Dundee Sustainable Technologies Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the six months ended June 30, 2018
(Expressed in Canadian dollars)

The attached financial statements have been prepared by management of Dundee Sustainable Technologies and have not been reviewed by an external auditor.

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Dundee Sustainable Technologies Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Note	As at June 30, 2018	As at December 31, 2017
		$	$
Assets			
Current assets			
Cash		1,043,883	494,799
Accounts receivable	4	616,348	866,975
Sales tax receivable		-	20,478
Other assets		67,523	72,812
Prepaid expenses		11,777	16,888
		1,739,531	1,471,952
Non-current assets			
Investment		7,900	7,900
Property, plant and equipment	5	4,700	9,400
Intangible assets	6	4,613,813	4,613,813
		4,626,413	4,631,113
Total assets		**6,365,944**	**6,103,065**
Liabilities and Deficiency			
Current liabilities			
Accounts payable and accrued liabilities		1,735,048	1,329,844
Sales tax payable		107,479	-
Deferred revenue		72,835	36,385
Deferred payment	8	322,922	564,778
Promissory note from a related party	9	1,493,699	513,808
Short-term loans from a related party	9	12,229,681	11,707,157
		15,961,664	14,151,972
Non-current liabilities			
Long-term debt	10	219,407	207,114
Convertible debenture	10	4,316,532	4,052,043
Total liabilities		20,497,603	18,411,129
Deficiency			
Share capital	11	54,993,161	54,862,847
Contributed surplus		8,068,668	7,508,232
Deficit		(77,193,488)	(74,679,143)
Total deficiency		(14,131,659)	(12,308,064)
Total liabilities and deficiency		**6,365,944**	**6,103,065**
Going concern	1		
Commitments	14		

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

Dundee Sustainable Technologies Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)
For the six months ended June 30, 2018 and 2017
(Expressed in Canadian dollars, except number of shares)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		$	$	$	$
Sale of services		579,980	662,196	1,098,905	873,391
Expenses					
Operating expenses related to services		307,591	561,399	744,036	831,106
Research and development	13	262,768	231,316	608,640	492,815
Professional and consulting fees		38,906	73,030	123,134	210,821
Administrative		113,149	129,564	256,617	290,663
Wages and compensation		192,998	166,536	376,427	297,739
Shareholder communication		14,953	18,609	38,030	31,864
Share-based payments		613,250	-	613,250	540,000
Total expenses		1,543,615	1,180,454	2,760,134	2,695,008
Operating loss		(963,635)	(518,258)	(1,661,229)	(1,821,617)
Other income		8,000	-	8,000	-
Finance cost	9, 10	(445,335)	(365,797)	(879,206)	(736,695)
Gain (loss) on foreign currency exchange		11,843	(486)	18,090	(4,239)
Net loss and comprehensive loss		**(1,389,127)**	**(884,541)**	**(2,514,345)**	**(2,562,551)**
Basic and diluted net loss per share		-	-	(0.01)	(0.01)
Weighted average number of shares outstanding – basic and diluted		362,312,784	347,090,816	361,873,768	347,090,81
Going concern	1				

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

Dundee Sustainable Technologies Inc.

Condensed Interim Consolidated Statements of Changes in Deficiency
(Unaudited)
For the six months ended June 30, 2018 and 2017
(Expressed in Canadian dollars, except number of shares)

	Note	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	$	Number	$	$	$	$
Balance – December 31, 2017		**50,000,000**	**3,963,875**	**311,376,530**	**50,898,972**	**7,508,232**	**(74,679,143)**	**(12,308,064)**
Exercise of options	12	-	-	1,550,000	130,314	(52,814)	-	77,500
Share-based payments	12	-	-	-	-	613,250	-	613,250
Net loss and comprehensive loss for the period							(2,514,345)	(2,514,345)
Balance – June 30, 2018		**50,000,000**	**3,963,875**	**312,926,530**	**51,029,286**	**8,068,668**	**(77,193,488)**	**14,131,659**

	Note	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	$	Number	$	$	$	$
Balance – December 31, 2016		**50,000,000**	**3,963,875**	**297,090,816**	**50,598,972**	**6,848,232**	**(70,231,521)**	**(8,820,442)**
Share based payments	12	-	-	-	-	540,000	-	540,000
Net loss and comprehensive loss for the period		-	-	-	-	-	(2,562,551)	(2,562,551)
Balance – June 30, 2017		**50,000,000**	**3,963,875**	**297,090,816**	**50,598,972**	**7,388,232**	**(72,794,072)**	**(10,842,993)**

