CANADIAN MANGANESE COMPANY INC.

CARVE-OUT FINANCIAL STATEMENTS

DECEMBER 31, 2018, DECEMBER 31, 2017 AND DECEMBER 31, 2016

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AND DECEMBER 31, 2016

McGovern Hurley LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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Independent Auditor's Report

To the Directors of Buchans Resources Limited

Opinion

We have audited the financial statements of Canadian Manganese Company Inc. (the "Company"), which comprise the carve-out statements of financial position as at December 31, 2018, 2017 and 2016, and the carve-out statements of loss/ and comprehensive loss, carve-out statements of changes in equity and carve-out statements of cash flows for the years then ended, and notes to the carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner of the audit resulting in this independent auditor's report is Glen McFarland.

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
October 28, 2019

CANADIAN MANGANESE COMPANY INC.
CARVE-OUT STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018, 2017 AND 2016

Expressed in Canadian Dollars	Notes	2018	2017	2016
Assets		**$**	**$**	**$**
Current assets				
Cash and cash equivalents		4,682	4,657	2,020
Trade and other receivables		112	297	268
Total current assets		4,794	4,954	2,288
Non-current assets				
Exploration and evaluation assets		4,637,333	4,622,886	4,438,229
Total non-current assets		4,637,333	4,622,886	4,438,229
Total assets		4,642,127	4,627,840	4,440,517
Equity and liabilities				
Current liabilities				
Trade and other payables		-	190	190
Total current liabilities		-	190	190
Shareholder's Equity				
Owner's investment		4,642,127	4,627,650	4,440,327
Total shareholder's equity		4,642,127	4,627,650	4,440,327
Total shareholder's equity and liabilities		4,642,127	4,627,840	4,440,517

COMMITMENTS AND CONTINGENCIES (Notes 2 and 9)

The financial statements were approved by the Board of Directors on October 28, 2019 and signed on its behalf by:

Signed "John F. Kearney" , Director　　Signed "Danesh K. Varma" , Director

See accompanying notes to the carve-out financial statements

CANADIAN MANGANESE COMPANY INC.

CARVE-OUT STATEMENT OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED

Expressed in Canadian Dollars	**Notes**	**2018**	**2017**	**2016**
		$	**$**	**$**
General and administrative expenses:				
Professional fees		225	225	225
Filing fees		220	200	200
Office expenses		78	252	248
Management fee	4	219,357	174,774	203,306
Loss before other items		219,880	175,451	203,979
Total loss and comprehensive loss for the year		219,880	175,451	203,979

See accompanying notes to the carve-out financial statements

CANADIAN MANGANESE COMPANY INC.

CARVE-OUT STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

Expressed in Canadian Dollars

	Owner's investment $
Balance as at December 31, 2015	4,268,000
Ownner's investment	376,306
Total comprehensive loss for the year	(203,979)
Balance as at December 31, 2016	4,440,327
Ownner's investment	362,774
Total comprehensive loss for the year	(175,451)
Balance as at December 31, 2017	4,627,650
Ownner's investment	234,357
Total comprehensive loss for the year	(219,880)
Balance as at December 31, 2018	4,642,127

See accompanying notes to the carve-out financial statements

CANADIAN MANGANESE COMPANY INC.

CARVE-OUT STATEMENT OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars	Notes	2018	2017	2016
		$	$	$
Cash flow from operating activities				
Loss for the year		(219,880)	(175,451)	(203,979)
		(219,880)	(175,451)	(203,979)
Movements in working capital				
(Decrease)/increase in trade and other receivables		185	(29)	1,525
(Increase)/decrease in trade and other payables		(190)	-	-
Net cash flows used in operating activities		(219,885)	(175,480)	(202,454)
Cash flows from investing activities				
Investment in exploration and evaluation assets		(14,447)	(184,657)	(182,259)
Net cash flows from/(used in) investing activities		(14,447)	(184,657)	(182,259)
Cash flows from financing activities				
Owner's investment		234,357	362,774	376,306
Net cash flows from financing activities		234,357	362,774	376,306
Net (decrease)/increase in cash and cash equivalents		25	2,637	(8,407)
Cash and cash equivalents at the beginning of the year		4,657	2,020	10,427
Cash and cash equivalent at the end of the year	**6**	4,682	4,657	2,020

