



**COBALT 27 CAPITAL CORP.**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

**(EXPRESSED IN UNITED STATES DOLLARS)**

**(UNAUDITED)**

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**Notice to Reader**

The accompanying unaudited condensed interim consolidated financial statements of Cobalt 27 Capital Corp. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

**COBALT 27 CAPITAL CORP.****Condensed Interim Consolidated Statements of Financial Position  
(Expressed in United States Dollars, unless otherwise indicated)  
(Unaudited)**

|  | As at<br>June 30,<br>2019 | As at<br>December 31,<br>2018 |
|--|---------------------------|-------------------------------|
| <b>Assets</b>                                      |                           |                               |
| <b>Current Assets</b>                              |                           |                               |
| Cash and cash equivalents                          | \$ 22,328,851             | \$ 45,628,277                 |
| Amounts receivable and other assets (Note 5)       | 5,210,082                 | 306,959                       |
|  | <b>27,538,933</b>         | 45,935,236                    |
| <b>Non-Current Assets</b>                          |                           |                               |
| Streaming interest (Note 12)                       | 235,000,000               | 303,892,638                   |
| Investment in Ramu Nickel Mine (Note 9)            | 185,172,287               | -                             |
| Investments in cobalt (Note 10)                    | 90,913,348                | 173,895,169                   |
| Royalty contracts (Note 11)                        | 26,066,974                | 23,151,703                    |
| Other investments (Note 6)                         | 699,733                   | 188,915                       |
| Property, plant and equipment                      | 78,102                    | -                             |
| Investment in Highlands Pacific Limited (Note 7)   | -                         | 7,343,646                     |
|  | <b>\$ 565,469,377</b>     | <b>\$ 554,407,307</b>         |
| <b>Liabilities and Shareholders' Equity</b>        |                           |                               |
| <b>Current Liabilities</b>                         |                           |                               |
| Accounts payable and accrued liabilities (Note 17) | \$ 2,252,712              | \$ 2,594,964                  |
| Non-recourse debt (Note 13)                        | 9,413,000                 | -                             |
| Restricted share unit liability (Note 15(e))       | 1,446,729                 | 691,728                       |
|  | <b>13,112,441</b>         | 3,286,692                     |
| <b>Non-Current Liabilities</b>                     |                           |                               |
| Credit facility (Note 14)                          | 45,819,736                | -                             |
| Non-recourse debt (Note 13)                        | 111,251,503               | -                             |
|  | <b>170,183,680</b>        | 3,286,692                     |
| <b>Shareholders' Equity</b>                        |                           |                               |
| Share capital (Note 15)                            | 594,765,417               | 592,792,983                   |
| Reserves   | 4,221,347                 | 3,438,673                     |
| Accumulated other comprehensive loss (Note 7)      | (203,422)                 | (3,892,311)                   |
| Deficit  | (203,497,645)             | (41,218,730)                  |
|  | <b>395,285,697</b>        | 551,120,615                   |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 565,469,377</b>     | <b>\$ 554,407,307</b>         |

Subsequent Event (Note 21)

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

**COBALT 27 CAPITAL CORP.****Condensed Interim Consolidated Statements of Net and Comprehensive Income (Loss)****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

