**POTASH RIDGE CORPORATION**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2017**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED)**

## Notice To Reader

The accompanying unaudited condensed interim consolidated financial statements of Potash Ridge Corporation (the "Corporation") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Corporation's auditors.

# Potash Ridge Corporation
**Condensed Interim Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | As at March 31, 2017 | As at December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash (note 3) | **$ 1,570,304** | $ 3,497,094 |
| Restricted cash equivalents (note 4) | **86,622** | 87,296 |
| Receivables | **38,839** | 96,888 |
| Other current assets | **39,986** | 120,406 |
| **Current assets** | **1,735,751** | 3,801,684 |
| Exploration and evaluation assets (note 5) | **32,357,823** | 32,798,994 |
| Property, plant and equipment (note 6) | **1,706,688** | 1,653,428 |
| **Total assets** | **$ 35,800,262** | $ 38,254,106 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Accounts payable and accrued liabilities (note 7) | **$ 622,989** | $ 2,734,408 |
| Other current liabilities (note 8) | **870,763** | 1,427,929 |
| Advance payable (note 9) | **-** | 3,021,075 |
| **Current liabilities** | **1,493,752** | 7,183,412 |
| Convertible debt (note 9) | **3,420,939** | - |
| Derivative liability, convertible debt (note 9) | **178,935** | - |
| Loan payable (note 10) | **665,500** | - |
| **Total liabilities** | **5,759,126** | 7,183,412 |
| **Shareholders' equity** (note 12) | | |
| Capital stock | **35,431,234** | 35,420,268 |
| Contributed surplus | **10,252,521** | 8,711,485 |
| Deficit | **(15,139,026)** | (12,527,997) |
| Accumulated other comprehensive loss | **(503,593)** | (533,062) |
| **Total shareholders' equity** | **30,041,136** | 31,070,694 |
| **Total liabilities and shareholders' equity** | **$ 35,800,262** | $ 38,254,106 |

Nature of operations and going concern (note 1)
Commitments and contingencies (note 14)

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## Potash Ridge Corporation

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| **Expenses** | | |
| General and administrative expenses (note 11) | **$ 109,609** | $ 96,787 |
| Professional fees | **257,814** | 86,533 |
| Share-based compensation (note 12(iii)) | **78,731** | 17,910 |
| | **(446,154)** | (201,230) |
| **Other Items** | | |
| Interest income | **1,577** | 270 |
| Other income | **19,857** | - |
| Finance costs (note 9) | **(1,788,056)** | - |
| Accretion expense (note 9) | **(109,830)** | - |
| Change in fair value of derivative liability (note 9) | **26,963** | - |
| Foreign exchange loss | **(315,386)** | (2,021,574) |
| **Net loss for the period** | **(2,611,029)** | (2,222,534) |
| **Other comprehensive income** | | |
| Foreign currency translation adjustment | **29,469** | 202,593 |
| **Comprehensive loss for the period** | **$ (2,581,560)** | $ (2,019,941) |
| **Basic net loss per share** (note 13) | **$ (0.02)** | $ (0.02) |
| **Diluted net loss per share** (note 13) | **$ (0.02)** | $ (0.02) |
| **Weighted average number of common shares outstanding - Basic** | **126,451,366** | 106,909,032 |
| **Weighted average number of common shares outstanding - Diluted** | **126,451,366** | 106,909,032 |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## Potash Ridge Corporation

