

BOREAL METALS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Boreal Metals Corp.

Opinion

We have audited the accompanying consolidated financial statements of Boreal Metals Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, 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 audits 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 Consolidated 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 consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has incurred ongoing losses and expects to incur further losses in the development of its business and the Company's total deficit was \$3,784,976. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 14 of the consolidated financial statements which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 to 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 on the audit resulting in this independent auditor's report is Guy Thomas.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 30, 2019

BOREAL METALS CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018

(Expressed in Canadian Dollars)

	Note	December 31, 2018	December 31, 2017
			(Restated – Notes 2 and 14)
ASSETS			
Current Assets			
Cash		\$ 241,820	\$ 3,397,728
Receivables		113,857	76,206
Prepaid and deposits		103,251	332,935
		458,928	3,806,869
Reclamation bond		13,762	7,650
Exploration and evaluation assets	3	4,564,855	2,305,174
Equipment	4	71,682	-
TOTAL ASSETS		\$ 5,109,227	\$ 6,119,693
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	5,8	\$ 339,285	\$ 686,862
EQUITY			
Share capital	6	8,044,371	7,053,617
Reserves	6	510,661	238,847
Deficit		(3,784,976)	(1,859,633)
Equity attributable to shareholders of the Company		4,770,056	5,432,831
Non-controlling interest	7	(114)	-
Total equity		4,769,942	5,432,831
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 5,109,227	\$ 6,119,693

Nature of operations and going concern (Note 1)

Subsequent event (Note 15)

Approved and authorized by the Board on April 29, 2019.

“Karl Antonius” Director
Karl Antonius

“Jon Sherron” Director
Jon Sherron

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

BOREAL METALS CORP.**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the Years Ended December 31

(Expressed in Canadian Dollars)

	Note	2018	2017
			(Restated – Notes 2 and 14)
OPERATING EXPENSES			
Administrative fees		\$ 5,636	\$ 22,641
Audit and accounting fees	8	236,022	153,495
Consulting fees		39,970	48,066
Depreciation	4	14,210	-
Foreign exchange		38,695	15,845
General and office costs		84,746	76,904
Insurance fees		9,167	-
Management fees	8	393,388	174,250
Marketing		531,469	368,051
Legal fees	8	59,935	175,830
Regulatory, filing and transfer agents fees		15,771	102,165
Rent	8	41,019	10,000
Travel expenses		193,813	256,374
Share-based payments	6	271,814	-
		(1,935,655)	(1,403,621)
Interest Income		10,197	-
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR			
		\$ (1,925,458)	\$ (1,403,621)
Attributable to:			
Shareholders of the Company		(1,924,564)	(1,403,621)
Non-controlling interest	7	(894)	-
		(1,925,458)	(1,403,621)
Basic and diluted loss per common share		\$ (0.03)	\$ (0.05)
Weighted average number of common shares issued and outstanding		57,178,037	26,467,233

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

BOREAL METALS CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years ended December 31

(Expressed in Canadian Dollars)

	2018	2017 (Restated – Notes 2 and 14)
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
Loss for the year	\$ (1,925,458)	\$ (1,403,621)
Depreciation	14,210	-
Share-based payments	271,814	-
Changes in non-cash working capital items:		
Receivables	(37,651)	(66,498)
Prepaid and deposits	229,684	(332,935)
Accounts payable and accrued liabilities	(191,622)	(32,429)
	(1,639,023)	(1,835,483)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Reclamation bond	(6,112)	(7,650)
Purchase of equipment	(85,892)	-
Exploration and evaluation of assets	(2,018,381)	(442,994)
Acquisition of entities	-	51,450
	(2,110,385)	(399,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued for cash	593,500	6,029,621
Share issue costs	-	(594,203)
	593,500	5,435,418
Increase in cash	(3,155,908)	3,200,741
Cash - beginning of year	3,397,728	196,987
Cash - end of year	\$ 241,820	\$ 3,397,728
Supplemental Cash Flow		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 11)