|   | Three Months Ended<br>June 30, |                       | Six Months Ended<br>June 30, |                      |
|---|--------------------------------|-----------------------|------------------------------|----------------------|
|   | 2019                           | 2018                  | 2019                         | 2018                 |
| <b>(Decrease) Increase in Market Value of Investments</b>                             |                                |                       |                              |                      |
| Mark to market component of unrealized (loss) gain on investments in cobalt (Note 10) | \$ (554,733)                   | \$ (20,446,966)       | \$ (82,981,821)              | \$ 24,723,587        |
| Foreign exchange component of unrealized gain on investments in cobalt                | -                              | 5,006,574             | -                            | 11,206,006           |
|   | <b>(554,733)</b>               | <b>(15,440,392)</b>   | <b>(82,981,821)</b>          | <b>35,929,593</b>    |
| <b>Operating Expenses</b>   |                                |                       |                              |                      |
| Consulting fees and salaries (Note 17)  | 381,642                        | 104,697               | 818,128                      | 209,395              |
| Directors fees (Note 17)  | 102,489                        | 41,864                | 181,591                      | 88,185               |
| Exploration costs   | 82,222                         | -                     | 82,222                       | -                    |
| General and administrative  | 419,080                        | 138,703               | 534,474                      | 276,580              |
| Marketing and promotion   | 353,972                        | 150,994               | 653,665                      | 242,773              |
| Professional fees   | 352,667                        | 536,571               | 427,111                      | 821,443              |
| Project evaluation costs  | -                              | 601,799               | -                            | 601,799              |
| Regulatory fees   | 59,897                         | 43,727                | 100,960                      | 86,462               |
| Share based compensation (Notes 15(d)(e))   | 656,287                        | (1,449,784)           | 2,073,838                    | 2,906,956            |
| Transport and storage   | 114,832                        | 98,031                | 199,241                      | 344,019              |
|   | <b>2,523,088</b>               | <b>266,602</b>        | <b>5,071,230</b>             | <b>5,577,612</b>     |
| <b>Operating (Loss) Income</b>  | <b>(3,077,821)</b>             | <b>(15,706,994)</b>   | <b>(88,053,051)</b>          | <b>30,351,981</b>    |
| Impairment of streaming interest (Note 12)  | -                              | -                     | (68,892,638)                 | -                    |
| Equity loss from Highlands Pacific Limited (Note 7)                                   | (1,183,452)                    | -                     | (1,451,629)                  | -                    |
| Equity loss from Ramu Nickel Mine (Note 9)  | (336,530)                      | -                     | (336,530)                    | -                    |
| Financing costs   | (1,704,429)                    | (628,984)             | (2,108,193)                  | (628,984)            |
| Foreign exchange gain (loss)  | (195,220)                      | 3,021,541             | (74,750)                     | 2,855,915            |
| <b>(Loss) Income before taxes</b>   | <b>(6,497,452)</b>             | <b>(13,314,437)</b>   | <b>(160,916,791)</b>         | <b>32,578,912</b>    |
| Deferred tax recovery (expense)   | (31,748)                       | 4,195,374             | 314,113                      | (9,608,105)          |
| <b>Net (Loss) Income for the period</b>   | <b>(6,529,200)</b>             | <b>(9,119,063)</b>    | <b>(160,602,678)</b>         | <b>22,970,807</b>    |
| <b>Other Comprehensive (Loss) Income</b>  |                                |                       |                              |                      |
| <b>Items that will not be reclassified subsequently:</b>                              |                                |                       |                              |                      |
| Unrealized (loss) gain on equity investment, net of tax                               | (203,422)                      | 2,496,028             | 2,012,652                    | 2,496,028            |
| <b>Comprehensive (Loss) Income for the period</b>                                     | <b>\$ (6,732,622)</b>          | <b>\$ (6,623,035)</b> | <b>\$ (158,590,026)</b>      | <b>\$ 25,466,835</b> |
| <b>Basic (Loss) Income Per Share (Note 16)</b>  | <b>\$ (0.08)</b>               | <b>\$ (0.17)</b>      | <b>\$ (1.88)</b>             | <b>\$ 0.50</b>       |
| <b>Diluted (Loss) Income Per Share (Note 16)</b>                                      | <b>\$ (0.08)</b>               | <b>\$ (0.17)</b>      | <b>\$ (1.88)</b>             | <b>\$ 0.50</b>       |
| <b>Weighted Average Number of Common Shares</b>                                       |                                |                       |                              |                      |
| Outstanding - Basic (Note 16)   | 85,392,811                     | 53,434,564            | 85,332,957                   | 46,126,611           |
| <b>Weighted Average Number of Common Shares</b>                                       |                                |                       |                              |                      |
| Outstanding - Diluted (Note 16)   | 85,392,811                     | 53,434,564            | 85,332,957                   | 46,362,295           |

