



eCobalt Solutions Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended

September 30, 2018

(Stated in Canadian dollars)

Suite 1810 – 999 West Hastings Street
Vancouver, BC, Canada
V6C 2W2

eCobalt Solutions Inc.

September 30, 2018

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eCobalt Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian dollars)

(Unaudited)

	Note	September 30, 2018	December 31, 2017
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		18,293,973	11,740,992
Trade and other receivables		56,028	82,528
Prepaid expenses and deposits		797,416	574,942
Total current assets		19,147,417	12,398,462
Reclamation bond	3	2,477,525	2,400,969
Mineral properties	4	37,270,792	27,399,687
Property, plant and equipment	5	63,348,823	45,037,993
Total assets		122,244,557	87,237,111
Liabilities			
Current liabilities			
Accounts payable		1,415,732	1,247,024
Accrued liabilities	8(b)(ii)	3,056,505	715,747
Total current liabilities		4,472,237	1,962,771
Provision for site reclamation and closure costs	6	10,527,507	6,123,070
Deferred tax liabilities		25,790	25,790
Total liabilities		15,025,534	8,111,631
Shareholders' Equity			
Common shares	7	211,596,293	182,145,265
Share purchase warrants reserve		12,752,848	10,820,048
Share-based payments reserve		11,894,922	10,295,352
Foreign currency translation reserve		552,769	552,769
Deficit		(129,577,809)	(124,687,954)
Total shareholders' equity		107,219,023	79,125,480
Total liabilities and shareholders' equity		122,244,557	87,237,111

Commitments (Note 13)

"David Smith"

Director

"Michael Callahan"

Director

eCobalt Solutions Inc.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Stated in Canadian dollars)

(Unaudited)

	Note	Three months ending		Nine months ending	
		September 30, 2018	August 31, 2017	September 30, 2018	August 31, 2017
		\$	\$	\$	\$
Expenses					
Accounting and audit		21,500	14,000	59,165	81,265
Accretion expense on site reclamation and closure	6	71,464	35,909	175,782	96,571
Bank charges and interest expense		7,579	16,465	23,962	18,435
Depreciation	5	100,723	11,849	215,578	37,119
Directors' fees and expenses	8(b)(ii)	53,706	27,178	142,849	66,381
Foreign exchange gain		(159,872)	(245,049)	(128,263)	(278,799)
Legal and advisory fees		119,197	26,464	468,816	87,460
Listing and filing fees		6,850	3,313	137,512	54,466
Office		194,665	105,928	485,345	259,575
Salary and wages	8(b)	342,328	230,544	1,027,260	808,913
Shareholder relations		243,289	116,232	975,447	304,804
Share-based payments	7(b)(iii), 8(b)(i)	455,576	611,497	1,661,375	611,497
Loss from operating activities		(1,457,005)	(954,330)	(5,244,828)	(2,147,687)
Other income		114,810	60,122	354,973	113,831
Loss before income taxes		(1,342,195)	(894,208)	(4,889,855)	(2,033,856)
Income tax recovery		-	-	-	451
Net loss and comprehensive loss for the period		(1,342,195)	(894,208)	(4,889,855)	(2,033,405)
Basic and diluted loss per share	7(d)	(0.01)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding		160,047,386	130,268,799	148,849,586	129,978,253

eCobalt Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars)

(Unaudited)

	Note	Common shares without par value		Share purchase	Share-based	Foreign currency	Deficit	Total shareholders' equity
		Shares	Amount	warrants reserve	payments reserve	translation reserve		
			\$	\$	\$	\$	\$	\$
Balance, November 30, 2016		107,265,405	164,581,378	8,400,279	9,662,185	552,769	(120,734,481)	62,462,130
Issuance of common shares on exercise of stock options		1,902,682	889,951	-	(309,346)	-	-	580,605
Issuance of common shares on exercise of share purchase warrants		4,320,364	2,312,595	(598,849)	-	-	-	1,713,746
Issuance of common shares and warrants for cash, net of share issue costs		17,250,000	12,505,887	3,366,326	-	-	-	15,872,213
Share-based payments		-	-	-	611,497	-	-	611,497
Net loss and comprehensive loss		-	-	-	-	-	(2,033,405)	(2,033,405)
Balance, August 31, 2017		130,738,451	180,289,811	11,167,756	9,964,336	552,769	(122,767,886)	79,206,786
Issuance of common shares on exercise of stock options		334,000	137,096	-	(49,796)	-	-	87,300
Issuance of common shares on exercise of share purchase warrants		1,525,000	1,718,358	(347,708)	-	-	-	1,370,650
Share-based payments		-	-	-	380,812	-	-	380,812
Net loss and comprehensive loss		-	-	-	-	-	(1,920,068)	(1,920,068)
Balance, December 31, 2017		132,597,451	182,145,265	10,820,048	10,295,352	552,769	(124,687,954)	79,125,480
Issuance of common shares on exercise of stock options	7(a)(i)	265,000	175,355	-	(61,805)	-	-	113,550
Issuance of common shares on exercise of share purchase warrants	7(a)(ii)	4,184,935	4,585,310	(1,261,150)	-	-	-	3,324,160
Issuance of common shares and warrants for cash, net of share issue costs	7(a)(iii)	23,000,000	24,690,363	3,193,950	-	-	-	27,884,313
Share-based payments	7(b)(iii)	-	-	-	1,661,375	-	-	1,661,375
Net loss and comprehensive loss		-	-	-	-	-	(4,889,855)	(4,889,855)
Balance, September 30, 2018		160,047,386	211,596,293	12,752,848	11,894,922	552,769	(129,577,809)	107,219,023

See accompanying notes to the condensed interim consolidated financial statements.

eCobalt Solutions Inc.

