Consolidated Financial Statements of

UCORE RARE METALS INC.

Years ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ucore Rare Metals Inc.

Opinion

We have audited the consolidated financial statements of Ucore Rare Metals Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated results of operations, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has experienced significant losses and negative cash flows from operations in 2018 and 2017 and does not have sufficient capital to fund its operations and planned expenditures beyond the first half of 2019 without additional financing.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as of the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Douglas Reid.

Halifax, Canada

April 26, 2019

UCORE RARE METALS INC.
Consolidated Statements of Financial Position
Expressed in Canadian dollars

	December 31, 2018	December 31, 2017
	$	$
ASSETS		
Current assets		
Cash	461,475	2,065,664
Marketable securities	1,500	1,000
Other receivables	156,653	47,255
Prepaid expenses and other	233,449	182,016
	853,077	2,295,935
Plant and equipment (note 8)	3,613,969	3,626,031
Derivative asset (note 11)	45,509	254,619
Restricted cash (note 7)	58,176	223,677
Resource properties and related exploration costs (note 9)	38,127,193	36,022,271
Non-refundable advance on technology (note 10)	3,353,446	3,353,446
	46,051,370	45,775,979
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	512,632	661,241
Long-term liabilities		
Other long-term liabilities (note 14)	400,000	-
Finance lease obligation (note 15)	2,728,000	2,514,000
	3,640,632	3,175,241
Shareholders' equity		
Share capital (note 16)	60,108,689	58,720,457
Contributed surplus (note 16)	13,529,076	12,950,920
Warrants (note 16)	10,813,180	10,167,621
Accumulated other comprehensive income	5,438,633	3,474,950
Deficit	(47,478,840)	(42,713,210)
	42,410,738	42,600,738
	46,051,370	45,775,979

Going concern (note 2)
Commitments and contingencies (note 17)
Subsequent events (Note 18)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(s) Jim McKenzie
Jim McKenzie, Director

(s) Geoff Clarke
Geoff Clarke, Director

UCORE RARE METALS INC.

Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian dollars
For the years ended December 31

	2018	2017
	$	$
EXPENSES		
Amortisation	9,740	27,182
Investor relations and marketing	193,297	346,588
Office and premises	324,622	319,561
Professional services	1,109,298	641,324
Salaries and consultants	1,518,553	2,041,239
Securities and regulatory	88,129	131,855
Share-based payments	578,156	723,730
Travel	163,155	240,468
Fair value adjustment of derivative asset (note 11)	209,110	207,958
	4,194,060	4,679,905
OTHER INCOME (LOSS)		
Interest income	1,002	7,828
Interest expense	(389,643)	(157,500)
Gain on debt conversion to shares (note 16)	54,054	-
Foreign exchange	(236,983)	(53,765)
	(571,570)	(203,437)
LOSS BEFORE INCOME TAXES	(4,765,630)	(4,883,342)
INCOME TAXES RECOVERABLE (note 13)	-	-
NET LOSS	(4,765,630)	(4,883,342)
Net Loss per share - basic and diluted	(0.02)	(0.02)
Weighted average number of basic and diluted common shares outstanding	274,207,096	270,142,589
COMPREHENSIVE LOSS:		
Net loss for the year	(4,765,630)	(4,883,342)
Items which may be subsequently recycled through profit or loss		
Foreign currency translation difference arising on translation of foreign subsidiaries	1,963,183	(1,565,855)
Unrealized gain (loss) on available-for-sale securities	500	-
	(2,801,947)	(6,449,197)

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.
Consolidated Statements of Changes in Equity
Expressed in Canadian dollars

	Number of Shares	Share Capital	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2017	270,142,077	$ 60,843,236	$ 10,714,134	$ 9,679,444	$ 5,040,805	$ (37,829,868)	$ 48,447,751
Net loss						(4,883,342)	(4,883,342)
Foreign currency translation adjustment					(1,565,855)		(1,565,855)
Share-based payments			602,184				602,184
Fair value of options exercised	8,120	2,030	(2,030)				-
Extension of warrants		(2,124,809)		2,124,809			-
Expiry of warrants			1,636,632	(1,636,632)			-
Balance at December 31, 2017	270,150,197	$ 58,720,457	$ 12,950,920	$ 10,167,621	$ 3,474,950	$ (42,713,210)	$ 42,600,738
Balance at January 1, 2018	270,150,197	$ 58,720,457	$ 12,950,920	$ 10,167,621	$ 3,474,950	$ (42,713,210)	$ 42,600,738
Net loss						(4,765,630)	(4,765,630)
Unrealized gain (loss) on available for sale securities					500		500
Foreign currency translation adjustment					1,963,183		1,963,183
Share-based payments (note 16)			578,156				578,156
Shares for debt (note 16)	2,702,702	351,351					351,351
Financing net of costs (note 16)	10,232,962	1,036,881		645,559			1,682,440
Balance at December 31, 2018	283,085,861	$ 60,108,689	$ 13,529,076	$ 10,813,180	$ 5,438,633	$ (47,478,840)	$ 42,410,738

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.
Consolidated Statements of Cash Flows
Expressed in Canadian dollars