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

Dundee Sustainable Technologies Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
For the six months ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

	Note	2018	2017
		$	$
Operating activities			
Net loss for the period		(2,514,345)	(2,562,551)
Adjusted for:			
Share-based payments	12	613,250	540,000
Depreciation of property, plant and equipment included in research and development	5	4,700	4,700
Long-term debt discount	10	-	(36,930)
Amortization of long-term debt discount	10	12,293	8,965
Convertible debenture discount	10	-	(59,824)
Amortization of convertible debenture discount	10	71,387	58,770
Finance cost accrued	9, 10	795,517	681,741
		(1,017,198)	(1,365,129)
Changes in non-cash operating working capital items:			
Accounts receivable		250,627	(111,881)
Research and development tax credits and grant receivable		-	(184,496)
Sales tax receivable		127,957	(19,650)
Other assets		5,289	325,848
Prepaid expenses and advances to suppliers		5,111	15,285
Accounts payable and accrued liabilities		405,204	68,142
Deferred payment		(241,856)	-
Deferred revenue		36,450	516,252
		588,782	609,500
Net cash used in operating activities		**(428,416)**	**(755,629)**
Investing activities			
Disposal of exploration and evaluation assets held for sale		-	400,000
Net cash provided by investing activities		**-**	**400,000**
Financing activities			
Net proceeds from exercise of options	12	77,500	-
Repayment of bridge loans		-	(140,000)
Promissory note from a related party	9	900,000	-
Short-term loans from a related party		-	360,000
Long-term debt		-	72,425
Net cash provided by financing activities		**977,500**	**292,425**
Net change in cash		549,084	(63,204)
Cash – beginning		494,799	526,366
Cash – end		**1,043,883**	**463,162**
Going concern	1		
Supplemental information	15		

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Dundee Sustainable Technologies Inc. (the "Corporation") was incorporated under the Canada Business Corporations Act on July 22, 1997. The Corporation's head office is located at 1002 Sherbrooke Street West, Suite 2060, Montréal, Quebec, Canada, H3A 3L6.

The Corporation offers metallurgical processes for the treatment of complex and refractory material from mining operations. DST's processes are applied for the extraction of precious metals and for the removal and stabilization of contaminants, such as arsenic, from ores and concentrates. The Corporation provides environmentally-friendly, viable and efficient processes, capable of handling ores which may not be processed with conventional approaches due to metallurgical issues or environmental considerations. The precious metal recovery process uses sodium hypochlorite with a catalytic amount of sodium hypobromite in acidic conditions to put the gold into solution. The efficiency of the process, coupled with its closed-loop operating conditions, plant size and construction material allow for competitive operating and capital costs. When dealing with arsenic beating ores often associated with copper, gold, silver or polymetallic deposits, the Corporation's has developed new processes to remove and incorporate arsenic into a highly stable glass matrix. The costs of sequestrating the arsenic using DST vitrification technology are lower than conventional approaches, such as the formation of scorodite, and produce a stable, insoluble glass residue meeting environmental requirements.

These technologies are subject to all risks inherent in their development and may require significant additional development, testing and investment prior to any final commercialization. There can be no assurance that such technologies will be successfully developed, or that output from any use of the Corporation's technologies could be produced at a commercial level at reasonable costs or be successfully marketed. To date, the Corporation has not earned significant revenues from its patented technologies and is considered to be in the development stage. As at June 30, 2018, Dundee Corporation ("Dundee") was the principal and majority shareholder of the Corporation.

For the six months ended June 30, 2018, the Corporation incurred a loss of $2,514,345 ($2,562,551 for the six months ended June 30, 2017) and has negative working capital of $14,222,133 (2017 – $12,680,020). Deficit as at June 30, 2018 amounted to $77,193,488 ($74,679,143 as at December 31, 2017) and cash flows used in operating activities for the six months ended June 30, 2018 amounted to $428,416 ($755,629 for the six months ended June 30, 2017).

Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to June 30, 2019. The Corporation will therefore periodically have to raise additional funds to continue operations. The Corporation is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Corporation will be successful in these actions, management believes, that the Corporation will be able to secure the necessary financing through the issuance of debt or new equity in public or privately negotiated equity offerings. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Although these unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2018 ("June 2018 Interim Consolidated Financial Statements) have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, the above-noted facts and circumstances cast significant doubt on the Corporation's ability to continue as a going concern.