**Condensed Interim Consolidated Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | **$ (2,611,029)** | $ (2,222,534) |
| Items not involving cash: | | |
| Share-based compensation | **78,731** | 17,910 |
| Foreign exchange loss | **617,585** | 2,185,109 |
| Finance costs - warrant valuation | **1,463,938** | - |
| Accretion expense | **109,830** | - |
| Change in fair value of derivative liability | **(26,963)** | - |
| Changes in non-cash working capital items: | | |
| Decrease (increase) in receivables | **58,049** | (13,730) |
| Decrease in other current assets | **80,420** | 19,980 |
| Decrease in operating restricted cash | **674** | 4,910 |
| Decrease in accounts payable and accrued liabilities | **(226,307)** | (958) |
| Decrease in other current liabilities | **(665,500)** | - |
| **Net cash used in operating activities** | **(1,120,572)** | (9,313) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(1,142,817)** | (81,125) |
| Exploration and evaluation expenditures | **(641,394)** | (165,180) |
| **Net cash used in investing activities** | **(1,784,211)** | (246,305) |
| **Financing activities** | | |
| Proceeds from the exercise of warrants | **9,333** | - |
| Proceeds from convertible security | **342,959** | - |
| Proceeds from loan payable | **665,500** | - |
| **Net cash provided by financing activities** | **1,017,792** | - |
| **Net change in cash for the period** | **(1,886,991)** | (255,618) |
| Effect of foreign exchange rate changes on cash | **(39,799)** | (1,584) |
| **Cash, beginning of period** | **3,497,094** | 410,877 |
| **Cash, end of period** | **$ 1,570,304** | $ 153,675 |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## Potash Ridge Corporation

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Number of Voting Shares | Number of Non-voting Shares | Share Capital (Note12) | Contributed Surplus | Deficit | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | **101,853,778** | **5,055,254** | **$ 33,828,074** | **$ 6,622,642** | **$ (9,243,590)** | **$ (627,628)** | **$ 30,579,498** |
| Conversion of non-voting shares | 5,055,254 | (5,055,254) | - | - | - | - | - |
| Share-based compensation | - | - | - | 17,910 | - | - | 17,910 |
| Effect of foreign currency translation | - | - | - | - | - | 202,593 | 202,593 |
| Net loss for the period | - | - | - | - | (2,222,534) | - | (2,222,534) |
| **Balance, March 31, 2016** | **106,909,032** | **-** | **$ 33,828,074** | **$ 6,640,552** | **$ (11,466,124)** | **$ (425,035)** | **$ 28,577,467** |
| | | | | | | | |
| **Balance, December 31, 2016** | **126,441,138** | **-** | **$ 35,420,268** | **$ 8,711,485** | **$ (12,527,997)** | **$ (533,062)** | **$ 31,070,694** |
| Purchase share warrants for convertible debt | - | - | - | 1,463,938 | - | - | 1,463,938 |
| Shares issued for the exercise of warrants | 116,667 | - | 10,966 | (1,633) | - | - | 9,333 |
| Share-based compensation | - | - | - | 78,731 | - | - | 78,731 |
| Effect of foreign currency translation | - | - | - | - | - | 29,469 | 29,469 |
| Net loss for the period | - | - | - | - | (2,611,029) | - | (2,611,029) |
| **Balance, March 31, 2017** | **126,557,805** | **-** | **$ 35,431,234** | **$ 10,252,521** | **$ (15,139,026)** | **$ (503,593)** | **$ 30,041,136** |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## 1. Nature of operations and going concern

Potash Ridge Corporation (the "Corporation" or "Potash Ridge") is a corporation operating under the Ontario Business Corporation Act. Its registered office is located in Toronto, Canada at 82 Richmond Street East, Toronto, Ontario, M5C 1P1. The Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol "PRK".

The principal activity of the Corporation is to develop projects focused on the production of sulphate of potash ("SOP"). Located in Valleyfield, Quebec, the Valleyfield Project intends to utilize well-known Mannheim technology to produce SOP. The development of the Blawn Mountain Project ("Blawn") in Utah involves the exploration, development and production of mineral resources and is currently focused on the exploration of alunite in order to produce SOP, co-product sulphuric acid and, potentially, alumina.