	2018	2017
	$	$
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Net loss for the year	(4,765,630)	(4,883,342)
Adjustments for items not involving cash:		
Amortisation	9,740	27,182
Gain on shares for debt conversion	(54,054)	-
Foreign exchange loss on settlement of debt	14,806	-
Share-based payments	578,156	723,730
Interest expense	387,050	157,500
Fair value adjustment of derivative asset	209,110	207,958
Unrealized foreign exchange loss	214,000	28,725
	(3,406,822)	(3,738,247)
Change in non-cash operating working capital:		
Other receivables	(109,398)	15,901
Prepaid expenses and other	44,976	103,163
Accounts payable and accrued liabilities	653,999	546,124
	(2,817,245)	(3,073,059)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Decrease in restricted cash	165,501	-
Proceeds from finance lease of property and equipment (note 15)	-	2,501,000
Interest paid on finance lease	(387,050)	(157,500)
Issuance of common shares and warrants for cash (note 16)	1,741,932	-
Share issuance costs (note 16)	(59,493)	-
	1,460,890	2,343,500
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Purchase of plant and equipment	(3,533)	(1,400)
Additions to resource properties and related exploration costs	(244,301)	(317,577)
	(247,834)	(318,977)
INCREASE (DECREASE) IN CASH	(1,604,189)	(1,048,536)
CASH, beginning of year	2,065,664	3,114,200
CASH, end of year	461,475	2,065,664
Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resource properties and related exploration costs	(12,008)	(14,465)
Prepaids related to resource properties and related exploration costs	(96,409)	13,216
Amortization related to resource properties and related exploration costs	45,395	11,801
Issue of common shares on settlement of debt (note 16)	(390,600)	-

The accompanying notes form an integral part of these consolidated financial statements.

1. Nature of operations:

Ucore Rare Metals Inc. ("Ucore" or the "Company") is a Corporation domiciled in Canada. The address of the Company's head office is 210 Waterfront Drive, Suite 106, Halifax N.S., B4A 0H3. The Company is engaged in the exploration for and separation of rare earth elements within Canada and the United States. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise.

2. Going concern:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, as described in the following paragraphs.

The Company has no sources of revenue, experienced significant losses and negative cash flows from operations in 2018 and 2017 and has a deficit. Without additional financing or other satisfactory arrangements by no later than the end of the first half of 2019, the Company's financial resources will not be sufficient to develop its projects, its intended joint venture business or the acquisition of IBC. The Company's current liquidity and capital resources raise significant doubt about the Company's ability to continue as a going concern for the next twelve months without any inflow or new funds during the first half of 2019.The ability of the Company to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration programs. There is no certainty that the Company will be able to raise funds as they are required in the future.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

3. Basis of presentation:

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").
The date the Board of Directors approved the consolidated financial statements is April 26, 2019.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investments which are measured at fair value.

Functional currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Ucore Rare Metals Inc. The following wholly-owned subsidiaries have a U.S. dollar ("USD") functional currency: Landmark Alaska Limited Partnership and Rare Earth One LLC.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgments based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Critical accounting estimates:

Estimate of recovery for non-financial assets

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Company's accounting policy, each non-financial asset unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is made and an impairment loss is recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use.

3. Basis of presentation (continued):

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset and its eventual disposal. Fair value for a mining property is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans, using assumptions that an independent market participant would take into account. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Share-based compensation

Equity-settled share-based compensation issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

Derivative financial instruments

The Company records the fair value of derivative assets using valuation models where the fair value cannot be determined in active markets. The inputs used in the fair value models contain inherent uncertainties, estimates and use of judgment as certain valuation inputs are unobservable.

Provision for site restoration

Management's assessment that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ucore Resources LP (NS) Inc., Rare Earth One LLC (AK), Mineral Solutions LLC (AK), Landmark Alaska Limited Partnership (AK), Landmark Minerals Inc., 5621 N.W.T. Ltd., Landmark Minerals US Inc., and Ucore Rare Metals (US) Inc. (AK).

(i) Subsidiaries

4. Significant accounting policies (continued):

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Resource properties and related exploration costs:

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalised by property. Exploration and evaluation costs are capitalised.

Resource properties are initially measured at cost and classified as tangible and intangible assets. These assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, metallurgical studies, and other direct costs related to exploration or evaluation of a project, including the cost of certain site equipment. Such equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance method at rates between 10% to 30% designed to amortise the cost of the equipment over their estimated useful lives. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a project is determined to be technically and commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant resource property asset is tested for impairment and the balance is reclassified as a mineral property in property, plant and equipment.

4. Significant accounting policies (continued):

(c) Foreign currency translation:

i. Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the cumulative translation account and reclassified to profit or loss on repayment of the monetary items.

ii. Foreign operations

The results and financial position of all subsidiaries that have a functional currency different from the Canadian Dollar presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the date of the statement of financial position;
- Income and expenses for each statement of comprehensive loss presented are translated at average exchange rates for the period;
- All resulting exchange differences are recognised in accumulated other comprehensive loss.

On the loss of control of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are recognised in the statement of comprehensive loss as part of the gain or loss on sale.

(d) Financial instruments:

(i) Financial assets

The Company initially recognises loans and receivables and deposits on the date that they originate. All other financial assets are recognised initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

4. Significant accounting policies (continued):

The Company derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

The Company has the following non-derivative financial assets: loans and receivables and available for sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprised cash, short term deposits, and accounts receivable.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Company's investments in marketable securities are classified as available for sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available for sale equity instruments, are recognised in other comprehensive income and presented within equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Fair value is determined based on current bid prices for all quoted investments.

(ii) Derivative financial assets

Derivative financial assets are recorded at fair value with changes in fair value recorded in profit or loss.

(iii) Financial liabilities

The Company initially recognises other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial liabilities when its contractual obligations are discharged, cancelled, or expire.

4. Significant accounting policies (continued):

a) Non-derivative financial liabilities:

The Company has the following non-derivative other financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

b) Embedded derivatives:

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss.