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

**COBALT 27 CAPITAL CORP.****Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in United States Dollars, unless otherwise indicated)  
(Unaudited)**

|   | Six Months Ended<br>June 30, |                      |
|---|------------------------------|----------------------|
|   | 2019                         | 2018                 |
| <b>Operating Activities</b>   |                              |                      |
| Net (loss) income for the period  | \$(160,602,678)              | \$ 22,970,807        |
| Adjustments for:  |                              |                      |
| Mark to market component of unrealized loss (gain) on investments in cobalt | 82,981,821                   | (24,723,587)         |
| Foreign exchange component of unrealized (gain) on investments in cobalt    | -                            | (11,206,006)         |
| Equity loss from Highlands Pacific Limited                                  | 1,451,629                    | -                    |
| Equity loss from Ramu Nickel Mine   | 336,530                      | -                    |
| Foreign exchange (gain)   | (483,939)                    | (2,855,915)          |
| Share based compensation  | 1,920,499                    | 2,906,956            |
| Impairment of streaming interest  | 68,892,638                   | -                    |
| Deferred tax (recovery) expense   | (314,113)                    | 9,608,105            |
| Accrued interest expense  | 759,210                      | -                    |
| Other   | 3,669                        | -                    |
| Non-cash working capital items:   |                              |                      |
| Amounts receivable and other assets   | (509,820)                    | (861,228)            |
| Accounts payable and accrued liabilities                                    | (678,122)                    | (1,191,869)          |
| <b>Net cash used in Operating Activities</b>                                | <b>(6,242,676)</b>           | <b>(5,352,737)</b>   |
| <b>Investing Activities</b>   |                              |                      |
| Purchase of investments in cobalt   | -                            | (23,085,663)         |
| Purchase of royalty contracts   | (1,500,000)                  | (9,844,671)          |
| Purchase of investment in Highlands Pacific Limited (Note 7)                | (5,615,827)                  | (11,235,957)         |
| Purchase of shares of Highlands Pacific Limited                             | (65,778,654)                 | -                    |
| Cash acquired from Highlands Pacific Limited                                | 10,524,382                   | -                    |
| Purchase of streaming interest (Note 12)                                    | -                            | (300,096,961)        |
| Purchase of investments   | (745,988)                    | -                    |
| <b>Net cash used in Investing Activities</b>                                | <b>(63,116,087)</b>          | <b>(344,263,252)</b> |
| <b>Financing Activities</b>   |                              |                      |
| Common shares issued for cash (Note 15(b))                                  | -                            | 377,230,518          |
| Share issuance costs  | -                            | (18,582,855)         |
| Net proceeds from credit facility (Note 13)                                 | 45,819,736                   | -                    |
| <b>Net cash provided by Financing Activities</b>                            | <b>45,819,736</b>            | <b>358,647,663</b>   |
| <b>Net (decrease) increase in Cash and Cash Equivalents</b>                 | <b>(23,539,027)</b>          | <b>9,031,674</b>     |
| <b>Impact of foreign exchange on Cash and Cash Equivalents</b>              | <b>239,601</b>               | <b>3,213,282</b>     |
| <b>Cash and Cash Equivalents, Beginning of period</b>                       | <b>45,628,277</b>            | <b>40,742,214</b>    |
| <b>Cash and Cash Equivalents, End of period</b>                             | <b>\$ 22,328,851</b>         | <b>\$ 52,987,170</b> |
| <b>Supplemental Information</b>   |                              |                      |
| Common shares issued for Royalty Contracts                                  | \$ 1,415,271                 | \$ 5,418,415         |