Condensed Interim Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian dollars)

(Unaudited)

	Note	September 30, 2018	August 31, 2017
		\$	\$
Operating activities			
Net loss for the period		(4,889,855)	(2,033,405)
Items not involving cash			
Accretion expense on site reclamation and closure	6	175,782	96,571
Depreciation	5	215,578	37,119
Deferred income tax recovery		-	(451)
Shared-based payments	7(b)(iii)	1,661,375	611,497
Unrealized foreign exchange loss (gain)		110,195	(293,455)
Change in working capital items	10	(1,573,589)	(1,002,934)
Net cash used by operating activities		(4,300,514)	(2,585,058)
Investing activities			
Reclamation bond		-	403,343
Mineral property expenditures	4	(5,440,570)	(2,322,712)
Purchase of property, plant and equipment, net of deposits	5	(15,033,015)	(778,778)
Net cash used by investing activities		(20,473,585)	(2,698,147)
Financing activities			
Issuance of common shares and warrants	7(a)(iii)	29,900,000	17,350,529
Share issue costs	7(a)(iii)	(2,015,687)	(1,377,787)
Exercise of share purchase warrants	7(a)(ii)	3,324,160	1,713,746
Exercise of stock options	7(a)(i)	113,550	580,605
Net cash provided by financing activities		31,322,023	18,267,093
Effects of exchange rate changes on the balance of cash held in foreign currencies		5,057	12,301
Net cash inflows during the period		6,552,981	12,996,189
Cash and cash equivalents, beginning of period		11,740,992	3,145,613
Cash and cash equivalents, end of period		18,293,973	16,141,802
Financial position as at			
		September 30, 2018	August 31, 2017
Cash and cash equivalents are comprised of:			
Cash		3,200,589	13,549,946
Cash equivalents		15,093,384	2,591,856
		18,293,973	16,141,802

Supplemental cash flow information (Note 10)

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)

(Unaudited)

1. Nature of business and going concern

eCobalt Solutions Inc. (“the Company”) was incorporated on June 13, 1988 under the Company Act of British Columbia and commenced operations on that date. The Company is in the process of exploring its mineral properties and has determined that certain of these properties contain measured and indicated resources of cobalt, copper and gold.

The Company’s primary project, located in the mining friendly state of Idaho, is the 100% owned and fully environmentally permitted, Idaho Cobalt Project (the “ICP”). The ICP is comprised of a mine and mill site located in Lemhi County outside of the town of Salmon, Idaho. A feasibility level study was originally completed on the ICP in 2007. In December 2009, the Company and the United States Department of Agriculture Forest Service signed the “Forest Service Evaluation” which approved and finalized the Company’s Mine Plan of Operations (the “Mine Plan”) for the ICP. The approval and finalization of the Company’s Mine Plan allowed the Company to commence construction on the ICP mine site. By November 2012, the Company had completed two of three stages of construction at the mine and mill site. The Company had spent US\$65.3 million completing two phases of the ICP mine and mill construction that commenced in June 2011 and completed in December 2012. This work was comprised of extensive earthworks including access and haul road, portal bench, mill and concentrator pads and tailing waste storage facility construction. In addition, pre-purchased mining and milling equipment, including the ball mill, flotation circuits, grizzlies, hoppers, conveyors, etc., totaling approximately US\$16 million was delivered to a staging area outside the town of Salmon, Idaho, and is in process of being moved to the mine and mill site. Current activities are focused on the advancement and completion of environmental systems, including construction of the water treatment plant. The final phase of construction will involve underground development and the construction of the mill and concentrator and other ancillary facilities at the ICP mine site and at the cobalt processing facility.

The Company filed a National Instrument 43-101 compliant Feasibility Study Technical Report (“FS”) for the ICP on SEDAR on November 10, 2017. Results from the FS are based on an underground mine with a target production rate of 800 short tons per day and a weighted average annual production of 2.4M pounds of cobalt, 3.3M pounds of copper and 3,000 oz of gold over a 12.5 year mine life with an estimated pre-production period of 24 months utilizing a 0.25% cobalt cut-off grade. The economic model uses a 34% corporate tax rate and a 7.5% discount rate, resulting in an after-tax NPV of \$135.8M and an IRR of 21.3% using an average base case price of \$26.65/pound for contained cobalt in cobalt sulfate. The FS has been compiled in accordance with NI 43-101 guidelines. Since the release of the FS, the Company has engaged in optimization tasks to enhance project economics and to further reduce overall risks of the ICP, the results of which will be released in an optimized FS.