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

BOREAL METALS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Share Capital					Total Attributable to Shareholders of the Company	Non-Controlling Interest	Total Equity
	Number	Amount \$	Share Subscription \$	Reserves \$	Deficit \$			
Balance at December 31, 2016	8,610,000	191,000	289,379	-	(456,012)	24,367	-	24,367
Shares issued on								
acquisition of Swedish Companies	1,713,390	85,670	-	-	-	85,670	-	85,670
Shares issued on private placements	33,130,832	6,319,000	(289,379)	-	-	6,029,621	-	6,029,621
Shares issued on corporate finance units	644,000	132,422	-	56,378	-	188,800	-	188,800
Shares issued as per acquisition agreement	7,492,492	1,290,997	-	-	-	1,290,997	-	1,290,997
Share issue costs	-	(965,472)	-	182,469	-	(783,003)	-	(783,003)
Loss for the year	-	-	-	-	(1,403,621)	(1,403,621)	-	(1,403,621)
Balance at December 31, 2017 (Restated – Notes 2 and 14)	51,590,714	7,053,617	-	238,847	(1,859,633)	5,432,831	-	5,432,831
Shares issued on								
Acquisition of Modum property	1,324,181	397,254	-	-	-	397,254	-	397,254
Warrants exercised	5,935,000	593,500	-	-	-	593,500	-	593,500
Adjustment on change in ownership interest in BEMC	-	-	-	-	(779)	(779)	780	1
Share-based payments	-	-	-	271,814	-	271,814	-	271,814
Loss for the year	-	-	-	-	(1,924,564)	(1,924,564)	(894)	(1,925,458)
Balance at December 31, 2018	58,849,895	8,044,371	-	510,661	(3,784,976)	4,770,056	(114)	4,769,942

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

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Boreal Metals Corp. (the "Company") was incorporated under the Business Corporations Act, British Columbia on December 31, 2013 and is considered to be in the exploration stage with respect to its mineral properties. The Company's head office address is Suite 340 - 233 West 1st Street, North Vancouver, BC V7M 1B3.

The Company is listed on the TSX Venture Exchange ("TSX-V") under the trading symbol "BMX" and is listed on the Frankfurt Stock Exchange under the symbol 03E.

The Company's mineral properties are located in Sweden and Norway as further disclosed in Note 3.

Going concern

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses and expects to incur further losses in the development of its business. At December 31, 2018, the Company had cash of \$241,820, working capital of \$119,643 and accumulated deficit of \$3,784,976 and subsequent to year end raised additional finances (Note 15). The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. Management cannot provide assurance that the Company will ultimately achieve profitable operations or raise additional debt and/or equity capital.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and basis of consolidation

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Con't)**Consolidation**

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries as follows:

Subsidiaries	Country of incorporation	% Equity interest as at	
		December 31, 2018	December 31, 2017
First Ferro Mining Ltd. ("First Ferro") ⁽¹⁾	Canada	100.0%	100.0%
Swedish Companies	Sweden	100.0%	100.0%
Boreal Energy Metals Corp. ("BEMC")	Canada	90.1%	N/A ⁽²⁾
Boreal Battery Metals Scandinavia AB ("BBMSAB")	Sweden	90.1%	N/A ⁽³⁾

⁽¹⁾ Currently dormant and in the process of being dissolved.

⁽²⁾ Incorporated during the year ended December 31, 2018.

⁽³⁾ Incorporated during the year ended December 31, 2018, wholly owned by BEMC

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances have been eliminated.

Non-controlling interests

Non-controlling interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a non-controlling interest exceed the non-controlling interest in the subsidiary's equity, the excess is allocated to the non-controlling interest except to the extent that the majority has a binding obligation and is able to cover the losses.

Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average rates for the year, except for amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Exploration and evaluation assets

The Company capitalizes direct mineral property acquisition costs and exploration expenditures incurred. Mineral property acquisition costs include cash consideration and the fair value of common shares issued for mineral property interests, pursuant to the terms of the relevant agreement. These costs are amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned, or when impairment in value has been determined to have occurred. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Con't)

Exploration and evaluation assets (Con't)

During fiscal 2018, the Company changed its accounting policy with respect to exploration and evaluation expenditures to better represent total costs incurred on its exploration and evaluation assets. In prior years, the Company's policy was to charge to operations exploration expenditures as incurred. The Company has elected to change this accounting policy to now capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets, effective with the presentation of these financial statements, on a retrospective basis (Note 14).

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry practice for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Equipment

On initial recognition, equipment is valued at cost, which includes the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. Any corresponding liabilities are recorded as provisions. When major components of an item of equipment have different useful lives, they are accounted for as separate items of equipment.

Equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

Equipment is amortized over its estimated useful lives at the following rates and methods:

Container	5 years	Straight-line method
Vehicle	5 years	Straight-line method
Computer	5 years	Straight-line method

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Provision for decommissioning and restoration

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for a decommissioning liability is recognized based on expected cash flows required to settle the obligation and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Con't)**Significant accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates. The most significant accounts that require estimates as the basis for determining the stated amounts include valuation of share-based payments, recognition of deferred income tax amounts, provision for restoration, rehabilitation and environmental costs and recoverability of exploration and evaluation assets.

Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Site decommissioning obligations

The Company recognizes a provision for future abandonment activities in the financial statements equal to the net present value of the estimated future expenditures required to settle the estimated future obligation at the statement of financial position date. The measurement of the decommissioning obligation involves the use of estimates and assumptions including the discount rate, the expected timing of future expenditures and the amount of future abandonment costs. The estimates were made by management and external consultants considering current costs, technology and enacted legislation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Economic recoverability and probability of future economic benefits of exploration and evaluation assets

Management has determined that mineral property costs incurred which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Functional and reporting currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Acquisition method accounting

In the acquisition of the Swedish Companies, significant judgement was required to determine if that transaction represented a business combination or an asset purchase. More specifically, management concluded that the Swedish Companies did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Con't)

Share capital

Common shares are classified as equity. Proceeds from unit placements are allocated between shares and warrants issued using the residual value method. Warrants that are part of units are assigned a value based on residual value, if any, and included in reserves. Costs directly identifiable with share capital financing are charged against share capital.

Warrants that are issued as payment for agency or finders' fees are accounted for as share-based payments.

Financial instruments

The Company recognizes its financial instruments initially at fair value and subsequently measure them in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") and at amortized cost. The classification depends on the business model for management of the financial assets and the contractual cash flow characteristics of the financial instruments. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at FVTPL when they are not measured at amortized cost or at FVTOCI. Such assets are subsequently measured at fair value with changes recognized in profit or loss. If the financial assets that would otherwise be measured at FVTPL are not acquired or incurred principally for the purpose of selling or repurchasing them in the near term, are not part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or a derivative, the Company may make an irrevocable election at initial recognition to present subsequent fair value changes of the equity instrument in OCI.

Financial assets are classified at amortized cost if they are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and 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. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial assets are classified at FVTOCI if they are held within a business model whose objectives are achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding, or if an irrevocable election was made for certain equity instruments at initial recognition. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities are originally valued at fair value and are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of financial instruments measured at FVTOCI, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. The Company does not have any derivative financial assets and liabilities.

BOREAL METALS CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018

(Expressed in Canadian Dollars)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Con't)**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Loss per share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

Accounting standards issued but not yet effective and change in accounting policy

The Company has not yet adopted the following revised or new IFRS that have been issued but were not yet effective as at December 31, 2018:

- IFRS 16, Leases is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. This standard is effective for the years beginning on or after January 1, 2019.

The Company expects the only impact that these new accounting standards will have on the financial statements will be additional note disclosure.

3. EXPLORATION AND EVALUATION ASSETS**Swedish Companies and Modum**

On February 14, 2017, the Company acquired the Swedish Companies that were wholly-owned subsidiaries of EMX Royalty Corp. ("EMX") which together represent a portfolio of four Scandinavian base and precious metal (zinc-lead-copper-silver-gold) exploration projects including Gumsberg and Adak exploration assets in Sweden and the Tynset and Burfjord assets in Norway.

To acquire the Swedish Companies, the Company issued 1,713,390 of its common shares to EMX which represented a 19.9% equity ownership in the Company and had the continuing obligation to issue additional shares to maintain 19.9% interest, at no additional cost to EMX, until the Company has raised CDN\$5,000,000 in equity (raised on November 21, 2017); thereafter, EMX has the right to participate pro-rata in future financings at its own cost to maintain its 19.9% interest. During 2017, a total of 7,492,592 common shares valued at \$1,290,997 of the Company were issued to EMX due to above obligation (Note 6).

On February 15, 2018, the Company amended the share purchase agreement with EMX and included the acquisition of the Modum project ("Modum"). Pursuant to the terms of the agreement, the Company issued to EMX 1,324,181 common shares valued at \$397,254, which brought EMX's equity ownership in Boreal to 19.9% (Note 6).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

EXPLORATION AND EVALUATION ASSETS (Con't)Swedish Companies and Modum (Con't)

EMX has also been granted a 3% net smelter return ("NSR") royalty on each of the properties, of which a 1% NSR royalty may be purchased by the Company on or before the fifth anniversary of the closing date in 0.5% increments for a total of (a) USD\$2,500,000, or (b) at the purchaser's option, USD\$2,000,000 plus shares of the Company equal in value to USD\$500,000.

EMX will receive annual advance royalty ("AAR") payments of USD\$20,000 for each of the properties commencing on the second anniversary of the closing, with each AAR payment increasing by USD\$5,000 per year until reaching USD\$60,000 per year, except that the Company may forgo AAR payments on two of the four properties in years two and three. Once reaching USD\$60,000, AAR payments will be adjusted each year according to the Consumer Price Index (as published by the U.S. Department of Labor, Bureau of Labor Statistics). EMX will receive a 0.5% NSR royalty on any new mineral exploration projects generated by the Company in Sweden or Norway, excluding projects acquired from a third party containing a mineral resource or reserve or an existing mining operation. EMX had the right to nominate one seat on the Board of Directors of the Company which has been filled by Eric Jensen.