The June 2018 Interim Consolidated Financial Statements do not reflect the adjustments to the carrying values of assets and liabilities, to the reported expenses and to the financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

On July 24, 2018, these condensed interim consolidated financial statements were approved by the Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are described below.

2.1 Basis of presentation

The June 2018 Interim Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting, as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The June 2018 Interim Consolidated Financial Statements should be read in conjunction with the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2017 ("2017 Audited Consolidated Financial Statements") which were prepared in accordance with IFRS as applicable for annual financial statements.

The June 2018 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the 2017 Audited Consolidated Financial Statements.

2.2 Principles of consolidation

These consolidated financial statements include the accounts of the Corporation, its foreign subsidiary Guinea Fowl Investments Sixty One (PTY) Limited ("Guinea Fowl") (100%) and Creso Exploration Inc. ("Creso") (100%). Guinea Fowl is incorporated in Namibia and Creso was incorporated under the Canada Business Corporations Act. All intercompany transactions have been eliminated in these consolidated financial statements. Guinea Fowl is fully consolidated since April 26, 2018, the date on which control was obtained by the Corporation. Creso was fully consolidated until September 6, 2017, the date of its dissolution.

2.3 Changes in accounting policies

Effective January 1, 2018, the following new standards have been applied when preparing these condensed interim consolidated financial statements. The Corporation adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers. The Corporation adopted these new standards retrospectively without restating comparatives. The impact of applying the standards is described below.

a) IFRS 9, "Financial Instruments"

In July 2014, the IASB issued final amendments to IFRS 9, replacing International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement, already adopted by the Corporation. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new model for the impairment of financial assets and requires an economic relationship between the hedged item and hedging instrument.

Based on the Corporation's detailed assessment of the classification and measurement of financial assets, its financial instrument currently measured at fair value with any resulting gains or losses recognized through profit or loss would continue to be measured on the same basis under IFRS 9. Accordingly, the new standard do not have a significant impact on the classification and measurement of its financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in accounting policies (Cont'd)

There is no impact on the Corporation's accounting for financial liabilities, as the Corporation does not have financial liabilities designated at fair value through profit or loss and does not have any material debt modifications.

The Corporation does not have any hedging instrument at the time of the transition.

The Corporation's new accounting policies for financial instruments under IFRS 9 are as follow:

Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and liabilities are initially measured and recognized at their fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in net loss.

Classification of financial instruments in the Corporation's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

a) Financial assets

Financial assets are subsequently measured at amortized cost when the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are subsequently measured at fair value unless they are measured at amortized cost. Financial instruments subsequently measured at fair value can be carried at fair value with changes in fair value recorded in profit or loss, or in other comprehensive income if they are not held for trading and are designated as such on initial recognition.

The impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses and applies to financial assets measured at amortized cost. The financial asset of the Corporation measured at amortized cost are cash and accounts receivable. The Corporation elected to apply the simplified approach of impairment under IFRS 9 which accounts for the expected lifetime loss at the initial recognition of financial asset. The impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and it can be verified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in accounting policies (Cont'd)

b) Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for:

- Financial liabilities at FVTPL. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognizing or when the continuing involvement approach applies.

b) IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, which supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts," and other interpretive guidance associated with revenue recognition. IFRS 15 establishes the principles that an entity shall apply to report the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 is based on the general principle that revenue is recognized when control of a good or service transfers to a customer rather than when the significant risks and rewards of ownership are transferred as is the case under IAS 18.

The implementation of IFRS did not have a material impact on the Corporation's revenue recognition policy.

2.4 Accounting standards issued but not yet applied

IFRS 16, "Leases"

IFRS 16, issued in January 2016, replaces IAS 17, "Leases". IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted for entities that also adopt IFRS 15. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the June 2018 Interim Consolidated Financial Statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, and items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. The Corporation evaluates its estimates on an ongoing basis.

Such estimates are based on various assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the June 2018 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in note 3 to the 2017 Audited Consolidated Financial Statements.