The Corporation is an exploration and development stage entity and has not yet achieved profitable operations. The Corporation is subject to risks and challenges similar to companies in a comparable stage of development. These risks include, but are not limited to, the challenges of securing adequate capital to fund its activities, operational risks inherent in the mining and fertilizer industries, and global economic and commodity price volatility. The underlying value of Blawn and the Valleyfield Project, as well as, the recoverability of the related capitalized costs are entirely dependent on the Corporation's ability to successfully develop Blawn and the Valleyfield Project by, among other things, securing necessary permits, obtaining the required financing to complete the development and construction, and upon future profitable production from, or the proceeds from the disposition of its mineral properties or projects.

The Corporation earned a comprehensive loss for the three months ended March 31, 2017 of $2,581,560 (March 31, 2016 - $2,019,941), and has reported an accumulated deficit of $15,139,026 as at March 31, 2017 (December 31, 2016 - $12,527,997). The Corporation's sole source of funding has predominantly been the issuance of equity securities for cash. As at March 31, 2017, the Corporation had $1,570,304 in cash (December 31, 2016 - $3,497,094) to settle current liabilities of $1,493,752 (December 31, 2016 - $7,183,412). The Corporation intends to use its existing cash resources and the proceeds of the Lind Agreement (See Note 9) prudently to advance Blawn and the Valleyfield Project as well as on basic project management and on essential non-discretionary general corporate and operating expenditures. Although the Corporation has been successful in its past fundraising activities, there is no assurance as to the success of future fundraising efforts or as to the sufficiency of funds raised in future fundraisings.

These circumstances, along with other risks relevant to exploration companies, such as continuing losses and cash outflows from operations, result in material uncertainty which lends significant doubt as to the ability of the Corporation to settle current obligations and meet commitments as they become due and, accordingly, the appropriateness ultimately of the use of the accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements have been prepared under the assumption that the Corporation will continue as a going concern. The going concern basis of presentation assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future.

These unaudited condensed interim consolidated financial statements do not give effect to adjustments to the carrying values of assets, liabilities and the reported expenses and classifications that would be necessary should the Corporation be unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 2. Significant accounting policies

a) Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting". These condensed interim consolidated financial statements should be read in conjunction with the Corporation's annual financial statements for the year eneded December 31, 2016 and were prepared using the same accounting policies, method of computation and presentation as were applied in the annual financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on May XX, 2017.

The financial information included herein reflects all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the thre ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year. Seasonality is not considered to have a significant impact over the condensed interim consolidated financial statements.

**New Accounting Standards Issued Not Yet Effective**

IFRS 9, Financial Instruments

On July 24, 2014, the IASB published the final version of IFRS 9 *"Financial Instruments"*, ("IFRS 9") which brings together the classification, measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *"Financial Instruments: Recognition and Measurement*". IFRS 9 includes a loss impairment model, amends the classification and measurement model for financial assets by adding a new fair value through comprehensive income category for certain debt instruments and provides additional guidance on how to apply the business model and contractual cash-flow characteristics test. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"), which requires lessees to recognize assets and liabilities for most leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively.

The Corporation is currently assessing the impact of IFRS 9 and IFRS 16 on its consolidated financial statements.

## 3. Cash

As at March 31, 2017 and December 31, 2016, cash was primarily held in interest-bearing deposits.

| | **As at March 31, 2017** | **As at December 31, 2016** |
|---|---|---|
| Canadian dollar denominated current accounts | **$ 839,373** | $ 388,804 |
| US dollar denominated current accounts | **730,931** | 3,108,290 |
| | **$ 1,570,304** | $ 3,497,094 |

## 4. Restricted cash equivalents

The Corporation has set aside $86,622 (December 31, 2016 - $87,296) comprising reclamation surety bonds and collateral requirements. The funds relating to the reclamation surety bonds are to be released upon the Corporation meeting all of its commitments to SITLA relating to its on-site project activities and have therefore been classified as current assets on the consolidated statements of financial position according to management's estimated timing of completing such commitments.