Management determined that the acquisition of the Swedish Companies during fiscal 2017 did not qualify as a business combination. Accordingly, it was accounted for as an acquisition of net assets. The fair value of the consideration allocated to assets and liabilities acquired was as follows:

Net assets and liabilities acquired:

Cash	\$	51,450
Accounts receivable		777
Properties acquisition costs		215,233
Trade and other payables		(181,790)
<hr/>		
Total	\$	85,670
<hr/>		
Consideration paid:		
Share capital	\$	85,670
<hr/>		

Guldgruvan Project

On March 20, 2018, the Company completed the acquisition of the Guldgruvan cobalt project ("Guldgruvan") from EMX by BEMC. Pursuant to the terms of the agreement, the Company issued to EMX 2,979,798 common shares of BEMC valued at \$1, which brought EMX's equity ownership in BEMC to 5.9% (Note 7). BEMC will have the continuing obligation to issue additional shares of BEMC to EMX to maintain its 5.9% interest in BEMC, at no additional cost to EMX, until BEMC has raised \$3,000,000 in equity. Thereafter, EMX will have the right to participate pro-rata in future financings at its own cost to maintain its 5.9% interest in BEMC.

In addition, EMX is granted an uncapped 3% NSR royalty on the project, of which a 1% NSR royalty may be purchased by BEMC on or before the fifth anniversary of the closing date in 0.5% increments for a total of USD\$2,500,000 in cash and common shares of BEMC. EMX will receive AAR payments of USD\$20,000, commencing on the second anniversary of the closing, with each AAR payment increasing by USD\$5,000 per year until reaching USD\$60,000 per year. EMX will also be reimbursed for its acquisition costs and previous expenditures on the project.

BOREAL METALS CORP.

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EXPLORATION AND EVALUATION ASSETS (Con't)

Njuggträskliden and Mjövattnet Projects

On May 18, 2018, the Company acquired the Njuggträskliden and Mjövattnet cobalt and nickel projects (“Njuggträskliden and Mjövattnet”) from EMX by BEMC, subject to regulatory approval. Pursuant to the terms of the agreement, the Company transferred to EMX 2,020,202 common shares of BEMC valued at a nominal value which brought EMX’s equity ownership in BEMC to 9.9% (Note 7). BEMC will have the continuing obligation to issue additional shares of BEMC to EMX to maintain its 9.9% interest in BEMC, at no additional cost to EMX, until BEMC has raised \$3,000,000 in equity. Thereafter, EMX will have the right to participate pro-rata in future financings at its own cost to maintain its 9.9% interest in BEMC.

In addition, EMX is granted an uncapped 3% NSR royalty on each project, of which a 1% NSR royalty may be purchased by BEMC on or before the fifth anniversary of the closing date in 0.5% increments for a total of USD\$2,500,000 in cash and common shares of BEMC. EMX will receive AAR payments of USD\$20,000 for each project, commencing on the second anniversary of the closing, with each AAR payment increasing by USD\$5,000 per year until reaching USD\$60,000 per year. EMX will also be reimbursed approximately USD\$37,000 (CAD\$47,112) for its acquisition costs and previous expenditures on the project.

The Company is the owner of mining licenses located in Norway known as the Burfjord and Tynset licenses and in Sweden known as the Gumsberg and Adak projects. In addition, the Company through BEMC, is the owner of mining licenses located in Norway known as the Modum and in Sweden known as Guldgruvan, Njuggträskliden and Mjövattnet projects (collectively the “Battery Metals Projects”).

Burfjord IOCG Project (Alta Region, Norway)

The Burfjord project is comprised of certain exploration licenses near Kåfjord, Norway.

Tynset VMS Project (Røros District, Norway)

The Tynset project is comprised of certain exploration licenses in the Røros Mining District of central Norway.

Gumsberg VMS Project (Bergslagen District, Sweden)

The Gumsberg project consists of certain exploration licenses in the Bergslagen Mining District of southern Sweden.

Adak VMS Project (Skellefteå District, Sweden)

Adak exploration license is located in Skellefteå Mining District in north Sweden.

Modum Project (Skuterud Mine, Norway)

The Modum project is located near Oslo, Norway.

Guldgruvan Project (Los Cobalt Mine, Sweden)

The Guldgruvan project is located near the town of Los, Sweden.

Njuggträskliden and Mjövattnet Projects (Skellefteå, Sweden)

The Njuggträskliden and Mjövattnet projects are located in Skellefteå mining area in Northern Sweden.