All obligations, commitments, and permits related to the ICP remain in good standing.

Going concern

At September 30, 2018, the Company had working capital of \$14,675,180 (December 31, 2017 - \$10,435,691). For the nine-month period ended September 30, 2018, the Company reported a comprehensive loss of \$4,889,855 (August 31, 2017 – loss of \$2,033,405) and an accumulated deficit of \$129,577,809 (December 31, 2017 - \$124,687,954).

The ability of the Company to continue as a going concern over a longer term is dependent on the Company’s ability to raise the financing necessary to complete development of the ICP and ultimate production. The Company filed a short form base shelf prospectus (the “Shelf Prospectus”) on January 12, 2017 which, subject to securities regulatory requirements, allows the Company to make offerings of up to \$100,000,000 of common shares, preference shares, debt securities, warrants, subscription receipts, units, or any combination of such securities during the 25-month period that the Shelf Prospectus is effective. Under the Shelf Prospectus, the Company completed a bought deal financing on February 28, 2017 for gross proceeds of \$17,250,000 by issuing 17,250,000 units at \$1.00 per unit and on February 23, 2018 for gross proceeds of \$29,900,000 by issuing 23,000,000 units at \$1.30 per unit.

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)

(Unaudited)

1. Nature of business and going concern (continued)

With a cash balance of \$18,293,973 at September 30, 2018 and with the completion of pre-construction activities in the fall reducing commitments, the Company has sufficient financial resources to continue its operations for at least the next 12 months. However, raising capital sufficient to complete construction of the ICP is dependent on continued discussions with off-takers, senior debt providers, alternative lenders, potential streamers and investors and is a material uncertainty. Raising further capital sufficient to establish profitable operations is also a material uncertainty. The need to raise external financing and lack of established profitable operations are material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern.

The Company's registered office is Suite 1200 – 750 West Pender Street, Vancouver, British Columbia V6C 2T8.

2. Basis of preparation

(a) Change in year end

Effective October 18, 2017, the Company changed its financial year end from February 28 to December 31. Accordingly, these condensed interim consolidated financial statements present the condensed interim consolidated statement of financial position as at September 30, 2018 and December 31, 2017 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2018 and August 31, 2017.

(b) Statement of compliance

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent annual audited consolidated financial statements for the ten-month period ended December 31, 2017, except for the changes in accounting policies resulting from the adoption of IFRS 9 *Financial Instruments* ("IFRS 9") as described in Note 2(c). These condensed interim consolidated financial statements should be read in conjunction with the Company's December 31, 2017 audited consolidated financial statements.

The Board of Directors authorized these condensed interim consolidated financial statements for issue on November 8, 2018.

(c) Adoption of new accounting standards

Certain pronouncements were issued by the IASB that were mandatory for accounting periods beginning on or after January 1, 2018. The Company adopted the following new IFRS pronouncements effective January 1, 2018.

IFRS 9 *Financial Instruments*

The Company adopted IFRS 9 on January 1, 2018 in accordance with the transitional provisions of the standard. The Company has changed its accounting policy for financial instruments retrospectively, for assets and liabilities that were recognized at the date of adoption. The change did not impact the carrying value of any financial assets or liabilities.

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)
(Unaudited)

2. Basis of preparation (continued)

- (c) Adoption of new accounting standards (continued)

IFRS 9 *Financial Instruments* (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss; (ii) those measured at fair value through other comprehensive income; and (iii) those measured at amortized cost. Investment in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial assets are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial assets.

Classification and measurement changes

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and has summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

Financial assets	Previous classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Fair value through profit or loss	Fair value through profit or loss
Trade and other receivables	Loans and receivables - amortized cost	Amortized cost
Reclamation bond	Loans and receivables - amortized cost	Amortized cost
Financial liabilities	Previous classification under IAS 39	New classification under IFRS 9
Accounts payable and accrued liabilities	Other financial liabilities - amortized cost	Amortized cost

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)
(Unaudited)

2. Basis of preparation (continued)

(d) Change in accounting estimate

In accordance with its policy, the Company reviews the significant classes, estimated useful lives and methods of depreciation of its property, plant and equipment on an ongoing basis. As a result of this review, effective January 1, 2018, the Company expanded the significant classes of its property, plant and equipment and changed the estimated useful lives to more accurately reflect the estimated periods during which these assets will remain in service. The Company also changed the method of depreciation from declining balance to straight-line, which more closely aligns depreciation recognized with the use of the assets.

The significant classes of property, plant and equipment, the estimated useful lives and the methods of depreciation are as follows:

• Buildings	20 years straight-line method
• Vehicles	5 years straight-line method
• Mobile equipment	7 years straight-line method
• Office and field equipment	5 years straight-line method
• Furniture and fixtures	3 years straight-line method

This change in estimate results in an immaterial decrease in depreciation expense and net loss and comprehensive loss for the nine months ended September 30, 2018 and for future periods.

Prior period classification of property, plant and equipment has been reclassified to conform with current period presentation as a result of this change in estimate.