See accompanying notes to the carve-out financial statements

1. BASIS OF PRESENTATION

These carve-out financial statements reflect the financial position, statement of operations and comprehensive loss, equity and cash flows related to assets and liabilities of Canadian Manganese Company Inc. (the "Company" or "Canadian Manganese"). The Company was incorporated on June 13, 2011 under the laws of Canada. The Company has been a wholly owned subsidiary of Buchans Resources Limited. The Company has interests in exploration and evaluation properties located in New Brunswick. Substantially all of the Company's efforts are devoted to financing and developing these properties. The Company's head office is located at 55 University Ave., Toronto, Ontario, M5J 2H7.

As Canadian Manganese has not historically prepared financial statements, the carve-out financial statements have been prepared from the financial records of Buchans on a carve-out basis. The Carve-out Statements of Financial Position include all of the Canadian Manganese Net Assets. The Carve-out Statements of Operations and Comprehensive Loss for each of the years ended 31 December 2018 and 2017 reflect all expenses and other income directly attributable to the Canadian Manganese Net Assets and Buchans' general and administrative expenses incurred in each of those years, as these expenditures were shared by the Canadian Manganese Net Assets. In some instances, certain expenses were not allocated as they would have related directly to Buchans. All inter-entity balances and transactions have been eliminated.

The carve-out financial statements were approved by the Board of Directors of Canadian Manganese on October 28, 2019.

The carve-out financial statements of Canadian Manganese have been prepared applying principles in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

These carve-out financial statements have been prepared based upon the historical cost amounts recorded by Buchans, with the exception of certain financial instruments measured at fair value. These carve-out financial statements may not be indicative of Canadian Manganese financial performance and do not necessarily reflect what its financial position, results of operations, and cash flows would have been had Canadian Manganese operated as an independent entity during the years presented.

2. NATURE OF OPERATIONS AND GOING CONCERN

There has been no determination whether the Company's interests in its properties contain mineral resource which are economically recoverable. The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted. Major expenditures are required to locate and establish reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The Company's continued existence is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition. Although the Company has taken steps to verify title to properties in which it has an interest in accordance with industry standards for the current stage of development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's properties may also be subject to increases in taxes and royalties, renegotiating contracts and political uncertainty.

Canadian Manganese has incurred losses in all periods provided and has a working capital deficiency at 31 December 2018. Canadian Manganese has been dependent on its parent company, Buchans, to provide financing cash flows to date. There can be no assurance that financing activities will continue, or if the Company will be able to arrange financing. These financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Several conditions discussed below create a material uncertainty and significant doubt about the Company's ability to continue as a going concern.

At December 31, 2018, the Company had a working capital deficiency, had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company has relied on equity financing to fund its working capital requirements. The Company will need to generate additional financial resources in order to fund its planned exploration programs (see Note 5). There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. If the Company is unable to obtain adequate additional financing, the Company may be required to discontinue operations and exploration activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Relationship with Buchans

Buchans' net investment in Canadian Manganese is shown as owner's net investment in these carve-out financial statements. Changes in owner's net investment include net (loss)/income and net transfers to and from Buchans.

(b) Exploration and evaluation assets

Exploration expenditure relates to the search for precious and base metals. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential. The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as part of exploration and evaluation assets.

Exploration costs are capitalised as an intangible asset until technical feasibility and commercial viability of extraction of reserves are demonstrable, when the capitalised exploration costs are re-classed to property, plant and equipment. Exploration costs include an allocation of administration and salary costs (including share-based payments) as determined by management, where they relate to specific projects. Prior to reclassification to property, plant and equipment, exploration and evaluation assets are assessed for impairment and any impairment loss recognised immediately in the statement of (loss)/income.