BOREAL METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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EXPLORATION AND EVALUATION ASSETS (Con't)

In the year ended December 31, 2018, exploration costs were incurred by the Company as follows:

Acquisition costs	Adak, Gumsberg, Burfjord, Tynset	Modum	Guldgruvan	Njuggträskliden and Mjövattnet	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2016	-	-	-	-	-
Acquisition	215,233	-	-	-	215,233
Shares issued as anti-dilutive right	1,290,997	-	-	-	1,290,997
Balance, December 31, 2017	1,506,230	-	-	-	1,506,230
Acquisition	-	452,179	54,926	102,037	609,142
Balance, December 31, 2018	1,506,230	452,179	54,926	102,037	2,115,372

Exploration costs	Adak	Gumsberg	Burfjord	Tynset	Battery Metals Projects	Total
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2016	-	-	-	-	-	-
Accommodation	-	6,016	17,921	-	-	23,937
Drilling	-	169,176	-	-	-	169,176
Field work	326	104,816	144,233	5,611	-	254,986
Exploration licenses	-	33,132	6,340	3,676	-	43,148
Geological	30,498	150,046	88,499	12,854	-	281,897
Geophysical	4,800	12,600	7,800	600	-	25,800
Balance, December 31, 2017	35,624	475,786	264,793	22,741	-	798,944
Accommodation	-	37,931	3,747	757	-	42,435
Drilling	-	339,912	-	-	-	339,912
Exploration equipment	716	24,123	-	3,533	-	28,372
Field work	2,277	182,852	326,065	47,421	3,932	562,547
Exploration licenses	131	23,659	26,284	81,173	131	131,378
Geological	5,004	199,892	72,243	33,195	41,900	352,234
Geophysical	-	167,516	-	1,034	-	168,550
Other	482	22,483	1,008	423	715	25,111
Incurred in 2018	8,610	998,368	429,347	167,536	46,678	1,650,539
Balance, December 31, 2018	44,234	1,474,154	694,140	190,277	46,678	2,449,483

Total acquisition and exploration costs	Adak, Gumsberg, Burfjord, Tynset	Modum	Guldgruvan	Njuggträskliden and Mjövattnet	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2017	2,305,174	-	-	-	2,305,174
Balance, December 31, 2018	3,909,035	486,086	62,641	107,093	4,564,855

BOREAL METALS CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Expressed in Canadian Dollars)

4. EQUIPMENT

Cost		Container		Vehicle		Computer		Total
As of December 31, 2017 and 2016	\$	-	\$	-	\$	-	\$	-
Additions during the year		7,853		77,000		1,039		85,892
As at December 31, 2018	\$	7,853	\$	77,000	\$	1,039	\$	85,892
Accumulated depreciation								
As of December 31, 2017 and 2016	\$	-	\$	-	\$	-	\$	-
Amortization during the year		1,309		12,833		68		14,210
As at December 31, 2018	\$	1,309	\$	12,833	\$	68	\$	14,210
Net book value								
As of December 31, 2017	\$	-	\$	-	\$	-	\$	-
As at December 31, 2018	\$	6,544	\$	64,167	\$	971	\$	71,682

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2018 and 2017 accounts payable and accrued liabilities consists of the following:

		2018		2017
Accounts payable	\$	110,763	\$	533,928
Accrued liabilities		178,242		20,000
Due to related parties (Note 8)		50,280		132,934
	\$	339,285	\$	686,862

6. SHARE CAPITAL**Authorized share capital**

The authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

Issued share capital

During the year ended December 31, 2017

- On February 14, 2017, the Company issued 1,713,390 common shares to EMX on the acquisition of the Swedish Companies. The shares were valued at \$85,670 (Note 3).
- During the year ended December 31, 2017, a total of 7,492,492 shares were issued to EMX at no additional cost due to the Company's obligation to maintain EMX 19.9% equity ownership in the Company (Note 3). These shares were recorded at a value of \$1,290,997.
- On April 4, 2017, the Company closed a non-brokered private placement of 12,270,000 units at \$0.05 for proceeds of \$613,500, of which \$289,379 was received in fiscal 2016. Each unit consisted of one common share and one-half of one transferable share purchase warrant with each whole warrant exercisable into one additional common share at a price of \$0.10 for a period of one year.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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SHARE CAPITAL (Con't)

Issued share capital (Con't)

- d) On August 14, 2017, the Company closed a private placement of 5,527,500 units at a price of \$0.20. Each unit consisted of one common share and one-half of one transferable share purchase warrant, each whole warrant exercisable into one additional common share at a price of \$0.40 for a period of two years from the date of issue. The warrants are subject to an acceleration provision.

The Company paid finder's fees of \$18,500 in cash, issued 44,000 common shares as finder's fees at value of \$8,800 and 136,500 finder's warrants to certain finders valued at \$9,839. The finder's warrants have the same terms as private placement warrants except they are non-transferable.

- e) On November 21, 2017, the Company closed a Short Form Offering Document ("SFOD") by way of brokered private placement. The SFOD consisted of 6,666,666 units of the Company at a price of \$0.30 for gross proceeds of \$2,000,000. Each unit consisted of one common share and one-half of share purchase warrant, with each whole warrant exercisable at a price of \$0.50 for a period of 24 months from the closing date of the SFOD.