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

**COBALT 27 CAPITAL CORP.****Condensed Interim Consolidated Statements of Changes in Shareholders' Equity****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

|   | Share Capital     |                       | Reserves            | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings<br>(Deficit) | Total                 |
|---|-------------------|-----------------------|---------------------|--|-----------------------------------|-----------------------|
|   | Number            | Amount                |                     |  |                                   |                       |
| <b>Balance, December 31, 2017</b>   | <b>34,314,017</b> | <b>\$ 223,549,467</b> | <b>\$ 4,906,108</b> | <b>\$ -</b>  | <b>\$ 10,315,480</b>              | <b>\$ 238,771,055</b> |
| Issuance of common shares for cash (Notes 15(b)(i)(ii))                   | 48,356,828        | 377,230,518           | -                   | -  | -                                 | 377,230,518           |
| Share issue costs   | -                 | (21,806,486)          | -                   | -  | -                                 | (21,806,486)          |
| Issuance of common shares for Royalty Contracts (Notes 11 and 15(b)(iii)) | 537,057           | 5,418,415             | -                   | -  | -                                 | 5,418,415             |
| Share-based payments (Notes 15(d)(i) and 15(e))                           | -                 | -                     | 2,906,956           | -  | -                                 | 2,906,956             |
| Unrealized gain on equity investments                                     | -                 | -                     | -                   | 2,496,028  | -                                 | 2,496,028             |
| Net income for the period   | -                 | -                     | -                   | -  | 22,970,807                        | 22,970,807            |
| <b>Balance, June 30, 2018</b>   | <b>83,207,902</b> | <b>\$ 584,391,914</b> | <b>\$ 7,813,064</b> | <b>\$ 2,496,028</b>                                    | <b>\$ 33,286,287</b>              | <b>\$ 627,987,293</b> |
| <b>Balance, December 31, 2018</b>   | <b>84,825,971</b> | <b>\$ 592,792,983</b> | <b>\$ 3,438,673</b> | <b>\$ (3,892,311)</b>                                  | <b>\$ (41,218,730)</b>            | <b>\$ 551,120,615</b> |
| Issuance of common shares for Royalty Contracts (Notes 11 and 15(b)(iv))  | 422,856           | 1,415,271             | -                   | -  | -                                 | 1,415,271             |
| Restricted Share Units converted to common shares (Note 15(b)(v))         | 178,680           | 557,163               | -                   | -  | -                                 | 557,163               |
| Share-based payments (Note 15(d)(ii))                                     | -                 | -                     | 782,674             | -  | -                                 | 782,674               |
| Unrealized gain on equity investments, net of tax                         | -                 | -                     | -                   | 2,012,652  | -                                 | 2,012,652             |
| Transfer of accumulated other income (Note 7)                             | -                 | -                     | -                   | 1,676,237  | (1,676,237)                       | -                     |
| Net loss for the period   | -                 | -                     | -                   | -  | (160,602,678)                     | (160,602,678)         |
| <b>Balance, June 30, 2019</b>   | <b>85,427,507</b> | <b>\$ 594,765,417</b> | <b>\$ 4,221,347</b> | <b>\$ (203,422)</b>                                    | <b>\$ (203,497,645)</b>           | <b>\$ 395,285,697</b> |

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

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## **COBALT 27 CAPITAL CORP.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2019 and 2018**

**(Expressed in United States Dollars, unless otherwise indicated)**

**(Unaudited)**

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#### **1. Nature of Operations**

Cobalt 27 Capital Corp. (the “Company” or “Cobalt 27”) was incorporated in British Columbia on May 9, 2006. Its shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “KBLT”. In March 2017, the Company redirected its efforts from a mineral exploration company to become a company focused on the acquisition of cobalt by physical possession, entering into streaming contracts and cobalt net smelter return royalty (“Co NSR”) agreements and/or participation in producing cobalt mines or early stage exploration and development of mineral properties containing cobalt.

On May 17, 2019, the Company acquired all the issued ordinary shares of Highlands Pacific Limited (“Highlands”). As such these unaudited condensed interim consolidated financial statements include the accounts of Highlands and all its beneficially owned subsidiaries (see note 8). The operating results of Highlands for the period from May 17, 2019 to June 30, 2019 have been incorporated by consolidation. Highlands' primary asset is an 8.56% interest in the producing Ramu Nickel Mine (see note 9).