(c) Rehabilitation Provisions

The Company will record a liability for the estimated future costs associated with legal and constructive obligations relating to the reclamation and closure of its exploration assets. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion expense on the discounted liability. An equivalent amount is recorded as an increase to exploration assets and amortized over the useful life of these assets. Management is currently not aware of any existing significant legal or constructive obligations relating to the reclamation of its interest in exploration assets and therefore no such liability has been recorded at December 31, 2018, 2017 and 2016.

(d) Impairment of non-financial assets

At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in loss.

(e) Cash

Cash is comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of 90 days or less when acquired.

(f) Financial instruments

<u>Accounting policy under IFRS 9 applicable from January 1, 2018</u>

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Accounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statements of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Subsequent measurement – financial assets at Fair Value through Profit and Loss (“FVPL”)
Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of operations. The Company measures its marketable securities at FVPL.

Subsequent measurement – financial assets at Fair Value through Other Comprehensive Income (“FVOCI”)
Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive loss in the statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of operations when the right to receive payments is established.

Derecognition
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets
The Company’s only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement
Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company’s financial liabilities include accounts payable and accruals, notes payable and other liability of subsidiary, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost
After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statements of operations.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of operations.

<u>Accounting policy under IAS 39 applicable prior to January 1, 2018</u>

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, was similar to the accounting policy adopted in 2018. The policy was as follows:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Marketable securities are included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss in the period in which they arise.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of loss and are included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and amounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(g) Operating loss
Operating loss comprises general administrative costs incurred by the Company, which are not specific to evaluation and exploration projects, and all impairment charges relating to exploration assets and financial assets during the year. Operating loss is stated before change in fair value of investments.

(h) Critical accounting judgements and key sources of estimation uncertainty
Critical accounting judgements
In the process of applying the Company’s accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with below:

Exploration assets
The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management considers the nature of each cost incurred and whether it is deemed appropriate to capitalise it within exploration assets. Costs which can be demonstrated as project related are included within exploration assets. Exploration assets relate to prospecting, exploration and related expenditure in Canada. The Company’s exploration activities are subject to a number of significant and potential risks including:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Critical accounting judgements and key sources of estimation uncertainty (continued)

Exploration assets (continued)

- exploration, development and operating risk
- no assurance of production
- factors beyond the Company's control
- failure to obtain additional financing
- insurance and uninsured risks
- environmental risks and hazards
- government regulation and permitting
- delays
- infrastructure
- price volatility of publicly traded securities
- fluctuating mineral prices

The recoverability of these exploration assets is dependent on the discovery and successful development of economic reserves, including the ability to raise financing to develop future projects. Should this prove unsuccessful, the value included in the statement of financial position would be written off to operations.

Key sources of estimation uncertainty
Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty are discussed below:

Mineral reserve estimates
The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions and could have a material effect in the future on the Company's financial position and results of operation.

Income, value added, withholding and other taxes
The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Impairment of exploration and evaluation assets
The assessment of exploration and evaluation assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is estimated as the higher of fair value less costs to sell and value in use. The assessment requires judgement as to the likely future commerciality of the asset and when such commerciality should be determined; future revenues, capital and operating costs and the discount rate to be applied to such revenues and costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Critical accounting judgements and key sources of estimation uncertainty (continued)

Estimation of asset retirement obligations and the timing of expenditure
The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is estimated based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Preparation of carve-out financial statements
The preparation of carve-out financial statements requires management to make judgments related to the allocation of assets, liabilities and expenses. The actual results may differ from the results presented had the entity existed in its planned form for the periods presented. See Note 1.

(i) Income taxes

Canadian Manganese Company Inc. is not a legal entity and as such is not a standalone taxable entity. Current and deferred income taxes and income tax expense have been recognized in the carve-out financial statements as if Canadian Manganese Company Inc. was a separate taxable entity, using a standalone taxpayer approach. Income tax expense is comprised of current and deferred income tax. Current and deferred income taxes are recognized in net loss except to the extent that they relate to a business combination, or to items recognized directly in equity or other comprehensive income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Changes in Accounting Policies

During the year ended December 31, 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 2, IFRS 9 and IFRIC 22. These new standards and changes did not have any material impact on the Company's financial statements.