(Expressed in Canadian dollars)

4. ACCOUNTS RECEIVABLE

The accounts receivable includes the technical services and other receivables. Technical services receivable is generated from customers to evaluate processing alternatives using the Corporation's processing facility. Other receivables are the reimbursements of project expenses generated under the collaboration agreement with a third party (Note 8).

	As at June 30, 2018	As at December 31, 2017
	$	$
Technical services	590,102	441,613
Other receivables	26,246	425,362
	616,348	**866,975**

5. PROPERTY, PLANT AND EQUIPMENT

	Vehicles and equipment	Office furniture and computer equipment	Total
Gross carrying amount	$	$	$
Balance – January 1 and June 30, 2018	47,000	134,085	181,085
Accumulated depreciation			
Balance – January 1, 2018	37,600	134,085	171,685
Depreciation	4,700	-	4,700
Balance – June 30, 2018	42,300	134,085	176,385
Net carrying amount – June 30, 2018	**4,700**	**-**	**4,700**
Net carrying amount – December 31, 2017	**9,400**	**-**	**9,400**

6. INTANGIBLE ASSETS

	As at June 30, 2018 and December 31, 2017
	$
Intellectual properties – Oxide	605,000
Patent application fees – Oxide	129,474
Development cost – Oxide	5,809,233
Less: SR&ED tax credit	(1,929,894)
	4,613,813

7. GOVERNMENT ASSISTANCE

In January 2018, the Corporation was awarded funding by the Government of Canada through Sustainable Development Technology Canada Foundation ("SDTC") for continued development of its patented arsenic vitrification technology. This funding will assist the Corporation in constructing and operating a demonstration scale arsenic vitrification plant to a metals processing facility. The construction of the plant was completed in the second half of 2018 and after commissioning, is expected to be operational in late 2018 or early 2019. Under the terms of the agreement, the SDTC will contribute up to the lesser of 20.7% of eligible project costs or $1.25 million.

(Expressed in Canadian dollars)

7. GOVERNMENT ASSISTANCE (CONT'D)

As part of the SDTC Contribution Agreement, the Corporation received in April 2018, $562,500 from SDTC to assist with the construction and operation of the arsenic vitrification plant. The contribution was recognized through comprehensive loss.

8. DEFERRED PAYMENT

In September 2017, the Corporation entered into a collaboration agreement with a third party for the construction and operation of an onsite demonstration plant using the Corporation's proprietary arsenic stabilization technology (the "arsenic demonstration plant project"). The plant, to be funded by the third party, has an estimated capital cost of US$3.1 million and will be constructed in Thetford Mines and delivered to the third party's metal processing facility in 2018.

In January 2018, the Government of Canada awarded funding in the amount of $1.25 million through the SDTC (Note 7). This funding will assist the Corporation in delivering the arsenic demonstration plant project to the third party.

As part of the collaboration agreement, the Corporation received an advance payment of $639,876 (US$500,000) from the third party, which will be applied to reduce cost recoveries from the third party until September 2018.

Deferred payment	**Six months ended June 30, 2018**
	$
Balance – beginning of period	564,778
Recognition of contribution through comprehensive loss as per eligible expenditures incurred during the period	(253,300)
Loss on foreign exchange	11,444
Balance – end of period	**322,922**

9. PROMISSORY NOTE AND SHORT-TERM LOANS FROM A RELATED PARTY

9.1 Promissory note

In November 2017, February 2018 and May 2018, the Corporation signed three promissory notes in the principal amount of $500,000, $400,000 and $500,000 respectively, payable on demand to a wholly owned subsidiary of Dundee along with interest at a rate of 18% per annum. As at June 30, 2018, the principal amount of the promissory note totals $1,400,000 and the finance cost accrued during the period amounted to $79,890.

9.2 Short term loans

The short-term loans, from a wholly owned subsidiary of Dundee, bear interest at the rate of 12.68% per annum and are secured by a hypothec, pari passu with Investissement Québec's ("IQ") convertible debenture and Canada Economic Development for Quebec Regions (CED) contribution, over all of the Corporation's property other than its intellectual property. The interest is payable concurrently with the repayment of the loans. In 2017, the maturity date of the loans was extended to the earlier of November 30, 2018 and the date at which the Corporation raises the sum of $10,000,000 or greater by way of debt or equity. The Corporation has the option to repay the loans at any time.