3. Reclamation bond

In connection with the ICP, the U.S. Forest Service required the Company to place a Reclamation Performance Bond in the amount of US\$6,379,617 (December 31, 2017 – US\$6,379,617). There has been no change in the Reclamation Performance Bond since February 29, 2012. Earthworks and Tailing Waste Storage construction on the ICP was partially completed and subsequent disturbances to date has been minimal. The Reclamation Performance Bond will be released upon meeting the reclamation requirement of the U.S. Forest Service at the end of the Life of Mine of the ICP.

On June 21, 2011, the Company entered into an agreement with an insurance company to issue a surety bond in the amount required by the Reclamation Performance Bond. As part of the insurance agreement, the Company is required to deposit US\$1,913,885 (December 31, 2017 – US\$1,913,885) in trust as collateral for potential liability, as surety, incurred by the insurance company. The Safekeeping Agreement with the trustee requires the trust proceeds to be invested in any securities backed by the US Treasury, including US Treasury Bills and US Treasury Notes. The trustee can only release the trust proceeds under the following conditions:

- (a) Within thirty (30) days following the written request from the insurance company; and

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)

(Unaudited)

3. Reclamation bond (continued)

- (b) Within thirty (30) days following the written request from the Company subsequent to the expiration and termination of the bond, whereby the insurance company has been exonerated of all past, present and future liability.

		September 30, 2018	December 31, 2017
		\$	\$
Reclamation Performance			
Bond Requirement	US\$	6,379,617	6,379,617
Insured	US\$	6,379,617	6,379,617
In Trust:			
U.S. Treasury Securities	US\$	1,913,885	1,913,885
Foreign exchange rate		1.2945	1.2545
Reclamation bond	CDN\$	2,477,525	2,400,969

4. Mineral properties

Mineral properties at September 30, 2018 consist of:

	September 30, 2018	Additions	December 31, 2017
	\$	\$	\$
Idaho Cobalt Belt			
Idaho Cobalt Project	35,508,042	9,624,456	25,883,586
Other Projects			
Kernaghan Lake	692,933	181,765	511,168
Virgin River	1,037,041	64,884	972,157
Other	32,776	-	32,776
	1,762,750	246,649	1,516,101
	37,270,792	9,871,105	27,399,687

During the nine months ended September 30, 2018, the Company spent \$5,440,570 (August 31, 2017 - \$2,322,712) and accrued \$305,355 (August 31, 2017 - \$115,160) on mineral properties. A non-cash adjustment of \$4,125,180 (August 31, 2017 - \$2,332,029) for site reclamation and closure cost was also made (Note 6), resulting in a total addition of \$9,871,105 (August 31, 2017 - \$4,769,901) for the period.

Idaho Cobalt Belt

The Company owns a 100% interest in the ICP. All critical environmental permits are in place with an approved mine Plan of Operations. The ICP is comprised of the primary high grade cobalt deposit and the partially completed mine and mill located in Lemhi County outside of the town of Salmon, Idaho. The FS on the ICP has been compiled in accordance with NI 43-101 guidelines and a Technical Report was filed on SEDAR on November 10, 2017 (Note 1).

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)

(Unaudited)

5. Property, plant and equipment

	Land	Buildings	Vehicles	Mobile equipment	Office and field equipment	Furniture and fixtures	Project construction and maintenance	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
As at February 28, 2017	200,935	525,905	13,885	308,559	173,872	408,624	40,144,773	41,776,553
Additions for the year	353,259	-	135,364	52,527	43,472	956	3,850,980	4,436,558
As at December 31, 2017	554,194	525,905	149,249	361,086	217,344	409,580	43,995,753	46,213,111
Additions for the period	-	702,277	458,639	823,383	103,461	34,987	16,403,661	18,526,408
As at September 30, 2018	554,194	1,228,182	607,888	1,184,469	320,805	444,567	60,399,414	64,739,519
Accumulated Depreciation								
As at February 28, 2017	-	(245,566)	(13,884)	(308,559)	(169,304)	(380,771)	-	(1,118,084)
Additions for the year	-	(15,048)	(17,462)	(7,812)	(11,558)	(5,154)	-	(57,034)
As at December 31, 2017	-	(260,614)	(31,346)	(316,371)	(180,862)	(385,925)	-	(1,175,118)
Additions for the period	-	(28,981)	(53,929)	(80,985)	(21,272)	(30,411)	-	(215,578)
As at September 30, 2018	-	(289,595)	(85,275)	(397,356)	(202,134)	(416,336)	-	(1,390,696)
Carrying Value								
As at December 31, 2017	554,194	265,291	117,903	44,715	36,482	23,655	43,995,753	45,037,993
As at September 30, 2018	554,194	938,587	522,613	787,113	118,671	28,231	60,399,414	63,348,823

The Company capitalizes the costs associated with construction and maintenance of the mine, mill and processing facility and will depreciate these assets when they are put into use.