IFRS 9, *Financial Instruments*
The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	**Under IFRS 9**
Financial assets		
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
Marketable securities	Held for trading	FVPL
Financial liabilities		
Trade and other payables	Other financial liabilities	Amortized cost

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Changes in Accounting Policies (continued)

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the years ended December 31, 2017 and 2016 were accounted for in accordance with the Company's previous accounting policy under IAS 39. Note 4 (i) outlines the current and previous accounting policies pertaining to financial instruments.

(k) New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 3 – Business Combinations ("IFRS 3") was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 3 – Business Combinations ("IFRS 3") and IFRS 11 – Joint Arrangements ("IFRS 11") were amended in December 2017. IFRS 3 was amended to clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, it re-measures previously held interests in that business. IFRS 11 was amended to clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

IFRS 10 –Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

4. RELATED PARTY TRANSACTIONS

No fees were paid by the Company to directors for their services as directors of the Company in the years ended December 31, 2018, 2017 and 2016.

These carve-out financial statements include an allocation of general and administrative expenses estimated to relate to the Company and presented as management fees in the statement of loss.

5. EXPLORATION AND EVALUATION EXPENDITURES ASSETS

All exploration and evaluation assets are carried at cost less any applicable impairment provision. No impairment provision was recognized at December 31, 2018.

Exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believe its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The realisation of the exploration and evaluation assets is dependent on the successful development of economic resources, including the ability to raise finance to develop the projects. Should this prove unsuccessful the value included in the statement of financial position would be written off. By its nature there is inherent uncertainty in such expenditure as to the value of the asset.

The Company holds a 100% interest in the Woodstock project located northwest of the town of Woodstock, New Brunswick. A portion of the project is subject to a 1% gross sales royalty upon commencement of commercial production, with the Company retaining certain rights to buy back one half of the royalty.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, with a maturity of three months or less from the date of investment.

7. CAPITAL STOCK

The Company has authorized and unlimited number of common shares.

8. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

9. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures.

Fair value
The carrying amounts for cash, marketable securities, amounts receivable and accounts payable and accrued liabilities on the statements of financial position approximate fair value because of the limited term of these instruments. The marketable securities are stated at the quoted market value.

Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by major banks with a credit rating of at least BBB-. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Credit risk
Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in banks.

9. FINANCIAL INSTRUMENTS (CONTINUED)

Commodity price risk
The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals, particularly gold.

Fair Value Hierarchy and Liquidity Risk Disclosure
The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At December 31, 2018, the Company's financial instruments that are carried at fair value, consisting of marketable securities, have been classified as Level 1 within the fair value hierarchy.

Liquidity Risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk
Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk with respect to its marketable securities and unfavourable market conditions could result in dispositions of marketable securities at less than favorable prices.

Capital Risk
The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its exploration assets. The capital structure of the Company consists of shareholders' equity.

10. CAPITAL MANAGEMENT

The capital of the Company consists primarily of its shareholders' equity.

The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition, development and exploration of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. All equity financings require the approval of the Board of Directors.

The Company invests all capital that is surplus to its immediate operational needs in short term, highly-liquid financial instruments, such as short term guaranteed investment certificates, held with a major Canadian financial institution.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no significant changes to the Company's approach to capital management during the years ended December 31, 2018, 2017 and 2016. The Company is not subject to externally imposed capital requirements.

11. SUBSEQUENT EVENTS

On October 28, 2019, in connection with the capitalization of intercompany debt, 54,868,716 common shares of the company were issued to Buchans, resulting in a total of 59,868,716 common shares outstanding, all of which are held by Buchans.

On October 28, 2019, the Company entered into an Arrangement Agreement with Buchans and Minco Exploration Limited to effect a Plan of Arrangement involving a group reorganisation whereby Buchans agreed to distribute to its shareholders, pro rata, all of the shares of the Company, and exchangeable warrants entitling such shareholders to receive shares of Minco Exploration or additional shares of Buchans, at their option. Under the Plan of Arrangement, if approved, one share of the Company and one Buchans exchangeable warrant will be issued to Buchans shareholders for each Buchans share held.