---|
| Loss for the year, before income taxes | **$ (3,164,368)** | $ (2,951,483) |
| Income tax recovery at statutory rates | **$ (854,379)** | $ (796,900) |
| Increase (decrease) related to: | | |
| Prior year true-up | **17,222** | 302,360 |
| Non-deductible expenses | **409,383** | 112,360 |
| Effect of flow-through renunciation | **180,667** | 531,640 |
| Flow-through share premium | **(85,678)** | (172,380) |
| Change in tax benefits not recognized | **530,678** | 22,920 |
| Undeducted share issue costs | **(197,692)** | - |
| Other | **(201)** | - |
| Provision for income taxes | **$ -** | $ - |

The following table summarizes the components of deferred tax:

| | 2017 | 2016 |
|---|---|---|
| Deferred Tax Assets | | |
| Non-capital losses carried forward | **1,145,701** | 269,200 |
| Deferred Tax Liabilities | | |
| Mineral Properties | **(1,145,701)** | (269,200) |
| | **-** | - |

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2017 | 2016 |
|---|---|---|
| Non-capital losses carried forward | **$ 14,544,157** | $ 13,071,185 |
| Marketable securities | **996,818** | 1,003,530 |
| Net capital losses carried forward | **102,282** | 102,282 |
| Share issuance costs | **871,446** | 383,830 |
| Other temporary differences | **-** | 16,073 |
| Property and equipment | **9,196** | - |
| Intangible assets - 75% | **7,078** | - |

The Canadian non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2021. The remaining deductible temporary differences may be carried forward indefinitely.

**(Expressed in Canadian Dollars)**

### 10. Income taxes (continued)

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

| | |
|---|---|
| 2028 | $ 305,552 |
| 2029 | 1,877,338 |
| 2030 | 2,761,383 |
| 2031 | 1,729,572 |
| 2032 | 2,082,247 |
| 2033 | 1,871,019 |
| 2034 | 921,478 |
| 2035 | 912,547 |
| 2036 | 1,532,020 |
| 2037 | 4,795,338 |
| | $ 18,788,494 |

### 11. General and administrative

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| Wages, benefits and incentive compensation | **$ 61,723** | $ 338,022 |
| Sales and marketing | **649,454** | 266,788 |
| Professional fees (note 12) | **558,142** | 452,202 |
| Office and general | **698,391** | 408,584 |
| | **$ 1,967,710** | $ 1,465,596 |

### 12. Related party balances and transactions

a) During the year ended December 31, 2017, compensation, salaries and benefits of $720,000, (year ended December 31, 2016 - $780,000) were paid to a director and officers of the Company or related companies controlled by the director and officers of the Company. They were included in general and administrative expenses and exploration and evaluation assets.

b) During the year ended December 31, 2017, share-based payments of $808,821 were rewarded to directors and officers of the Company (year ended December 31, 2016 - $230,807).

c) To the knowledge of the directors and executive officers of the Company as of December 31, 2017, the common shares of the Company were widely held, which includes various small holdings which were owned by directors and officers of Gensource. These holdings can change at any time at the discretion of the owner.

The related party transactions were recorded at the exchange amount, which is the amount agreed to by the related parties.

## 13. Financial risk management

The Company’s financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the Company’s objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company’s consolidated statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall business strategy, diversifying risk, pricing appropriately for risk, mitigation through preventive controls, and transferring risk to third parties.

The long-term investment objective and strategy for the direct investment holdings remain unchanged. The short-term corporate objective and strategy may be modified to reflect global economic, financial and general market conditions, which will inevitably have an impact on the overall risk assessment of the Company. Such modifications may include, among others, streamlining operational costs, preserving cash to the extent possible, and adjusting the strategy for the disposition of securities to reflect market conditions. The Company has invested primarily in the equity securities of Canadian resource issuers. Investors are exposed to the risks and rewards of the Canadian resource sector.

The carrying value of cash, other receivables, amounts payable and other liabilities approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

The Company’s exposure to potential loss from financial instruments relates primarily to its investment activities, and in particular, credit risk, liquidity risk, currency risk, and market risk including credit quality and equity market fluctuation risk as described below.

*Credit risk*
Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the book value of its financial instruments. The Company is not exposed to any significant credit risk as at December 31, 2017. The Company's cash is deposited with a major Canadian chartered bank and is held in highly-liquid investments.

As at December 31, 2017, the aggregate gross credit risk exposure related to cash was $464,905 (2016 – $1,957,093), and was entirely comprised of cash held with financial institutions with an “AA” credit rating or above and securities brokerage firms. As at December 31, 2017, the aggregate gross credit risk exposure related to receivables was $201,602 (2016 – $173,821) and was primarily comprised of commodity taxes receivables and undeposited funds.

*Liquidity risk*
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Company's financial liabilities are due within one year. The Company manages liquidity risk through the management of its capital structure. As at December 31, 2017, the Company had a total of $464,905 in cash and $9,820 in investments to settle liabilities of $41,852.

The Company believes that its cash position and investments in marketable securities will not provide adequate liquidity to meet all of the Company’s financial obligations and continue exploration activities for at least the next twelve months (see note 1). The Company anticipates to complete additional financing to improve its liquidity.

*Currency risk*
Currency risk is the risk that the fair value of, or future cash flows from, the Company’s financial instruments will fluctuate because of changes in foreign exchange rates. The Company believes it is not significantly exposed to foreign exchange risk at this time as its business activities are denominated in Canadian currency. The Company may, however, be exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time, should the Company enter into foreign currency denominated transactions.

(Expressed in Canadian Dollars)

## 13. Financial risk management (continued)

*Market risk*
Market risk is the risk of loss arising from adverse changes in financial market rates and prices, such as interest rates, the trading price of equity and other securities, and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the underlying assets are traded. Market price fluctuations and fluctuations in the value of equity securities affect the level and timing of recognition in earnings and comprehensive earnings of gains and losses on securities held. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and consequently, the value of the equity securities held.

**Fair values**

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

**Fair value hierarchy and liquidity risk disclosure**

| Cash and investments | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2017 | $ 474,725 | $ - | $ - | $ 474,725 |
| December 31, 2016 | $ 1,966,292 | $ - | $ - | $ 1,966,292 |

## 14. Capital management

The Company's objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

At December 31, 2017, the Company's capital structure consists of the equity of the Company. The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

## 15. Commitments and contingencies

While the Company has performed its own due diligence with respect to title of its properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects. If the Company defaults with respect to making payments or completing assessment work as required in order to keep its permits in good standing, the Company may lose its rights to the properties underlying such claims.

Flow-through commitment:

As of December 31, 2017, the Company must incur $1,774,000 in eligible exploration expenditures on or before December 31, 2018.

## 16. Subsequent events

(i) On February 2, 2018, the Company granted an aggregate of 4,000,000 stock options of which 3,500,000 were granted to certain directors and officers of the Corporation, at an exercise price of $0.09 with an expiration date of February 2, 2023. These options vest immediately.