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 5. Exploration and evaluation assets

The following is the reconciliation of exploration and evaluation expenditures related to Blawn for the three months ended March 31, 2017:

| | Opening balance December 31, 2016 | Additions | Exchange difference | Balance March 31, 2017 |
|---|---|---|---|---|
| **Blawn** | | | | |
| Drilling | $ 6,666,628 | $ - | $ (58,085) | **$ 6,608,543** |
| Pre-feasibility study | 6,955,610 | 33,544 | (60,428) | **6,928,726** |
| Professional and labour | 5,435,690 | 30,947 | (47,197) | **5,419,440** |
| Employee salary and benefits | 5,188,750 | (349,583) | (47,116) | **4,792,051** |
| Preliminary economic assessment | 3,662,999 | - | (31,918) | **3,631,081** |
| Mineral leases | 2,477,311 | 91,740 | (19,744) | **2,549,307** |
| Employee share based compensation (non-cash) | 1,050,414 | - | - | **1,050,414** |
| Transportation | 402,054 | - | (3,504) | **398,550** |
| Equipment rentals | 237,631 | - | (2,071) | **235,560** |
| Feasibility study | 251,328 | - | (2,190) | **249,138** |
| Data acquisition | 182,631 | - | (1,592) | **181,039** |
| Field expenditures | 136,351 | - | (1,190) | **135,161** |
| Other | 151,597 | 28,383 | (1,167) | **178,813** |
| **Total exploration and evaluation assets** | $ 32,798,994 | $ (164,969) | $ (276,202) | **$ 32,357,823** |

The following is the reconciliation of exploration and evaluation expenditures related to Blawn for the year ended December 31, 2016:

| | Opening balance December 31, 2015 | Additions | Exchange difference | Balance December 31, 2016 |
|---|---|---|---|---|
| **Blawn** | | | | |
| Drilling | $ 6,871,662 | $ - | $ (205,034) | **$ 6,666,628** |
| Pre-feasibility study | 6,416,996 | 720,665 | (182,051) | **6,955,610** |
| Professional and labour | 5,355,163 | 237,223 | (156,696) | **5,435,690** |
| Employee salary and benefits | 5,255,741 | 88,684 | (155,675) | **5,188,750** |
| Preliminary economic assessment | 3,775,670 | - | (112,671) | **3,662,999** |
| Mineral leases | 2,506,363 | 40,603 | (69,655) | **2,477,311** |
| Employee share based compensation (non-cash) | 1,050,414 | - | - | **1,050,414** |
| Transportation | 414,420 | - | (12,366) | **402,054** |
| Equipment rentals | 244,939 | - | (7,308) | **237,631** |
| Feasibility study | 243,562 | 14,840 | (7,074) | **251,328** |
| Data acquisition | 214,765 | (25,394) | (6,740) | **182,631** |
| Field expenditures | 140,171 | 358 | (4,178) | **136,351** |
| Other | 73,353 | 79,392 | (1,148) | **151,597** |
| **Total exploration and evaluation assets** | $ 32,563,219 | $ 1,156,371 | $ (920,596) | **$ 32,798,994** |

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 6. Property, plant and equipment

On August 11, 2015, the Corporation entered into an agreement to purchase all the issued and outstanding shares of the Valleyfield Fertilizer Corporation ("Valleyfield"). This transaction has been recorded for accounting purposes as an asset acquisition as Valleyfield's only asset is the Valleyfield Project located in Valleyfield, Quebec.

As purchase consideration, the Corporation issued 200,000 common shares at a price of $0.04 per share valued at $8,000. Costs associated with the acquisition totalled $12,178 and include legal and regulatory fees. In addition, there is a gross overriding royalty to the seller or his designate of:

i) 1% on revenue from the Valleyfield Project; and

ii) 0.5% on revenue from any other site developed by the Corporation or its affiliates in North America utilizing Mannheim technology to produce SOP.

Under the terms of the Valleyfield purchase agreement, as well as the consulting agreement with the seller, the seller's semi-monthly gross consulting fees will not accrue or become payable by the Corporation until the Corporation raises sufficient capital to advance the Valleyfield Project.