On November 21, 2017, the Company also closed a brokered private placement of 8,000,000 units at a price of \$0.30 per unit for gross proceeds of \$2,400,000. Each unit consisted of one common share and one warrant, having the same terms as the SFOD warrants.

A cash commission of \$319,500 was paid and 1,065,000 non-transferable broker warrants valued at \$172,630 were issued to the agent. Each agent's warrant will be exercisable for one common share at a price of \$0.30 until May 21, 2019.

The agent also received 600,000 units as a corporate finance fee with 400,000 units having the same composition as the SFOD units and 200,000 broker's units. A value of \$56,378 was assigned to 400,000 brokers' warrants issued in connection to corporate finance units.

- f) On November 21, 2017, the Company closed a non-brokered private placement for proceeds of \$200,000. The Company issued 666,666 units at a price of \$0.30, with each unit consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.50 until November 21, 2019.

During the year ended December 31, 2018

- g) On February 14, 2018, the Company issued 1,324,181 common shares to EMX on the acquisition of the Modum project. The shares were valued at \$397,254 (Note 3).
- h) The Company issued 5,935,000 common shares on the exercise of warrants for proceeds of \$593,500.

Stock Options

The Company has adopted a stock option plan whereby, the Company may grant stock options up to a maximum 10% of the issued common shares of the Company at any time.

On September 14, 2018, the Company granted a total of 4,925,000 incentive stock options exercisable for common shares at an exercise price of \$0.20 per share until September 14, 2028 to its directors, officers, and consultants, which vests evenly immediately and on September 2019 and 2020, respectively.

As at December 31, 2017, there were no stock options outstanding.

BOREAL METALS CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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SHARE CAPITAL (Con't)**Stock Options (Con't)**

A summary of stock options transactions during the year ended December 31, 2018 are as follows:

	Weighted average exercise price	Number of options outstanding
Balance, December 31, 2017 and 2016	\$ -	-
Stock options granted	0.20	4,925,000
Balance, December 31, 2018	\$ 0.20	4,925,000

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

Expiry Date	Number of options outstanding	Weighted average exercise price	Weighted average life (years)	Number of options exercisable	Weighted average exercise price	Weighted average life (years)
September 14, 2028	4,925,000	\$ 0.20	9.71	1,641,672	\$ 0.20	9.71
Balance, December 31, 2018	4,925,000	\$ 0.20	9.71	1,641,672	\$ 0.20	9.71

The fair value of the stock options granted during the year ended December 31, 2018 was estimated at \$0.11 per option on the grant date, determined using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2018
Risk-free interest rate	2.34%
Annualized volatility	192.87%
Expected dividend yield	Nil
Expected forfeitures	Nil
Expected warrants life in years	10 years

Share-based payments for the options granted by the Company were amortized over the vesting period, of which \$271,814 was recognized during the year ended December 31, 2018 (December 31, 2017 - \$Nil).

Warrants

A summary of share purchase warrant transactions during the year ended December 31, 2018 are as follows:

Expiry date	Exercise price	WARC life (years)	December 31, 2017	Granted	Exercised	Expired/Cancelled	December 31, 2018
April 4, 2018	\$0.10	-	6,135,000	-	(5,935,000)	(200,000)	-
May 21, 2019	\$0.30	0.39	1,065,000	-	-	-	1,065,000
August 14, 2019	\$0.40	0.62	2,400,250	-	-	-	2,400,250
November 21, 2019	\$0.50	0.89	12,399,999	-	-	-	12,399,999
November 21, 2019	\$0.40	0.89	500,000	-	-	-	500,000
TOTAL			22,500,249	-	(5,935,000)	(200,000)	16,365,249
Weighted average price			\$ 0.37	\$ -	\$ 0.10	\$ 0.10	\$ 0.47

BOREAL METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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SHARE CAPITAL (Con't)

Warrants (Con't)

The fair value of the brokers warrants issued was determined using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2017
Risk-free interest rate	1.41%
Annualized volatility	100%
Expected dividend yield	Nil
Expected forfeitures	Nil
Expected warrants life in years	1.67 years

Escrow units

In accordance with the escrow agreement dated November 21, 2017, 12,102,236 shares and 3,538,618 warrants were placed in escrow, of which 10% of the escrowed common shares and warrants were released on November 21, 2017. During the year ended December 31, 2018, 30% of the escrowed common shares and warrants were released. As at December 31, 2018, there were 7,261,342 common shares (December 31, 2017 – 10,892,012) and 2,123,171 warrants (December 31, 2017 – 3,184,756) of the Company held in escrow.

7. **NON-CONTROLLING INTEREST**

On February 1, 2018, the Company incorporated a new wholly owned subsidiary in Canada, BEMC. During the year ended December 31, 2018, BEMC incorporated a new wholly owned subsidiary in Sweden, BBMSAB.