During the nine months ended September 30, 2018, the Company spent \$15,033,015 (August 31, 2017 - \$778,778) and accrued \$3,493,393 (August 31, 2017 - \$Nil) on property, plant and equipment, resulting in total additions of \$18,526,408 (August 31, 2017 - \$778,778) for the period.

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)
(Unaudited)

6. Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure relates to the ICP and is based on the Company's legal obligations for environmental remediation, reclamation, and decommissioning at the end of the mine life. The undiscounted cash flows of the obligation as at September 30, 2018 were \$9,328,887 or US\$7,206,557 (December 31, 2017 - \$4,785,955 or US\$3,815,030). The discount rate used to determine the present value of the obligation was based on US Treasury Bond rate of 2.88% and rate of inflation of 3.20% (December 31, 2017 - US Treasury Bond rate of 2.25% and rate of inflation of 3.30%) resulting in a combined rate of (0.31)% (December 31, 2017 - (1.02)%), discounted by 15.5 years. The Company assumes that reclamation and decommissioning will take place over a three-year period, commencing after the 12.5 year mine life.

	\$
Reclamation and closure cost, February 28, 2017	4,671,199
Accretion expense	115,329
Change in discount rate	1,721,025
Foreign exchange	(384,483)
Reclamation and closure cost, December 31, 2017	6,123,070
Additions	4,828,960
Accretion expense	175,782
Change in discount rate	(703,780)
Foreign exchange	103,475
Reclamation and closure cost, September 30, 2018	10,527,507

7. Share capital

(a) Authorized and issued

The Company has 50,000,000 preferred shares without par value authorized for issue and an unlimited number of common shares without par value authorized for issue.

At September 30, 2018, the Company had no preferred shares outstanding and 160,047,386 (December 31, 2017 - 132,597,451) common shares issued and outstanding.

- (i) During the nine months ended September 30, 2018, 265,000 common shares were issued for stock options that were exercised. These include 30,000 options with an exercise price of \$0.21, 160,000 options with an exercise price of \$0.30, 50,000 options with an exercise price of \$0.60 and 25,000 options with an exercise price of \$1.17 for total proceeds of \$113,550. Upon exercise, the Company transferred \$61,805 from share-based payments reserve to common shares.
- (ii) During the nine months ended September 30, 2018, 4,184,935 common shares were issued on exercise of share purchase warrants. These include 2,568,733 warrants with an exercise price of \$0.40, 1,503,250 warrants with an exercise price of \$1.50 and 112,952 warrants with an exercise price of \$0.37 for total proceeds of \$3,324,160. Upon exercise, the Company transferred \$1,261,150 from share purchase warrants reserve to common shares.

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

(Stated in Canadian Dollars, unless otherwise noted)
(Unaudited)

7. Share capital (continued)

(a) Authorized and issued (continued)

- (iii) On February 23, 2018, the Company completed a bought deal financing and issued 23,000,000 units at \$1.30 per unit for gross proceeds of \$29,900,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.95 expiring August 23, 2019. The Company paid \$2,015,687 for commission, legal and other expenses related to the financing. The fair value of the equity was determined using the fair value of the Company's shares on the date of issue. The fair value of the common share purchase warrants was computed using the Black-Scholes option pricing model, using the parameters outlined below. The net proceeds were then proportionately allocated using the relative fair value method to common shares (\$24,690,363) and common share purchase warrants (\$3,193,950).

	Unit Warrants
Risk free interest rate	1.74%
Expected life (years)	1.5
Annualized volatility	73%
Expected dividend	\$Nil
Stock price	\$1.33
Exercise price	\$1.95

(b) Stock options

The Company has a Stock Option Plan ("the Plan") for directors, officers and employees. Under this Plan, the aggregate number of common shares which may be subject to issuance pursuant to options granted under the Plan shall in aggregate be a fixed maximum percentage such that the percentage of common shares in the capital of the Company may be reserved for issuance is a maximum 10% of the issued and outstanding shares of the Company. The number of shares reserved for issuance at any one time to any one person shall not exceed 5% of the outstanding shares issued within any one-year period. Options granted must be exercised no later than 10 years after the date of the grant or such lesser periods as regulations require.

All options are subject to vesting restrictions based on the Plan and at the discretion of the Board of Directors. Effective June 28, 2017, the Board of Directors adopted the following vesting restrictions on all new options granted:

- 25% to be vested immediately;
- An additional 37.5% to be vested on the first anniversary; and
- The remaining 37.5% to be vested on the second anniversary.

The exercise price is the fair value of the Company's common shares at the grant date. The maximum number of common shares to be issued under the Plan reserved for issuance as at September 30, 2018 was 16,004,739 (December 31, 2017 - 13,259,745). The maximum number of shares reserved for issuance to insiders may not exceed 10% of the outstanding shares issued. Under certain conditions, option holders may elect to exercise their stock options on a cashless basis.