The seller has agreed to be engaged as a consultant to Potash Ridge and continue to work on the development of the Valleyfield Project, as well as other potential Mannheim opportunities already identified.

The Valleyfield Project has been recorded under property, plant and equipment and will not be depreciated until construction is completed and the asset is ready for its intended use. For the three months ended March 31, 2017, the Corporation incurred expenditures of $53,260 (year ended December 31, 2016 - $1,633,250) on the Valleyfield Project. As at March 31, 2017, total costs for the Valleyfield Project recorded under property, plant and equipment was $1,706,688 (December 31, 2016 - $1,653,428).

## 7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

| | **As at March 31, 2017** | **As at December 31, 2016** |
|---|---|---|
| Accounts payable | **$ 243,820** | $ 961,772 |
| Accrued liabilities | **882,408** | 1,772,636 |
| | **$ 1,126,228** | $ 2,734,408 |

## 8. Other current and non-current liabilities

On March 24, 2014, the Corporation exercised the Lease Option in the Exploration and Option Agreement to commence the Blawn Mountain Mining Lease (the "Mining Lease"). The Corporation made an initial payment to SITLA of US$200,000 and entered into an arrangement whereby it would make further payments, as follows:

i) March 31, 2015 US$164,000
ii) August 31, 2015 US$164,000
iii) March 31, 2016 US$164,000
iv) August 31, 2016 US$164,000
v) March 31, 2017 US$164,000

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 8. Other current and non-current liabilities (continued)

The Corporation classified the Mining Lease as "other financial liabilities" and recorded it at fair value on initial recognition. The Corporation has agreed to pay a finance charge of 5.75% per annum on the outstanding balance during this three year period. Also under the terms of the Mining Lease, a minimum annual royalty payment of US$46,200 and an annual rental payment of US$11,500 is due to SITLA. The first annual royalty and rental payments were made on March 24, 2014.

In June 2015, the Corporation entered into a modification of the Mining Lease Agreement with SITLA. The modification cures the event of default under the Mining Lease that occurred on March 31, 2015. Under the terms of the modification, SITLA has agreed to forbear from exercising its rights and remedies resulting from Potash Ridge's failure to make lease and minimum royalty payments to SITLA under the terms of the Mining Lease. The forbearance period is from March 31, 2015 to April 1, 2017. On March 16, 2017, SITLA agreed to an extension of the forbearance period from April 1, 2017 to June 30, 2017. As part of the extension, the Corporation made a US$500,000 payment to SITLA on March 24, 2017.

The Corporation was obligated to pay accrued and unpaid interest by March 31, 2016 or when it raised US$1.5 million in new funds for the development of Blawn, whichever arose first. Once the Corporation raises US$3.0 million or more of new funds for the development of Blawn, then all outstanding amounts currently due under the Mining Lease, plus accrued interest, will become due.

The Corporation will pay interest to SITLA on unpaid lease and minimum royalty payments, which will accrue annually at a rate of SITLA's published prime rate plus two percent (currently equivalent to 5.25%) or 6.0%, whichever is greater, with the first interest payment having been due on March 31, 2016. The Corporation made the required accrued interest payments to SITLA on March 30, 2016 and August 30, 2016, and is in compliance with the terms of the forbearance.

Potash Ridge will continue to be required to meet all other obligations under the terms of the Blawn Mountain Mining Lease.