On March 20, 2018, BEMC issued 2,979,798 shares valued at \$1 to EMX with respect to the acquisition of the Guldgruvan project, which represented 5.9% interest in BEMC (Note 3).

On May 18, 2018, the Company transferred 2,020,202 shares of BEMC with a nominal value to EMX with respect to the acquisition of the Njuggträskliden and Mjövattnet projects, which represented 9.9% interest in BEMC in aggregate with shares previously issued (Note 3).

As at December 31, 2018, the non-controlling interest in the Company's subsidiary, BEMC, is 9.9%.

		BEMC
Balance, December 31, 2017 and 2016	\$	-
Share of net assets		780
Share of net loss		(894)
Balance, December 31, 2018	\$	(114)

8. **RELATED PARTY TRANSACTIONS**

Key management personnel include the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and Directors of the Company.

The Company entered into the following transactions with key management personnel during the year ended December 31, 2018:

	For the year ended December 31,	
	2018	2017
Short-term benefits paid or accrued:		
Accounting fees	\$ 93,609	\$ 55,339
Management fees	392,450	229,538
Legal fees / share issuance costs	219,699	275,675
Share-based payments	209,725	-
Rent	26,000	12,500
	\$ 941,483	\$ 573,052

BOREAL METALS CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018

(Expressed in Canadian Dollars)

RELATED PARTY TRANSACTIONS (Con't)

As of December 31, 2018, included in accounts payable and due to related parties is \$50,280 (2017 – \$132,934) due to directors and officers and \$Nil (2017 – \$2,125) prepaid to an officer of the Company. These amounts are non-interest bearing with no specific terms of repayment.

9. SEGMENT INFORMATION

The Company is engaged in one business activity, being the acquisition and exploration of base and precious metals. Geographic information is disclosed in Note 3. All equipment is held solely in the Scandinavia segment, except for computer equipment which is held in Canada.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**Financial instruments**

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of receivables, reclamation bond and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of the financial instruments. Cash is classified as financial assets measured at fair value through profit or loss and is measured at fair value using level 1 inputs of the fair value hierarchy. Reclamation bond and receivables are measured at amortized cost. Accounts payable and accrued liabilities are classified as liabilities measured at amortized cost.

Risk management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables are due from government agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company considers financing opportunities so that it has sufficient liquidity to meet liabilities when due.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Con't)**Risk management (Con't)**

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its project. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Market risk

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

Currency risk

The Company is exposed to financial risk related to fluctuations in foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian Dollar.

Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's policy is to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in interest rate.

Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

11. **SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2018	2017
Non-cash information:		
Fair value of brokers' shares	\$ -	\$ 188,800
Fair value of brokers' warrants	-	238,847
Shares issued on property acquisition	397,254	85,670
Shares of BEMC issued on property acquisition	1	-
Shares issued as anti-dilutive right	-	1,290,997
Reclassification of subscription received in advance	-	289,379
Exploration and evaluation assets included in accounts payable	199,996	355,950

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. **CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

13. **INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2018		2017	
Loss for the year	\$	(1,925,458)	\$	(1,403,621)
Expected income tax (recovery)	\$	(520,000)	\$	(365,000)
Change in statutory, foreign tax, foreign exchange rates		40,000		(5,000)
Impact of subsidiaries acquired		-		(78,000)
Share issue costs		-		(204,000)
Permanent differences		79,000		-
Change in unrecognized deductible temporary difference		401,000		652,000
Total income tax expense (recovery)	\$	-	\$	-
Current income tax	\$	-	\$	-
Deferred tax recovery	\$	-	\$	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2018		2017	
Deferred tax assets(liabilities):				
Exploration and evaluation assets	\$	48,000	\$	12,000
Share issue costs		127,000		169,000
Non-capital losses available for future period		995,000		591,000
Equipment		3,000		-
Total deferred tax assets		1,173,000		772,000
Unrecognized deferred tax assets		(1,173,000)		(772,000)
	\$	-	\$	-

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INCOME TAXES (Con't)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2018	Expiry Date Range	2017	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	\$ 180,000	No expiry date	\$ 52,000	No expiry date
Equipment	13,000	No expiry date	-	-
Share issue costs	470,000	-	626,000	2038 to 2041
Non-capital losses available for future periods	3,819,000		2,270,000	
<hr/>				
Canada	3,186,000	2034-2038	1,845,000	2034-2037
Sweden	633,000	Indefinitely	425,000	Indefinitely

Tax attributes are subject to review, and potential adjustment, by tax authorities.

14. **CHANGE IN ACCOUNTING POLICY**

The Company has adopted a new accounting policy with respect to exploration and evaluation assets and expenditures to be consistent with current industry practices. In prior years the Company's policy was to charge to operations exploration and evaluation expenditures as incurred. The Company has elected to change this accounting policy to now capitalize by property all costs directly related to the exploration and evaluation of mineral properties classified as exploration and evaluation assets effective with the presentation of these financial statements, on a retrospective basis.