(iv) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Impairment:

(i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructure of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available for sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

4. Significant accounting policies (continued):

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amount of the Company's non-financial assets, excluding resource properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Company's assets do not generate separate cash inflows. If there is an indication that a company asset may be impaired, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

4. Significant accounting policies (continued):

Resource properties are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. Such circumstances would include expiration of rights to explore with no right or expectation of renewal; substantive expenditure on further exploration and evaluation in the specific area is neither budgeted nor planned or the entity has decided to discontinue such activities in the specific area; or if sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. An impairment loss is recognised for the amount by which the resource assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less costs to sell for the specific assets.

(f) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable on respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortisation on equipment, tax losses carried forward, and fair value adjustments on assets acquired in business combinations.

4. Significant accounting policies (continued):

(g) Share-based compensation:

The Company has a share-based compensation plan which is described in note 16. Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options or deferred share units at the grant date, with a corresponding credit to contributed surplus in shareholders' equity. Fair value is measured using the Black-Scholes pricing model. If the options and deferred share units are subject to vesting periods, the compensation cost is recognized over this period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based compensation transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration paid by employees on the exercise of stock options is credited to share capital together with the amounts originally recorded as share-based compensation in contributed surplus related to the exercised options.

(h) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. The Company follows the treasury stock method of calculating diluted per share amounts. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

(i) Equipment:

Equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance and straight-line methods at rates designed to amortise the cost of the equipment over their estimated useful lives. The annual amortisation rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Exploration equipment	Declining balance	30%
Leasehold improvements	Straight line	Term of lease

4. Significant accounting policies (continued):

(j) Flow-through shares:

The Company has financed portions of its exploration activities through the issuance of flow-through shares. The income tax attributes of the related exploration expenditures are renounced to investors in accordance with income tax legislation. The proceeds received on the issuance of flow-through shares are allocated between share capital and the obligation to deliver the tax deduction to investors. This allocation is based on the relative fair value of the quoted price of the Company's shares and the premium related to the flow-through tax deductions. The premium liability is removed pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction of the premium is recorded as a reduction of deferred tax expense.

(k) Warrants:

From time to time the Company issues warrants in conjunction with share capital. Proceeds are allocated between share capital and warrants based on the relative fair value of each instrument. The fair value of the warrants is estimated using an appropriate option pricing model, as outlined in note 16.

(l) New and revised IFRS accounting pronouncements:

a) The following amendments were adopted by the Company in the fiscal year:

(i) The Company adopted the IASB issued amendments to IFRS 2, Share-based Payments with a date of initial application of January 1, 2018. These amendments deal with variations in the final settlement arrangement including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled equity. There was no impact of the adoption of these amendments on the Company's consolidated financial statements at January 1, 2018. For additional information about the Company's accounting policies relating to share-based compensation, see Note 4(g).

(ii) In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard replaces IAS 11, Construction Contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

Expressed in Canadian dollars, except where otherwise indicated

4. Significant accounting policies (continued):

As the Company does not currently generate revenue the impact of adopting IFRS 15 is with respect to the sale-leaseback transaction in 2017. Under IFRS 15, the transaction has been accounted for as a financing arrangement and not a sale and therefore the adoption of IFRS 15 did not have any impact on the consolidated financial statements.

(iii) IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to the Company.

b) For the purposes of preparing and presenting the Company’s consolidated financial statements, the Company has adopted all applicable standards and interpretations issued other than those discussed below. These standards have not been adopted because they are not effective for the Company until subsequent to December 31, 2018. Standards and interpretations issued, but not yet adopted include:

	Effective for the Company
IFRS 16, *Leases*	January 1, 2019
IFRIC 23, Uncertainty over income Tax Treatments	January 1, 2019

In January 2016, the IASB issued IFRS 16 *Leases.* This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

4. Significant accounting policies (continued):

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by the tax authorities. The Company intends to adopt the interpretation in its financial statement for the annual period beginning on January 1, 2019 and does not expect the Interpretation to have a material impact on the consolidated financial statements.

5. Capital management:

The Company's capital consists of shareholders' equity of $42,410,738 (2017 - $42,600,738). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties, the advancement of the Company's prospective separation technology, and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity and royalty based financings.

Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in a high interest savings account. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

6. Financial instruments and risk management:

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate fair values. The three levels of fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of accounts receivable, marketable securities, accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments. Long term liabilities are also measured using level 1 inputs given the nature of the instrument. Cash is classified as fair value through profit or loss and measured using level 1 inputs of the fair value hierarchy. The Company's derivative asset and finance lease obligation are measured using level 3 inputs as disclosed in note 11 and 15 respectively.

6. Financial instruments and risk management (continued):

The Company is exposed to a variety of financial risk by virtue of its activities including, liquidity, market, foreign currency, and interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due and to continue to fund its exploration and evaluation activities. The Company's accounts payable and accrued liabilities are due within six months. Their contractual cash flow is equal to their carrying value. Short term deposits are held in interest bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

Restricted cash is held in interest bearing instruments which can only be converted to cash with the written consent of a government agency. The Company's ability to meet its obligations is discussed further in note 2.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency rates, interest rates, and commodity and equity prices.

Foreign currency risk

A significant portion of the Company's transactions occur in United States dollars and accordingly, the related financial assets and liabilities are subject to fluctuations in the respective exchange rates. To limit exposure to this risk, cash and short-term investments are primarily held with high quality financial institutions in Canada.