(Expressed in Canadian dollars)

9. PROMISSORY NOTE AND SHORT-TERM LOANS FROM A RELATED PARTY (CONT'D)

9.2 Short term loans (Cont'd)

As at June 30, 2018, the principal amount of the loans totaled $8,310,000 ($8,310,000 – as at December 31, 2017).

Short-term loans	Six months ended June 30, 2018	Six months ended June 30, 2017
	$	$
Balance – beginning of period	11,707,157	10,299,685
Principal amount	-	360,000
Finance costs accrued	522,524	516,288
Balance – end of period	**12,229,681**	**11,175,973**

10 CONVERTIBLE DEBENTURE AND LOANS

10.1 Convertible debenture

In 2015, the Corporation completed a $5,000,000 financing with IQ consisting of a private placement of subordinated voting shares of $1,000,000 and a secured convertible loan in an amount of up to $4,000,000 (the "IQ Loan"). IQ advanced $1,900,000 in 2015 and $2,100,000 in 2016.

The IQ Loan, which is evidenced by a secured convertible debenture, will mature in five years, bears interest at a rate of 8% per annum, payable quarterly, and can be converted after one year at the holder's option into subordinate voting shares of the Corporation at a conversion price equal to the closing market price of the shares on the day prior to conversion. The Corporation has the right to redeem the IQ Loan subject to a 10% premium. Starting October 1, 2016, interest has been capitalized. During the six months ended June 30, 2018, the Corporation capitalized $193,102 in interest ($163,487 during the six months ended June 30, 2017).

The IQ Loan is secured by a hypothec, pari passu with Dundee's loan and CED's contribution, over all of the Corporation's property other than its intellectual property and is guaranteed by Dundee in an amount of up to $1,500,000.

The fair value of the debt components advanced in 2016 and 2015 was estimated at $1,857,543 and $1,642,950, respectively, using an effective rate of 11.7% corresponding to a rate that the Corporation would have obtained for a similar non-subsidized financing. No value has been assigned to the equity conversion option, as the conversion price is equal to the closing market price of the shares on the day prior to conversion.

	Six months ended June 30, 2018	Six months ended June 30, 2017
	$	$
Carrying amount of the liability component – beginning of period	4,052,043	3,608,207
Capitalized interest expense	193,102	163,487
Debt discounted at fair value	-	(59,825)
Accretion expense	71,387	58,770
Carrying amount of the liability component – end of period	**4,316,532**	**3,770,639**

(Expressed in Canadian dollars)

10 CONVERTIBLE DEBENTURE AND LOANS (CONT'D)

10.2 CED contribution agreement

Under an amended agreement dated October 12, 2016, the Corporation received from CED a $397,000 repayable contribution (the "CED Contribution"). The CED Contribution was used by the Corporation for the acquisition of equipment for its demonstration plant (the "Project") in Thetford Mines. The CED Contribution is non-interest bearing, secured and repayable in equal monthly installments over seven years starting three years after the end of the Project. CED advanced $324,575 in December 2016 and the remaining balance in May 2017.

The fair value of the debt components advanced in December 2016 and May 2017 were respectively estimated at $149,944 and $35,495 using an effective rate of 11.7%. Such rate corresponds to a rate that the Corporation would have obtained for a similar non-subsidized financing.

The CED Contribution is secured by a hypothec, pari passu with Dundee's and IQ's loans, over all of the Corporation's property other than its intellectual property.

	Six months ended June 30,	
	2018	**2017**
	$	$
Balance– beginning	207,114	151,049
Contribution received	-	72,425
Debt discounted at fair value	-	(36,930)
Accretion expense	12,293	8,965
Balance – end	**219,407**	**195,509**

11. SHARE CAPITAL

11.1 Authorized

On June 30, 2018 and December 31, 2017, the authorized capital of the Corporation consisted of an unlimited number of subordinate voting shares and multiple voting shares, without nominal or par value. The holders of subordinate voting shares are entitled to one vote for each subordinate voting share, and the holders of multiple voting shares are entitled to 10 votes for each multiple voting share. The holders of subordinate voting shares and multiple voting shares shall be entitled to receive and to participate equally as to dividends, share for share, in an equal amount on all the subordinate voting shares and multiple voting shares outstanding at year-end. The holders of multiple voting shares shall be entitled at any time and from time to time to have any or all of the multiple voting shares converted into subordinate voting shares on the basis of one subordinate voting share for each multiple voting share. In all other respects, the holders of subordinate voting shares and multiple voting shares shall rank equally and have the same rights and restrictions.