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(Unaudited)

7. Share capital (continued)

(b) Stock options (continued)

(i) As at September 30, 2018, outstanding and exercisable stock options were as follows:

Options		Exercise price	Weighted avg remaining contractual life	Expiry date
Outstanding	Exercisable			
		\$		
360,000	360,000	0.21	0.73 years	June 25, 2019
1,376,500	1,376,500	0.20	1.58 years	April 27, 2020
1,760,000	1,760,000	0.60	2.94 years	September 6, 2021
1,955,000	1,221,875	1.17	3.75 years	June 28, 2022
375,000	234,375	1.17	3.77 years	July 7, 2022
175,000	43,750	1.16	4.02 years	October 5, 2022
140,000	35,000	1.92	4.28 years	January 11, 2023
135,000	33,750	1.38	4.36 years	February 9, 2023
100,000	25,000	1.40	4.45 years	March 12, 2023
200,000	50,000	1.39	4.52 years	April 6, 2023
2,725,000	681,250	1.00	4.75 years	June 28, 2023
210,000	52,500	0.83	4.99 years	September 24, 2023
9,511,500	5,874,000	0.85		

As at December 31, 2017, outstanding and exercisable stock options were as follows:

Options		Exercise price	Weighted avg remaining contractual life	Expiry date
Outstanding	Exercisable			
		\$		
50,000	50,000	0.60	0.05 years	January 18, 2018
100,000	25,000	1.17	0.05 years	January 18, 2018
160,000	160,000	0.30	0.09 years	February 1, 2018
390,000	390,000	0.21	1.48 years	June 25, 2019
1,376,500	1,376,500	0.20	2.32 years	April 27, 2020
1,760,000	1,760,000	0.60	3.68 years	September 6, 2021
1,955,000	488,750	1.17	4.49 years	June 28, 2022
375,000	93,750	1.17	4.52 years	July 7, 2022
175,000	43,750	1.16	4.76 years	October 5, 2022
6,341,500	4,387,750	0.72		

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7. Share capital (continued)

(b) Stock options (continued)

(ii) The changes in stock options during the current and previous periods were as follows:

	September 30, 2018	Weighted avg exercise price \$	December 31, 2017	Weighted avg exercise price \$
Balance outstanding, beginning of period	6,341,500	0.72	4,902,682	0.39
Activity during the period				
Options granted	3,510,000	1.07	2,625,000	1.16
Options exercised	(265,000)	0.43	(1,186,182)	0.34
Options forfeited	(75,000)	1.17	-	-
Balance outstanding, end of period	9,511,500	0.85	6,341,500	0.72

(iii) During the nine months ended September 30, 2018, 3,510,000 (August 31, 2017 – 2,450,000) stock options were granted to directors, officers, employees and/or consultants of the Company. Using the Black-Scholes option pricing model, the Company recognized share-based payments of \$1,661,375 related to stock options vested during the period (August 31, 2017 - \$611,497).

The fair value of each option granted is estimated at the time of grant with weighted average assumptions used to estimate the fair value as follows:

	September 30, 2018
Risk free interest rate	2.03%
Expected life (years)	5
Annualized volatility	78%
Expected dividend	\$Nil
Stock price	\$1.08
Exercise price	\$1.07

The Black-Scholes option pricing model requires the input of highly subjective assumptions regarding volatility. The Company has used historical volatility of the Company's share price to estimate the annualized volatility used in its Black Scholes option pricing model.

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7. Share capital (continued)

(c) Warrants

- (i) As at September 30, 2018, the outstanding and exercisable share purchase warrants were as follows:

Warrants outstanding	Exercise price	Weighted avg remaining contractual life	Expiry date
	\$		
948,750	1.35	0.41 years	February 28, 2019
* 6,430,250	1.50	0.41 years	February 28, 2019
11,500,000	1.95	0.90 years	August 23, 2019
18,879,000	1.77		

As at December 31, 2017, the outstanding and exercisable share purchase warrants were as follows:

Warrants outstanding	Exercise price	Weighted avg remaining contractual life	Expiry date
	\$		
112,956	0.37	0.42 years	June 1, 2018
2,568,733	0.40	0.42 years	June 1, 2018
948,750	1.35	1.16 years	February 28, 2019
* 7,933,500	1.50	1.16 years	February 28, 2019
11,563,939	1.23		

- * These warrants are subject to an acceleration clause such that, if the closing price of the Company's common shares on the Toronto Stock Exchange is equal to or greater than \$1.80 per share for a period of ten consecutive trading days, the Company shall have the option, but not the obligation, to effect an accelerated expiration date that shall be 20 calendar days from the issuance by the Company of a notice of acceleration.