The Company's exposure to US dollar currency risk as measured in Canadian dollars was as follows:

	2018	2017
Cash	$ 92,307	$ 1,558,953
Restricted cash	58,176	223,677
Trade and other receivables	-	-
Trade and other payables	(208,563)	(131,283)
Finance lease	(2,728,000)	(2,514,000)
	$ (2,786,080)	$ (862,653)

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by $278,608 (2017 - $86,265).

Expressed in Canadian dollars, except where otherwise indicated

6. Financial instruments and risk management (continued):

Interest rate risk

The Company has cash and restricted cash that bears interest, and periodically holds short-term deposits. The Company's short-term funds are held in a high interest savings account, as is the case at December 31, 2018, or guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. Therefore, a change in interest rates at the reporting date would not affect interest income or the carrying amount of these instruments.

7. Restricted cash:

Restricted cash consists of US dollar reclamation bonds required by government agencies to ensure proper decommissioning of structures built at the Bokan property. These bonds accrue interest at a fixed rate that is updated annually. Funds can be released with government approval.

8. Plant and equipment:

	Office Equipment	Exploration Equipment	Leasehold Improvements	PGM Facility	Pilot Plant Under Capital Lease	Total
Cost						
Balance, January 1, 2017	$ 219,663	$ 142,746	$ 179,519	$ 641,484	$ -	$ 1,183,412
Additions	1,400	-	-	-	-	1,400
Transfer	-	-	-	-	2,914,106	2,914,106
Balance December 31, 2017	221,063	142,746	179,519	641,484	2,914,106	4,098,918
Additions	3,533	-	-	-	-	3,533
Balance, December 31, 2018	224,596	142,746	179,519	641,484	2,914,106	4,102,451
Accumulated amortisation						
Balance, January 1, 2017	$ 163,945	$ 103,995	$ 165,955	$ -	$ -	$ 433,895
Amortisation	10,040	3,578	13,564	-	-	27,182
Capitalized Amortisation	2,793	9,017	-	-	-	11,810
Balance, December 31, 2017	176,778	116,590	179,519	-	-	472,887
Amortisation	8,509	1,231	-	-	-	9,740
Capitalized Amortisation	437	5,418	-	-	-	5,855
Balance, December 31, 2018	185,724	123,239	179,519	-	-	488,482
Net book value						
Balance, December 31, 2017	$ 44,285	$ 26,156	$ -	$ 641,484	$ 2,914,106	$ 3,626,031
Balance, December 31, 2018	$ 38,872	$ 19,507	$ -	$ 641,484	$ 2,914,106	$ 3,613,969

The Company has not begun to amortize the Pilot Plant under capital lease as it has not been recommissioned to accept third party feedstock as at December 31, 2018 and is therefore not considered available for use.

Expressed in Canadian dollars, except where otherwise indicated

9. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2017	Acquisition costs	Deferred exploration costs	Transfer under sale leaseback	Impairment	Movement in exchange rates	December 31, 2018
Bokan Mountain, Alaska	$ 36,022,271	$ -	$ 141,739	$ -	$ -	$ 1,963,183	$ 38,127,193
	$ 36,022,271	$ -	$ 141,739	$ -	$ -	$ 1,963,183	$ 38,127,193

	December 31, 2016	Acquisition costs	Deferred exploration costs	Transfer under sale leaseback	Impairment	Movement in exchange rates	December 31, 2017
Bokan Mountain, Alaska	$ 40,308,855	$ -	$ 193,377	$ (2,914,106)	$ -	$ (1,565,855)	$ 36,022,271
	$ 40,308,855	$ -	$ 193,377	$ (2,914,106)	$ -	$ (1,565,855)	$ 36,022,271

Included in resource properties is capitalized equipment, with a net book value of $237,110 at December 31, 2018 (December 31, 2017 - $251,029). There were no additions to equipment in either fiscal 2018 or 2017. Amortisation of $35,831 (December 31, 2017 - $11,801) was recorded and capitalised to the resource properties as deferred exploration costs.

Bokan Mountain, Alaska

The Company holds the right to acquire up to a 100% interest in the Bokan Mountain rare earth element property, subject to certain royalties. The Company holds a 100% interest in five separate option agreements to acquire a 100% interest in a parcel of unpatented mineral claims from underlying owners and staked a 100% interest in an additional parcel of prospective ground. The option agreements provide for the Company to acquire a 100% interest in the optioned claims in exchange for total remaining payments of US$90,000. The five vendors will retain Net Smelter Royalties ("NSR") ranging from 2% to 4% on their specific claims. The Company has the right to purchase between 33% and 100% of the NSR for cash payments of US$500,000 to US$1,000,000 per vendor.

10. Non-refundable advance on technology:

Pursuant to an agreement dated April 29, 2014, between IBC Advanced Technologies Inc. (“IBC”) and the Company, entitled “Research Projects, Pilot Plant, Separation Plant and Prospective Joint Operating Enterprise”, as amended (the “Research Agreement”), the Company has the opportunity to make payments of $2.9 million USD to create a joint venture that will secure the exclusive, perpetual, full and royalty-free license and authorization to use, enjoy and benefit from the proprietary Superlig® Molecular Recognition Technology (“MRT”) intellectual property for rare earth purification, tailings remediation, and related recycling applications. To date, the Company has made non-refundable payments totaling $2,445,291 ($1,915,000 USD) to IBC with respect to the Research Agreement. Under the terms of the Research Agreement these payments, when complete, are expected to result in the creation of a joint venture which will hold the rights to this technology.