(Expressed in Canadian dollars)

11.2 Warrants

Changes in the Corporation's outstanding common share purchase warrants were as follows:

				Six months ended June 30,
		2018		2017
	Number of warrants	Carrying amount	Number of warrants	Carrying amount
		$		$
Balance – Beginning and end	**14,285,714**	**200,000**	**-**	**-**

12. STOCK OPTION PLAN

In April 2018, the Corporation granted a total of 7,250,000 stock options to its directors, officers, employees and one consultant. These options are exercisable at $0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.08 per share for a total based payment expenses of $558,250.

In April 2018, the Corporation granted a total of 500,000 stock options to a director. These options are exercisable at $0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.06 per share for a total based payment expenses of $32,000.

In June 2018, the Corporation granted a total of 500,000 stock options to an employee. These options are exercisable at $0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.05 per share for a total based payment expenses of $23,000.

The fair value of options at the grant date was calculated based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2018	2017
Expected life	5 years	5 years
Risk-free interest rate	2.13%	1.11%
Expected volatility	117%	131%
Expected dividend yield	0%	0%
Share price	$0.10	$0.05

(Expressed in Canadian dollars)

12. STOCK OPTION PLAN (CONT'D)

The changes in the Corporation's outstanding and exercisable options are as follows:

	Three months ended June 30,			
		2018		2017
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance – beginning	23,802,500	0.08	10,877,500	**0.13**
Granted	8,250,000	0.10	13,500,000	**0.05**
Exercised [(1)]	(1,550,000)	0.05	-	**-**
Expired	(1,212,500)	0.16	(475,000)	**0.20**
Balance – end	**29,290,000**	**0.09**	**23,902,500**	**0.08**

[(1)] The weighted average market price of the shares was $0.08 at the time of exercise.

As at June 30, 2018, outstanding and exercisable options are as follows:

Number of options	Weighted average exercise price	Expiry date
	$	
1,300,000	0.08	December 8, 2018
6,637,500	0.10	December 12, 2018
400,000	0.05	March 16, 2019
250,000	0.08	June 8, 2019
302,500	0.20	October 2, 2019
10,450,000	0.05	February 3, 2022
1,700,000	0.20	November 27, 2022
7,250,000	0.10	April 18,2023
500,000	0.10	April 26, 2023
500,000	0.10	June 18, 2023
29,290,000		

The residual weighted average contractual term of outstanding options was 3.05 years as at June 30, 2018.

(Expressed in Canadian dollars)

13. RESEARCH AND DEVELOPMENT

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
	$	$	$	$
Research and development	1,348,499	394,373	2,753,680	774,067
Recognition of net contribution receivable through comprehensive loss as per eligible expenditures incurred during the period	(523,231)	-	(1,582,540)	-
SDTC contribution (Note 7)	(562,500)	(134,125)	(562,500)	(192,496)
Government subsidy on long-term debt	-	(28,932)	-	(88,756)
	262,768	**231,316**	**608,640**	**492,815**

14. COMMITMENTS

Lease payments

On July 1, 2013, the Corporation entered into a ten-year lease for the Thetford Mines facility at an annual rent of $204,380 that is subject to a yearly increase of 1.5%.

On March 9, 2018, the Corporation entered into a lease extension for its head office until August 31, 2019. The annual rent is $51,000.

The aggregate annual payments due over the following periods are as follows:

	As at June 30, 2018
	$
Less than 1 year	270,034
Between 1 and 5 years	919,312
More than 5 years	-

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,	
	2018	**2017**
	$	$
Finance cost paid	10	2,201

(Expressed in Canadian dollars)

16. COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements to better present the compensation to employees and officers and the expenses related to communication to shareholders.

As a result, certain line items have been amended in the statement of comprehensive loss. Comparative figures have been adjusted to conform to the current year's presentation.

	Three months ended June 30,		Six months ended June 30,	
	Previously reported	**After reclassification**	**Previously reported**	**After reclassification**
	2017	**2017**	**2017**	**2017**
	$	**$**	**$**	**$**
Professional and consulting fees	120,529	73,030	295,528	210,821
Wages and compensation	119,037	166,536	213,032	297,739
Shareholder communication	-	18,609	-	31,864
Investor relation and promotions	2,222	-	5,949	-
Trustee and registration fees	16,387	-	25,915	-