During the three months ended March 31, 2017, the Corporation accrued minimum annual royalty payment, annual rental payment and interest of $120,776 (US$90,741).

| | As at March 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Other current liabilities | **$ 870,763** | $ 1,427,929 |

## 9. Convertible loan

On December 16, 2016, the Corporation announced a convertible security funding agreement (the "Lind Agreement") with Lind Asset Management VIII, LLC, managed by The Lind Partners, LLC, a New York-based institutional fund manager (together, "Lind") for the issue of convertible securities. The Lind Agreement provides for up to US$11,757,000 by way of two separate convertible securities. On January 4, 2017, the Corporation closed the first convertible security (the "First Tranche") of US$2,640,000, of which US$2,250,000 was received on December 28, 2016 and recorded as an advance payable as at December 31, 2016. The First Tranche has a twenty-four month term from date of issuance, and interest is prepaid and added to its principal amount; accordingly, the initial face value of the First Tranche is US$3,168,000, and yield of the First Tranche (if held, unconverted, to maturity) will be 10% per annum, or $528,000. Lind has the option to increase the First Tranche by up to US$871,000 at any time. In addition, the Corporation paid a US$132,000 closing fee to Lind and granted Lind 6,511,326 common share purchase warrants ("Lind Warrants") with each Lind Warrant entitling Lind to purchase one additional Common Share at a price of C$0.50 per Common Share for a five year period.

## 9. Convertible loan (continued)

The First Tranche is convertible into Common Shares at a conversion price equal to 85% of the volume weighted average trading price of the Common Shares (In Canadian dollars) for the five consecutive trading days immediately prior to the date on which Lind provides the Corporation with notice of its intention to convert an amount of the First Tranche. The First Tranche was completed under private placement rules of the TSX with a four-month plus one day hold period. The Corporation has the right to buy-back the First Tranche at any time for a 5% premium, or for no premium during the first six months following the closing.

The First Tranche is subject to customary events of default, which if they occur, make the First Tranche immediately payable and includes if, after the first four months, the Corporation's cash balance is less than C$1,000,000 or its market capitalization falls below C$25,000,000.

Subject to certain conditions, the Lind Agreement also provides for the issuance of a second convertible security on mutual agreement of the Corporation and Lind, in which Lind may fund up to another US$6,200,000. Lind may also increase the funding under the second convertible security by up to US$2,046,000.

The conversion feature of the First Tranche meets the definition of a derivative liability instrument because the conversion feature is denominated in a currency other than the Company's Canadian dollar functional currency and the conversion rate is variable and therefore does not meet the "fixed-for-fixed" criteria outlined under IFRS. As a result, the conversion feature of the First Tranche is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged tor credited to income.

The First Tranche was separated into a convertible debt component and a derivative liability, both of which were initially recorded at fair value. The convertible debt is classified as other financial liabilities and measured at amortized cost using the effective interest method.

Transaction costs of $1,788,056 were expensed at closing. These costs included a 3% closing fee paid to Lind of $175,468 (US$132,000), $1,463,938 for the fair value of the Lind Warrants issued and legal costs associated with the Lind Agreement. The fair value of the Lind Warrants was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.069%, an expected dividend yield of 0%, a volatility of 132.3%, and an expected life of 4.67 years.

The following table discloses the components associated with this transaction on the closing date:

| | USD | CAD |
|---|---|---|
| Face value of convertible security | $ 2,640,000 | $ 3,509,352 |
| Less derivative component | (154,555) | (205,450) |
| Convertible security opening balance | $ 2,485,445 | $ 3,303,902 |

The changes in the convertible security are as follows:

| **<u>Convertible security</u>** | USD | CAD |
|---|---|---|
| Opening balance | $ 2,485,445 | $ 3,303,902 |
| Accretion | 82,442 | 109,830 |
| Foreign exchange adjustment | - | 7,207 |
| Balance - March 31, 2017 | $ 2,567,887 | $ 3,420,939 |

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

### 9. Convertible loan (continued)

The changes in the derivative liability related to the conversion feature are as follows:

| **Derivative liability** | | USD | | CAD |
|---|---|---|---|---|
| Opening balance | $ | 154,555 | $ | 205,450 |
| Change in fair value of derivative liability | | (20,240) | | (26,963) |
| Foreign exchange adjustment | | - | | 448 |
| Balance - March 31, 2017 | $ | 134,315 | $ | 178,935 |

### 10. Loan payable

On March 23, 2017, the Corporation and Jones-Hamilton Co. (“JH”) executed a supply agreement ("Agreement') whereby JH committed to purchasing the hydrochloric acid by-product from the Valleyfield Project in addition to committing to fund approximately 15% of the capital cost of the Valleyfield Project. Pursuant to the terms of this Agreement, JH will provide up to USD$6,000,000 ("JH Investment") to be used for the design, engineering and construction of the HCl absorption and terminal portion of the Valleyfield Facility ("Facility"). The JH Investment shall be non-interest bearing and, in accordance with the terms and conditions of this Agreement, shall be non-refundable.