10. Non-refundable advance on technology (continued):

The Company will have up to a 60% controlling interest in the joint venture and IBC will own a 40% equity interest. Ucore will be responsible for either providing initial capital for the new venture as the financing partner, or finding a third-party investor to provide the required investment. If Ucore were to invest the capital directly, it would result in Ucore controlling the entity. The non-refundable payments as well as a commitment to provide a minimum of $1,000,000 USD in start-up capital will form the basis for Ucore's contribution to the joint venture. The amortization method, useful life, and residual value of the underlying asset or assets related to the license will be determined upon formation of the joint venture.

The Company has made a number of payments, totalling $908,155 ($690,000 USD) for certain considerations from IBC, including the devotion of IBC's resources to the development of the joint venture's potential business opportunities. These payments will be assigned to the joint venture discussed above upon formation and will be paid back to Ucore preferentially on any distributions from the joint venture. The Company has capitalized the payments as the expenditures meet the criteria for capitalization as an intangible asset.

During the year ended December 31, 2018 IBC has disputed aspects of the Research Agreement. Further details to the dispute are discussed in note 17.

11. Financial derivative:

In 2015 and 2016 the Company made non-refundable payments totalling $841,050 ($650,000 USD) in respect of a purchase option from IBC, a private company. This option (the "IBC Option" or "OTP") allows the Company to purchase 100% of the outstanding shares of IBC in exchange for cash consideration totalling $10,000,000 USD and an issuance of 4,000,000 Units of Ucore. Each Unit consisting of one common share of Ucore plus one half of a common share purchase warrant. Each full warrant shall entitle the holder to acquire one additional common share of Ucore at a strike price equal to the market price of the common shares of Ucore as of the date on which the option is exercised. The IBC Option expired on March 14, 2019 and further details relating to the IBC Option are discussed in note 18.

Upon the exercise of the IBC Option, IBC key personnel shall become entitled to receive performance incentives and payments totaling 7% of annual EBITDA for each of the first 5 years of IBC's operations subsequent to the exercise of the option.

Shareholders representing the majority of the outstanding and fully diluted shares of IBC are parties to, and bound by the IBC Option agreement. In the event that any IBC shareholder that is not a party to the option agreement elects not to sell their shares to the Company, consideration to be paid would be adjusted to reflect the percentage of the Company that is not acquired.

The IBC Option is a derivative financial asset that is recorded at fair value, with changes in fair value recognized through profit or loss. The premium paid for the derivative at inception of $841,050 represents the initial fair value.

Expressed in Canadian dollars, except where otherwise indicated

11. Financial derivative (continued):

The fair value has been estimated based on amortizing the premium on a straight-line basis over the term of the IBC Option agreement. Changes in the fair value are summarized as follows:

	December 31, 2017	Market value adjustment	December 31, 2018
IBC Option	$ 254,619	$ (209,110)	$ 45,509
	$ 254,619	$ (209,110)	$ 45,509

	December 31, 2016	Market value adjustment	December 31, 2017
IBC Option	$ 462,577	$ (207,958)	$ 254,619
	$ 462,577	$ (207,958)	$ 254,619

During the year ended December 31, 2018 IBC has disputed the IBC Option. Further details to the dispute are discussed in note 17.

12. Related party transactions:

The Company has defined key management personnel as senior executive officers, as well as the Board of Directors. The total remuneration of key management personnel and the Board of Directors was as follows:

	2018	2017
Director's fees	$ 163,000	$ 163,000
Share-based payments to directors	87,335	169,073
Key management short-term benefits	893,346	1,108,910
Share-based payments to key management	102,359	172,588
	$ 1,246,040	$ 1,613,571

Key management short-term benefits include all salary, bonuses, and health/dental benefits earned by officers during the year.

As at December 31, 2018, the Company has amounts receivable from officers of the Company in the amount of $20,942 (December 31, 2017 - $83,907), which are non-interest bearing. The amounts are included in prepaid expenses and other.

During the year ending December 31, 2018, the Company paid $94,229 (2017 - $104,881) in fees to a law firm of which a director of the Company is a partner. Additionally, travel expenditures in the amount of $342 (2017 - $3,222) were reimbursed to directors of the Company.

During the year ended December 31, 2018, the Company completed two non-brokered private placements in which the CEO and CFO of the Company purchased a total of 750,000 units for gross proceeds to the Company of $135,000. In addition, shareholders holding greater than 10% of the outstanding common shares of the Company purchased a total of 4,500,000 units for gross proceeds to the Company of $725,000.

Expressed in Canadian dollars, except where otherwise indicated

12. Related party transactions (continued):

During the year ended December 31, 2018, the Company accrued $300,000 USD for ongoing general business and consulting services rendered by Orca Holdings, LLC. The Company settled the amount payable by issuing 2,702,702 shares of the Company on December 18, 2018. During the year ended December 31, 2017, the Company completed a $2,000,000 USD finance lease with Orca Holdings, LLC. Orca Holdings, LLC is a shareholder with holdings greater than 10% of the outstanding common shares of the Company. Subsequent to December 31, 2018 the Company terminated the lease agreement between the Company and the lessor and purchase the Pilot Plant from the lessor for $2,000,000 USD. Further details of the transactions are discussed in note 18.

All related party transactions were valued at the exchange amount agreed to between the parties.