- (ii) The changes in warrants during the current and previous periods were as follows:

	September 30, 2018	Weighted avg exercise price	December 31, 2017	Weighted avg exercise price
		\$		\$
Balance outstanding, beginning of period	11,563,939	1.23	15,665,252	1.06
Activity during the period				
Warrants granted	11,500,000	1.95	-	-
Warrants exercised	(4,184,939)	0.79	(4,101,313)	0.58
Balance outstanding, end of period	18,879,000	1.77	11,563,939	1.23

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(Unaudited)

7. Share capital (continued)

(d) Loss per share

	Three months ending		Nine months ending	
	September 30, 2018	August 31, 2017	September 30, 2018	August 31, 2017
Net loss	\$ (1,296,970)	\$ (894,208)	\$ (4,889,855)	\$ (2,033,856)
Weighted average number of common shares outstanding	160,047,386	130,268,799	148,849,586	129,978,253
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding:

Stock options	6,015,000	4,652,682	6,015,000	4,652,682
Warrants	18,879,000	13,393,552	18,879,000	13,393,552

8. Related party transactions

(a) Subsidiaries

	Ownership interest	
	September 30, 2018	December 31, 2017
Formation Holdings Corp.	100%	100%
Formation Holdings US, Inc.	100%	100%
US Cobalt, Inc.	100%	100%
Formation Capital Corporation, U.S.	100%	100%
Essential Metals Corporation	100%	100%
Coronation Mines Ltd.	100%	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

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8. Related party transactions (continued)

(b) Compensation of key management personnel

The compensation to directors and officers of the Company during the nine-month periods ended September 30, 2018 and August 31, 2017 were as follows:

	September 30, 2018	August 31, 2017
	\$	\$
Salaries and short-term employee benefits including bonuses	668,500	509,572
Share-based payments (i)	1,043,750	570,969
Directors' fees (ii)	129,000	52,875
	1,841,250	1,133,416

Outstanding balances owed to directors and officers at September 30, 2018 were \$45,000 (December 31, 2017 - \$52,000).

- (i) Share-based payments (non-cash expense) are based on the fair value of stock options granted to directors and officers of the Company. During the nine-month period ended September 30, 2018, 2,150,000 stock options were granted to directors and officers who are considered key management of the Company (August 31, 2017 – 2,025,000). Using the Black-Scholes option pricing model, the Company recognized share-based payments of \$1,043,750 related to stock options held by directors and officers which vested during the period (August 31, 2017 - \$570,969).
- (ii) During the nine-month period ended September 30, 2018, the Company paid or accrued directors fees of \$129,000 (August 31, 2017 - \$52,875). The Company also reimbursed directors for business related expenses in the amount of \$13,849 (August 31, 2017 - \$13,506).

All executive officers are entitled to termination and change of control benefits. Pursuant to employment agreements, the Company may be obligated to pay up to \$2,300,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.

eCobalt Solutions Inc.

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9. Segmented information

The Company operated in two reportable segments, being exploration and development of mineral properties and corporate support. The Company's non-current assets by geographic location and total assets, liabilities and losses by operating segment are as follows:

	As at September 30, 2018		
	Canada	United States	Total
	\$	\$	\$
Non-current Assets			
Mineral properties	1,775,199	35,495,593	37,270,792
Property, plant and equipment	121,044	63,227,779	63,348,823
Reclamation bond	-	2,477,525	2,477,525
Total non-current assets	1,896,243	101,200,897	103,097,140

	As at December 31, 2017		
	Canada	United States	Total
	\$	\$	\$
Non-current Assets			
Mineral properties	1,483,325	25,916,362	27,399,687
Property, plant and equipment	23,130	45,014,863	45,037,993
Reclamation bond	-	2,400,969	2,400,969
Total non-current assets	1,506,455	73,332,194	74,838,649

	As at September 30, 2018		
	Exploration and development	Corporate	Total
	\$	\$	\$
Total Assets	100,850,970	21,393,587	122,244,557
Total Liabilities	14,385,174	640,360	15,025,534

	As at December 31, 2017		
	Exploration and development	Corporate	Total
	\$	\$	\$
Total Assets	72,746,320	14,490,791	87,237,111
Total Liabilities	7,102,828	1,008,803	8,111,631

eCobalt Solutions Inc.

Notes to the Condensed Interim Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and August 31, 2017

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9. Segmented information (continued)

	For the nine-month period ended September 30, 2018		
	Exploration and development	Corporate	Total
	\$	\$	\$
Expenses			
Accretion and interest expense	180,817	18,927	199,744
Depreciation	207,986	7,592	215,578
Foreign exchange gain	-	(128,263)	(128,263)
General and administrative	267,466	3,028,928	3,296,394
Share based compensation	-	1,661,375	1,661,375
Other income	(7,146)	(347,827)	(354,973)
Net loss for the period	649,123	4,240,732	4,889,855

	For the nine-month period ended August 31, 2017		
	Exploration and development	Corporate	Total
	\$	\$	\$
Expenses			
Accretion and interest expense	101,605	13,401	115,006
Depreciation	29,668	7,451	37,119
Foreign exchange gain	-	(278,799)	(278,799)
General and administrative	46,231	1,616,633	1,662,864
Share based compensation	-	611,497	611,497
Other income	(10,390)	(103,441)	(113,831)
Loss before income taxes	167,114	1,866,742	2,033,856
Income tax recovery	(451)	-	(451)
Net loss for the period	166,663	1,866,742	2,033,405

eCobalt Solutions Inc.