### 11. Related party transactions

The Corporation’s related parties as defined by IAS 24 “Related Party Disclosures”, include the Corporation’s subsidiaries, executive and non-executive directors, senior officers and entities controlled or jointly controlled by the Corporation’s directors or senior officers.

Key management compensation expense incurred by the Corporation including its subsidiaries is summarized in the table below:

| | | **Three months ended March 31,** | | |
|---|---|---|---|---|
| | | **2017** | | **2016** |
| Compensation and fees | $ | 90,000 | $ | 60,000 |
| Share-based awards | | 43,779 | | 15,671 |
| | $ | 133,779 | $ | 75,671 |

As at March 31, 2017, an amount of $22,827 (December 31, 2016 - $96,565) was included in accounts payable and accrued liabilities which were due to officers of the Corporation.

### 12. Issued capital

*(i) Common shares*

The Corporation's authorized capital stock includes an unlimited number of common shares (issued - 126,557,805 common shares) ("Common Shares") having no par value and 50,000,000 non-voting common shares (issued - Nil).

On March 16, 2016, Sprott Resource Corporation, the holder of the 5,055,254 non-voting common shares, exercised their right to convert the non-voting common shares into Common Shares.

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 12. Issued capital (continued)

*(ii) Purchase share warrants*

Outstanding purchase share warrants as at March 31, 2017 and 2016 are as follows:

| | Number of purchase share warrants | Weighted average exercise price per share |
|---|---|---|
| **Balance, December 31, 2015 and March 31, 2016** | **11,302,750** | **$ 0.08** |
| | | |
| **Balance, December 31, 2016** | **18,670,309** | **$ 0.22** |
| Issued | 6,511,326 | 0.50 |
| Exercised | (116,667) | (0.08) |
| **Balance, March 31, 2017** | **25,064,968** | **$ 0.29** |

Purchase share warrants outstanding as at March 31, 2017, carry exercise prices and expiry dates are as follows:

| Expiry date | Number of Warrants | Exercise price |
|---|---|---|
| November 27, 2017 | 9,149,998 | $0.08 |
| November 27, 2017 (finder) | 363,642 | $0.08 |
| April 15, 2019 | 3,972,610 | $0.30 |
| April 15, 2019 (finder) | 666,667 | $0.30 |
| April 18, 2019 | 1,021,750 | $0.30 |
| April 19, 2019 | 541,028 | $0.30 |
| April 20, 2019 | 37,947 | $0.30 |
| May 21, 2019 | 2,429,191 | $0.50 |
| May 25, 2019 | 370,809 | $0.50 |
| January 4, 2022 | 6,511,326 | $0.50 |
| | 25,064,968 | |

*(iii) Stock options*

The Corporation maintains a stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors, or consultants of the Corporation, options to acquire common shares in such numbers, for such terms and at such exercise prices, as may be determined by the Board of Directors or such committee (the "Plan"). The stock option plan provides that the total number of common shares that may be reserved for issuance for all purposes under the stock option plan cannot be more than 10% of the outstanding common shares at the time of any grant of stock options. The terms of the options, including when they vest, are determined by the Board of Directors as they are granted.

During the three months ended March 31, 2017, an expense of $78,731 (March 31, 2016 - $17,910) related to stock options has been included in the consolidated statement of loss and comprehensive loss. As at March 31, 2017, there is $187,053 (December 31, 2016 - $265,784) of share-based compensation expense remaining to be charged to net income (loss) in future periods.