13. Deferred income taxes:

Deferred income tax recovery differs from the amount that would be computed by applying the combined Canadian federal and Nova Scotia provincial statutory income tax rate of 31% (2017 - 31%) to net loss before income taxes.   The reasons for the difference are as follows:

	2018	2017
Computed tax recovery at the statutory rates	$ (1,477,190)	$ (1,513,836)
Stock-based compensation, not deductible for tax purposes	179,228	224,356
Changes in tax assets related to deductible temporary differences and unused tax losses not recognized	1,292,842	1,268,980
Other	5,120	20,500
	$ -	$ -

The deferred tax assets relating to the following deductible temporary differences and non-capital losses have not been recognised in the consolidated financial statements:

	Dec 31, 2018	Dec 31, 2017
Non-capital losses carried forward	$ 36,131,000	$ 32,161,000
Capital loss carried forward	-	-
Share issue costs	430,000	643,000
Plant and equipment	345,000	408,000
Resource properties	1,477,000	1,477,000
Accrued bonus	400,000	-
Derivative asset	796,000	586,000
Marketable securities	44,000	45,000
	$ 39,623,000	$ 35,320,000

The Company has accumulated losses for Canadian tax purposes of approximately $36,131,000, which may be carried forward and used to reduce taxable income in future years.   These losses expire between 2026 and 2038.

Expressed in Canadian dollars, except where otherwise indicated

14. Other long-term liabilities:

The Company has accrued compensation of $400,000 owing to officers of the company. The payment will not become payable until such a time as the Company can make the payment and maintain net cash reserves totaling $2,000,000 following the payment. The officers have agreed not to demand payment before January 1, 2020.

15. Finance lease:

In 2017, the Company completed a sale and leaseback of its Pilot Plant with Orca Holdings, LLC (“the lessor”). The terms of the agreement resulted in the Company selling the Pilot Plant for cash proceeds of $2,501,000 ($2,000,000 USD) (“the purchase price”). The Company has leased the Pilot Plant for a 3-year term at an annual lease rate of 15% (the “term”) and retains all existing operating rights and obligations. The leased assets are recorded within property and equipment (note 8).

The excess of $413,106 of the net book value of the asset over the cash proceeds remains in the carrying amount of the leased asset as the asset was determined not be impaired at the time of the transaction. The transaction is being accounted for as a financing transaction with the asset remaining recorded and the present value of the lease payments reflected as a liability.

The Company is required to make monthly, interest-only payments to the lessor of $25,000 USD. At the option of the Company or the lessor, the lease may be terminated upon the payout by the Company of the purchase price at any time commencing the second year of the term. At the end of the term the Company will purchase the Pilot Plant from the lessor for the purchase price.

The Company recognized a finance lease obligation and an asset under finance lease with an opening balance of $2,501,000. This amount represents the present value of future minimum lease payments using a discount rate of 15%. The following table reconciles the changes in cash flows from financing activities attributable to finance lease obligation:

	December 31, 2017	Proceeds on sale of property and equipment	Total cash flow from financing activities	Effects from foreign exchange	December 31, 2018
Finance Lease Obligation	$ 2,514,000	$ -	$ -	$ 214,000	$ 2,728,000
	$ 2,514,000	$ -	$ -	$ 214,000	$ 2,728,000

	December 31, 2016	Proceeds on sale of property and equipment	Total cash flow from financing activities	Effects from foreign exchange	December 31, 2017
Finance Lease Obligation	$ -	$ 2,501,000	$ 2,501,000	$ 13,000	$ 2,514,000
	$ -	$ 2,501,000	$ 2,501,000	$ 13,000	$ 2,514,000

Subsequent to December 31, 2018 the Company terminated the lease agreement between the Company and the lessor and purchased the Pilot Plant from the lessor for $2,000,000 USD. Further details of the transaction are discussed in note 18.

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital:

Authorized:

Unlimited number of common voting shares

Unlimited number of first preferred non-voting shares issuable in series

Unlimited number of second preferred non-voting shares issuable in series

(a) Financing

On June 27, 2018 the Company completed the second and final tranche of a non-brokered private placement for cumulative gross proceeds of $1,241,933 which were received in two tranches, June 8, 2018 and June 27, 2018. The offering consisted of 6,899,629 units priced at $0.18 per unit. Each unit sold included one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of $0.25 per common share for a period of 36 months. All common shares and warrants issued in connection with the private placement are subject to a statutory hold period that expires four months after the issuance of each tranche.

The Company paid finder's fees totaling $13,320 and issued a total of 73,500 finder's warrants pursuant to certain subscriptions. Each finder's warrant issued entitles the holder to acquire one common share at a price of $0.18 per unit for a period of 24 months from the date of issuance. Other costs associated with the private placement totaled $35,644 for total costs of $48,964. The value allocated to the warrants was determined based on the Black-Scholes model, using an assumed volatility 64% and an expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

	Allocation of proceeds		
	Shares	Warrants	Total
Proceeds	$ 742,149	$ 499,784	$ 1,241,933
Cash costs	(29,260)	(19,704)	(48,964)
Broker warrants	(5,586)	5,586	-
Closing balance	$ 707,303	$ 485,666	$ 1,192,969

On December 10, 2018 the Company completed a non-brokered private placement for total proceeds of $500,000. The offering consisted of 3,333,333 units priced at $0.15 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each warrant gives the holder the right to purchase one common share at an exercise price of $0.20 for a period of 36 months.

The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility 67% and an expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

	Allocation of proceeds		
	Shares	Warrants	Total
Proceeds	$ 336,667	$ 163,333	$ 500,000
Cash costs	(7,089)	(3,440)	(10,529)
Closing balance	$ 329,578	$ 159,893	$ 489,471

(b) Shares for debt

On December 18, 2018 the Company settled certain payables in the amount of USD $300,000 (or CAD$405,405.41, using a CAD/USD exchange rate of $0.74). The agreed upon price of common shares on the date of settlement was $0.15 per share and the Company issued 2,702,702 shares to settle the debt. As a result, the Company incurred a gain on settlement of $54,054 which is included in other income.