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10. Supplemental cash flow information

Changes in operating working capital during the nine months ended September 30, 2018 and August 31, 2017 were comprised of the following:

	September 30, 2018	August 31, 2017
	\$	\$
Trade and other receivables	26,500	10,449
Prepaid expenses and deposits	(222,474)	107,706
Accounts payable and accrued liabilities	(1,377,615)	(1,121,089)
Change in operating working capital for the periods ended	<u>(1,573,589)</u>	<u>(1,002,934)</u>

Non-cash investing activities during the nine months ended September 30, 2018 and August 31, 2017 were comprised of the following:

	September 30, 2018	August 31, 2017
	\$	\$
Accounts payable and accrued liabilities related to mineral properties	305,355	115,160
Accounts payable and accrued liabilities related to property, plant and equipment	3,493,393	-
Provision for site reclamation and closure costs included in mineral properties	4,125,180	2,332,029
Change in non-cash investing activities for the periods ended	<u>7,923,928</u>	<u>2,447,189</u>

11. Financial instruments

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value.

The Company's financial assets consist of assets classified as fair value through profit and loss which includes cash and cash equivalents, and assets classified as amortized cost consisting of the reclamation bond. Cash and cash equivalents are valued using level 1 of the fair value hierarchy. The fair value of the reclamation bond will not be realized until the bond is released from the trustee (Note 3). At September 30, 2018, the fair value of the reclamation bond is \$2,471,970 (December 31, 2017 - \$2,395,586) and is calculated in accordance with level 2 of the fair value hierarchy.

The Company's financial liabilities are classified as amortized cost and consist of accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value because of the short term nature of these instruments.

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12. Fair values and financial risk management

The Company has exposure to risk of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

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 and arises principally from the Company's cash, cash equivalents and reclamation bond.

The Company invests its excess cash, cash equivalents and reclamation bond principally in highly rated government and corporate debt securities, which may be liquidated at any time. The Company has established guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company's maximum exposure to credit risk is as follows:

	September 30, 2018	December 31, 2017
	\$	\$
Cash and cash equivalents	18,293,973	11,740,992
Reclamation bond	2,477,525	2,400,969
Total	20,771,498	14,141,961

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's operating requirements as well as its planned capital expenditures. The Company manages its financial resources to ensure that there is sufficient working capital to fund near term planned exploration work, capital and operating expenditures. The Company has considerable discretion to reduce or increase exploration plans and capital investment budgets depending on current or projected liquidity.

The following summarizes the Company's financial obligations and their maturity:

	September 30, 2018			December 31, 2017	
	Within 1 year	2-5 years	Over 5 years	Total	Total
	\$	\$	\$	\$	\$
Accounts payable	1,415,732	-	-	1,415,732	1,247,024
Accrued liabilities	3,056,505	-	-	3,056,505	715,747
	4,472,237	-	-	4,472,237	1,962,771

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12. Fair values and financial risk management (continued)

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

As at September 30, 2018, the Company's cash equivalents of \$15,093,384 (December 31, 2017 - \$2,601,467) are comprised of short-term GIC's that are redeemable in 30 days from the date of purchase and earn an interest rate of up to 1.70% (December 31, 2017 - 1.10%). The Company is not subject to material interest rate risk.

Foreign exchange rate risk

The Company reports its consolidated financial statements in Canadian dollars; however, the Company has extensive operations in the US. As a consequence, the financial results of the Company's operations as reported in Canadian dollars are subject to changes in the value of the Canadian dollar relative to the US dollar.

Exploration and development activities in the US are held in the Company's US subsidiaries and are recorded in US dollars and translated into Canadian dollars on the consolidated financial statements date, as such, the Company can be exposed to significant fluctuations in the exchange rate between the US dollar and the Canadian dollar. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors continually assesses the Company's strategy toward its foreign exchange rate risk, depending on market conditions.

Translation exposure

A number of the Company's subsidiaries are located in countries other than Canada. Therefore, exchange rate movements in the US dollar can have a significant impact on the Company's consolidated operating results due to the translation of monetary assets and liabilities.

At September 30, 2018, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) the Company's net loss before taxes by approximately \$159,005 (August 30, 2017 - \$302,600).

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13. Commitments

The following is a schedule of the Company's annual commitments as at September 30, 2018:

	Note	2018	2019	2020
		\$	\$	\$
Mineral property expenditure	(a)	12,924	-	-
Office operating leases	(b)	37,348	104,690	8,572
Construction and professional service contracts	(c)	7,438,004	-	-
		<u>7,488,276</u>	<u>104,690</u>	<u>8,572</u>

- (a) The Company has committed \$47,000 towards the 2018 exploration program for the Virgin River joint venture, which represents the Company's 2% interest, and has \$1,774 remaining to spend. The Company has also committed \$188,000 towards the 2018 exploration program for the Kernaghan/Bell joint venture, which represents the Company's 20% interest, and has \$11,150 remaining to spend.
- (b) The Company has office lease commitments totalling \$150,610 with various end dates up to January 31, 2020.
- (c) The Company has committed \$7,438,004 towards constructions activities to advance environmental systems at the ICP and professional services related to metallurgical testing and commissioning of an optimized FS.
- (d) Pursuant to employment agreements, the Company may be obligated to pay up to \$2,300,000 in the event that certain senior management is terminated without cause or due to a change in control as defined in the agreements.