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

**12. Issued capital (continued)**

*(iii) Stock options (continued)*

Stock options to purchase Common Shares that have been granted in accordance with the Plan are as follows:

| | Number of stock options | Weighted average exercise price per share |
|---|---|---|
| **Balance, December 31, 2015** | **9,400,000** | **$ 0.34** |
| Options forfeited | (50,000) | (0.14) |
| **Balance, March 31, 2016** | **9,350,000** | **$ 0.34** |
| **Balance, December 31, 2016 and March 31, 2017** | **10,575,000** | **$ 0.34** |

Stock options to purchase Common Shares at March 31, 2017, carry exercise prices and weighted average lives to maturity are as follows:

| Number of stock options outstanding | Number of stock options vested and exercisable | Exercisable price ($) | Expiry date | Weighted average remaining actual life (years) |
|---|---|---|---|---|
| 2,100,000 | 2,100,000 | 0.25 | December 9, 2021 | 4.70 |
| 600,000 | 600,000 | 0.75 | January 26, 2022 | 4.83 |
| 60,000 | 60,000 | 0.75 | February 1, 2022 | 4.84 |
| 1,550,000 | 1,550,000 | 1.00 | December 5, 2022 | 5.68 |
| 350,000 | 350,000 | 0.14 | November 22, 2023 | 6.65 |
| 240,000 | 240,000 | 0.33 | May 13, 2024 | 7.12 |
| 3,600,000 | 3,600,000 | 0.04 | November 27, 2025 | 8.67 |
| 750,000 | 250,000 | 0.33 | May 11, 2026 | 9.12 |
| 1,325,000 | 441,666 | 0.40 | August 11, 2026 | 9.37 |
| 10,575,000 | 9,191,666 | 0.34 | | 7.22 |

*(iv) Outstanding purchase share warrants and stock options*

The following table sets out the maximum number Common Shares that would be outstanding if all of the purchase share warrants and stock options, as at March 31, 2017 and December 31, 2016, respectively, were exercised:

| | As at March 31, 2017 | As at December 31, 2016 |
|---|---|---|
| Common shares outstanding | 126,557,805 | 126,441,138 |
| Purchase share warrants | 25,064,968 | 18,670,309 |
| Stock options | 10,575,000 | 10,575,000 |
| | 162,197,773 | 155,686,447 |

**(Expressed in Canadian Dollars Except As Otherwise Indicated)**

## 13. Net loss per share

Basic and diluted loss per share has been calculated as follows:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| **Numerator:** | | |
| Net loss for the period | **$ (2,611,029)** | $ (2,222,534) |
| **Denominator:** | | |
| Weighted average number of shares outstanding - basic | **126,451,366** | 106,909,032 |
| Weighted average number of shares outstanding - diluted | **126,451,366** | 106,909,032 |
| **Net loss per share** | | |
| Basic | **$ (0.02)** | $ (0.02) |
| Diluted | **$ (0.02)** | $ (0.02) |

## 14. Commitments and contingencies

The Corporation has office leases which are under sublet agreements and/or covered by the proceeds of a called letter of credit and equipment leases which relate to equipment which has been returned to the lessors. The future minimum payments under various lease arrangements and other contractual obligations are as follows, as at March 31, 2017:

| | Less than 1 year | 1 - 5 years | After 5 years | Total |
|---|---|---|---|---|
| Mining lease | $ 76,865 | $ 399,699 | $ 292,088 | $ 768,652 |
| Exploration leases | 7,752 | 20,631 | 5,158 | 33,541 |
| Operating leases | 113,379 | 28,965 | - | 142,344 |
| **Total** | **$ 197,996** | **$ 449,295** | **$ 297,246** | **$ 944,537** |

## 15. Segmented information

The Corporation operates in one reportable segment, being the exploration, evaluation and development of mineral properties and related projects. The Corporation's development projects are located in the United States of America and in Canada.