(c) Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees, and consultants of the Company ("the Plan"). Pursuant to the terms of the Plan, up to 10% of the issued and outstanding common shares have been reserved for issuance as options, with no one individual being granted more than 5% of the issued and outstanding common shares.

Options granted under the Plan generally vest over a period of 18 months. Stock options expire up to five years after the date of grant.

Stock options may also be granted to agents in certain public and private placements. Options granted to agents vest immediately and generally expire two years after the date of grant.

For the year ended December 31, 2018, the Company recognized share-based compensation expense of $607,794 (2017 - $826,391) for options granted to directors, employees, and consultants of which $Nil (2017 - $2,654) was capitalized to resource properties and related deferred costs. The Company recorded a forfeiture recovery to share-based compensation expense of $29,638 (2017 - $100,007) and $Nil (2017 - $124,200) to resource properties and related deferred costs as a result of options forfeited prior to their expiry date. As a result of the transactions during the year $578,156 (2017 - $723,730) was charged to income.

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

The fair value of options granted during the year has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for options granted during the year are as follows:

	2018	2017
Risk-free interest rate	1.23%	1.35%
Expected life	3 years	3 years
Expected volatility	64%	67%
Expected dividends	nil	nil
Weighted average grant date fair value	$0.09	$0.12
Rate of forfeiture	10%	10%

Expected volatility is estimated by considering historic average share price volatility.

A summary of changes in stock options during the year is as follows:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	22,668,333	$ 0.29	16,318,333	$ 0.29
Granted	400,000	0.21	8,450,000	0.265
Exercised	-	-	-	-
Forfeited	(4,435,000)	0.27	(2,100,000)	0.30
Balance, end of year	18,633,333	$ 0.28	22,668,333	$ 0.29

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2018:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
0.19	200,000	February 12, 2023	66,667
0.23	200,000	July 30, 2023	-
0.23	333,333	November 3, 2020	333,333
0.27	150,000	February 17, 2019	150,000
0.265	8,400,000	August 21, 2022	5,600,000
0.27	2,450,000	June 2, 2019	2,450,000
0.28	2,450,000	September 11, 2020	2,450,000
0.30	2,600,000	November 4, 2021	2,600,000
0.30	300,000	November 4, 2021	300,000
0.32	500,000	June 30, 2019	500,000
0.33	100,000	August 6, 2020	100,000
0.38	300,000	June 12, 2020	300,000
0.38	650,000	April 25, 2019	650,000
	18,633,333		15,500,000
Weighted average remaining life			2.55 years

(d) Share purchase warrants

The fair value of warrants has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for the warrants granted during each year are as provided below.

During the year ended December 31, 2017, 20,731,912 warrants, with an exercise price of $0.50 scheduled to expire on several dates between April 11, 2017, and April 17, 2017, were extended until dates between April 11, 2019, and April 17, 2019 and the exercise price was amended to $0.305. The value of this modification totalled $2,124,809 and was charged to equity.

	2018	2017
Risk-free interest rate	1.36%	1.00%
Expected life	3 years	2 years
Expected volatility	64%	66%
Expected dividends	nil	nil

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

A summary of the Company's share purchase warrants at December 31, 2018 and 2017, and the changes for the years then ended is as follows:

			2018			2017
	Number of warrants		Weighted average exercise price	Number of warrants		Weighted average exercise price
Balance, beginning of year	49,235,361	$	0.35	66,188,701	$	0.41
Granted	8,639,796		0.24	-		-
Exercised	-		-	-		-
Expired	-		-	(16,953,340)		0.35
Balance, end of year	57,875,157	$	0.33	49,235,361	$	0.35

During the year ended December 31, 2017, the 16,953,340 warrants expired unexercised. This resulted in a decrease to warrants and an increase to contributed surplus of $1,636,632.

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2018.

Exercise price per share	Expiry date	Number of warrants
$0.18	June 8, 2020	73,500
$0.20	December 10, 2021	1,666,667
$0.25	June 8, 2021	6,344,074
$0.25	June 28, 2021	555,555
$0.29	July 22, 2019	1,658,621
$0.38	July 22, 2019	1,500,007
$0.38	May 27, 2019	25,344,821
$0.305	April 11 – April 17, 2019	20,731,912
		57,875,157
Weighted average remaining life		0.69 years

16. Share capital (continued):

(e) Deferred share units

The Company has adopted a Deferred Share Unit Plan for the directors and senior officers of the Company. Pursuant to the terms of the plan, the maximum number of Deferred Share

Units issued to any individual, within any one year period, cannot exceed 1% of the issued and outstanding Shares as of the relevant Award Date, and the maximum number of Deferred Share Units issued to any individual, within any one year period, when aggregated with the number of Shares underlying all other awards made to such individual under all other Security Based Compensation Arrangements in such year period, cannot exceed 5% of the issued and outstanding Shares as of the relevant Award Date.

Awards granted under the Plan generally vest 25% immediately on the award date, 25% on the one-year anniversary of the award date, 25% on the two-year anniversary of the award date and 25% on the three-year anniversary of the award date. Early vesting is provided in the event of termination without cause, resignation at the request of the Company, death, or on the occurrence of a change of control of the Company.

During the year ended December 31, 2018 and 2017 there were no deferred share units issued.

There are currently 557,100 (2017 - 557,100) deferred share units outstanding, resulting in total expense of $10,407 (2017 - $22,813). This has been recorded in share-based compensation expense as discussed in note 16 (c).