The accounting policies in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2018 and the comparative information for the year ended December 31, 2017. There was no effect on the year ended December 31, 2016, accordingly no opening balance sheet is presented.

An explanation of how the transition from the amounts previously reported has affected the Company's financial position, financial performance, and cash flows is set out below.

BOREAL METALS CORP.
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CHANGE IN ACCOUNTING POLICY (Con't)

Consolidated Statements of Financial Position – as at December 31, 2017

	Note	As previously reported December 31, 2017	Effect of policy change	Restated under new policy December 31, 2017
ASSETS				
Current Assets				
Cash		\$ 3,397,728	\$ -	\$ 3,397,728
Prepaid and deposits		332,935	-	332,935
Receivable		76,206	-	76,206
		3,806,869		3,806,869
Reclamation Bond		7,650	-	7,650
Exploration and evaluation assets	14a	1,506,230	798,944	2,305,174
TOTAL ASSETS		\$ 5,320,749	\$ 798,944	\$ 6,119,693
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities		\$ 686,862	\$ -	\$ 686,862
SHAREHOLDERS' EQUITY				
Share capital		7,053,617	-	7,053,617
Share subscription		-	-	-
Warrants		238,847	-	238,847
Deficit	14a	(2,658,577)	798,944	(1,859,633)
		4,633,887	798,944	5,432,831
TOTAL LIABILITIES AND				
SHAREHOLDERS' EQUITY		\$ 5,320,749	\$ 798,944	\$ 6,119,693

CHANGE IN ACCOUNTING POLICY (Con't)

Consolidated Statements of Loss and Comprehensive Loss - For the Year Ended December 31, 2017

	Note	As previously reported December 31, 2017	Effect of policy change	Restated under new policy December 31, 2017
OPERATING EXPENSES				
Administrative fees	\$	22,641	- \$	22,641
Audit and accounting fees		153,495	-	153,495
Consulting fees		48,066	-	48,066
Exploration expenses	14b	798,944	(798,944)	-
Foreign exchange		76,904	-	76,904
General and office costs		15,845	-	15,845
Management fees		174,250	-	174,250
Marketing fees		368,051	-	368,051
Legal fees		175,830	-	175,830
Regulatory, filing and transfer agent fees		102,165	-	102,165
Rent		10,000	-	10,000
Travel expenses		256,374	-	256,374
NET LOSS AND COMPREHENSIVE LOSS	\$	(2,202,565)	\$ 798,944	\$ (1,403,621)
Basic and diluted loss per common share	\$	(0.08)	\$	(0.05)
Weighted average number of common shares issued and outstanding		26,467,233		26,467,233

An explanation of how the transition from the amounts previously reported has affected the Company's financial position and financial performance is set out below.

- (a) Consolidated Statements of Financial Position – as at December 31, 2017
 - (i) Exploration and evaluation assets increased by \$798,944 representing exploration expenditures previously charged to deficit.
 - (ii) The new balance of \$2,305,174 represents the total costs of the exploration and evaluation asset.
- (b) Consolidated Statements of Loss and Comprehensive Loss – for the year ended December 31, 2017
 - (i) Exploration expenses decreased to \$Nil based on net exploration expense incurred in 2017, with an offsetting entry to exploration and evaluation assets.

The change in the accounting policy had no effect on the Company's statement of changes in shareholders' equity, other than the changes to deficit, as already shown and described above. Accordingly, no separate statement of changes in shareholders' equity is shown.

The changes to the statement of cash flow for year ended December 31, 2017 are summarized as follows:

- Net cash used in operating activities decreased to \$1,835,483 based on allocation of net exploration expenditures of \$442,994 to investing activities from the loss for the year.
- Net cash used in investing activities increased by a corresponding amount as described above.

BOREAL METALS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

15. **SUBSEQUENT EVENT**

The Company closed a non-brokered private placement of 17,060,934 units at \$0.095 for proceeds of approximately \$1,620,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of \$0.15 for a period of 24 months from the date of issue. The securities issued under the private placement will be subject to statutory holding periods expiring four months and one day from the issue date.

In connection with the private placement, the Company paid finders' fees of \$18,240 and issued 120,800 units to certain arm's length finders.

Of the 17,060,934 units issued in the private placement noted above, EMX acquired 1,995,672 units for proceeds of \$189,589. Immediately prior to the acquisition, EMX had ownership of 5,530,063 common shares (representing 9.4% of the Company's outstanding common shares). Immediately following the acquisition, EMX had ownership of 7,525,735 common shares (representing 9.9% of the Company's outstanding common shares) and warrants to purchase an additional 1,995,672 common shares.