During the year ended December 31, 2017, 11,600 deferred share units were exercised at $0.25 per share and 19,100 deferred share units were forfeited. No deferred share units were exercised or forfeited during 2018.

17. Commitments and contingencies:

(a) Office, operating leases, and consulting

In February 2012, the Company entered into a five-year operating lease for its head office premises in Halifax which began in October 2012. This lease was extended until October 2020. The Company entered into a lease in Utah for an MRT research facility in February 2016 which expired in January 2019. This lease was extended until July 2019.

Expressed in Canadian dollars, except where otherwise indicated

17. Commitments and contingencies (continued):

In July 2017, Company entered into a sale leaseback transaction of its Pilot Plant which expires in July 2020. Under the terms of the sale leaseback agreement the Company has agreed to repurchase the Pilot Plant for $2,000,000 USD upon termination of the lease in July 2020.

In August 2017, the Company entered into a consulting agreement in which $300,000 USD becomes payable to the consultant in August of 2019.

As of December 31, 2018, these commitments required total payments including estimated common expenses, as follows:

Year		
Year ending December 31, 2019		976,047
Year ending December 31, 2020		3,048,578
Year ending December 31, 2021		-
Year ending December 31, 2022		-
Year ending December 31, 2023		-
	$	4,024,625

Subsequent to year end, on March 30, 2019, the Company terminated the lease agreement with Orca Holdings, LLC that is described in note 15, and exercised its option to repurchase the leased assets for USD $2,000,000. Further details of the transaction are outlined in note 18.

(b) Claims and litigation

On December 11, 2018, the Company filed a complaint against IBC Advanced Technologies Inc. ("IBC"), and Steven R. Izatt in the Supreme Court of Nova Scotia for libel, injurious falsehood, and unlawful interference with economic relations seeking $10 million in damages. The complaint is in relation to a statement published by IBC regarding the validity of the OTP held by the Company, which the Company believes is defamatory. As of the date of this report IBC has yet to file a formal defence.

On January 4, 2019, IBC filed a complaint against the Company in the Third District Court, Salt Lake Division Salt Lake County, State of Utah based on violation of common law and statutory claims, including misappropriation of trade secrets and confidential information, trademark infringement, unfair competition, defamation, false light, tortious interference with economic relations and unjust enrichment. IBC is seeking damages of no less than USD $20 million.

17. Commitments and contingencies (continued):

On February 19, 2019 IBC filed a complaint against the Company in the Third District Court, Salt Lake Division, Salt Lake County, State of Utah based on contractual, common law and statutory claims, including breach of contract, breach of implied covenant of good faith and fair dealing, negligent misrepresentation, fraudulent concealment or fraudulent non-disclosure, breach of fiduciary duty, unjust enrichment, and fraudulent inducement. IBC is seeking damages of no less than USD $40 million.

The Company believes that the claims of IBC are unfounded and without merit. With respect to the claims made against the Company on January 4, 2019 and February 19, 2019, the Company has filed a motion to dismiss the claims based on jurisdictional grounds. The Company is actively working on its defence and intends to defend the matters vigorously.

18. Subsequent events:

(a) Execution of OTP and initiation of acquisition of IBC

On February 14, 2019 the Company issued the Notice of Commencement (“NOC”) to purchase IBC prescribed by the terms previously agreed to by the Company, IBC, and the majority shareholders of IBC, and as embodied in the OTP as outlined in note 11.

The delivery of the NOC initiates a 60-day period review during which the Company has the right to conduct a detailed due diligence review of IBC’s operations and financial records. With IBC’s consent an interim injunction was granted on February 27, 2019 which will preserve components of the Company’s rights with respect to the OTP.

Significant terms of the OTP agreement are as follows:

i) The purchase price is USD $10 million for 100% of the outstanding IBC shares, to be paid in either cash or shares of the Company, at the discretion of each IBC shareholder.

ii) 4 million units of the Company, are to be paid to current IBC key persons. Each unit will consist of one common share of the Company plus ½ common share purchase warrant. Each common share purchase warrant shall have a strike price equal to the market price of the Company’s shares as of the date on which the purchase agreement is signed and shall have a term of three years from the date of issuance.

18. Subsequent events (continued):

iii) Following the execution of the purchase agreement, current IBC employees shall receive performance incentives totaling 7% of IBC's annual EBITA for each of the first 5 years of operations.

iv) Payments totalling totaling USD $2.9 million pursuant to previous agreements between the Company and IBC must be completed prior to the closing of the purchase transaction. To date, the Company has made advance payments totaling USD $1.9 million against this amount.

The outcome and timing on the initiated and proposed acquisition cannot be determined at this time. Should the acquisition proceed there would be a requirement to secure financing for the IBC option and any cash payments to IBC shareholders. The ability to secure such financing and the terms of the financing is not certain at this time.

(b) Loan agreement and debt financing

On March 30, 2019, the Company terminated the lease agreement with Orca Holdings, LLC ("Orca") that is described in note 15, and exercised its option to repurchase the lease assets for USD $2,000,000.

Also on March 30, 2019, the Company entered into a secured loan agreement with Orca that provided cash of USD $250,000 and the consolidation of certain other obligations owing to Orca including the obligation of USD $2,000,000 noted above.

Interest will be paid monthly and the principal amount will be paid in full on March 31, 2021. Payments which otherwise would have come due under the lease agreement between April 1, 2019 and June 30, 2019 will be added to the principal amount of the loan. The loan will bear interest at a rate of 12.5% annually for the first 9 months commencing July 1, 2019 and then at a rate of 15% annual for the 12 months commencing April 1, 2020. The loan is secured by a first charge on the Company's assets.