The head office is located at Suite 401, 4 King Street West, Toronto, Ontario, Canada. The registered office is located at Suite 1700 – 666 Burrard Street, Vancouver, British Columbia, Canada.

These unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2019 were approved and authorized for issue by the Board of Directors on August 29, 2019.

#### **2. Proposed Transaction**

On June 18, 2019, the Company announced that it has entered into an agreement (the “Arrangement Agreement”) with Pala Investments Limited (“Pala”) pursuant to which Pala will acquire 100% of Cobalt 27’s issued and outstanding common shares, other than the approximately 19% that Pala already owns. Under the terms of the transaction Cobalt 27 shareholders will receive for each common share held, CAD\$3.57 in cash plus one common share of a newly listed company to be named Nickel 28 Capital Corp. (“Nickel 28”) (collectively, the “Consideration”).

##### **Terms of the Transaction**

The transaction will be carried out pursuant to the Arrangement Agreement under a court-approved statutory plan of arrangement (the “Arrangement”) governed by the Business Corporations Act (British Columbia). Under the Arrangement Agreement, Pala will acquire all of the issued and outstanding common shares of Cobalt 27, other than the approximately 19% that Pala already owns. Each common share of Cobalt 27 acquired will be exchanged for:

- CAD\$3.57 in cash; and
- One new common share of Nickel 28

Pursuant to the Arrangement, certain assets of Cobalt 27 will be transferred to Nickel 28, the shares of which will be distributed to Cobalt 27 shareholders as part of the Consideration. Effective on closing of the Arrangement, the following key assets and liabilities will be transferred to and held by Nickel 28:

- the 8.56% joint venture interest in Ramu Nickel Mine and related debt;
- portfolio of royalties;
- equity stakes in Giga Metals Corporation and Minerva Intelligence Inc.; and
- \$5 million of cash to provide for initial working capital.

Following the completion of the Arrangement, Pala will retain a 4.9% interest in Nickel 28.

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## **COBALT 27 CAPITAL CORP.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2019 and 2018**

**(Expressed in United States Dollars, unless otherwise indicated)**

**(Unaudited)**

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### **3. Significant Accounting Policies**

#### Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements and should be read in conjunction with the Company's most recent annual consolidated financial statements as at and for the year ended December 31, 2018.

The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2018 except as noted below.

#### New accounting policies

##### *(i) Interest in associates*

Associates are entities, including unincorporated entities such as partnerships, over which the Company has significant influence and that are neither subsidiaries nor interests in joint arrangements. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates are equity accounted for from the effective date of commencement of significant influence to the date that the Company ceases to have significant influence.

Results of associates are equity accounted for using the results of their most recent annual financial statements or interim financial statements, as applicable. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, a share of the post-acquisition retained earnings and losses and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

##### *(ii) Leases ("IFRS 16")*

The Company adopted IFRS 16, which replaced IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach without restatement of comparative amounts, electing to measure the right-of-use asset at an amount equal to the lease liability. The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

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## COBALT 27 CAPITAL CORP.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2019 and 2018

(Expressed in United States Dollars, unless otherwise indicated)

(Unaudited)

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### 3. Significant Accounting Policies (Continued)

#### New accounting policies (continued)

##### *(ii) Leases ("IFRS 16") (continued)*

An assessment was made and there was no impact to the Company's consolidated financial statements as at January 1, 2019. Certain contracts qualified as short-term or low value leases and met the scope exemption for disclosure. As a result of applying this scope exemption, the Company recognizes the lease payments associated with these short-term or low value leases as an expense on a straight-line basis over the lease term. No other significant differences have been identified in relation to the adoption of IFRS 16.

#### Accounting policy

As a result of adopting this standard, the Company's accounting policy for leases is stated below. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease liability. The cost of the right of use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs; and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these leases are instead recognized as an expense over the lease term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.



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**COBALT 27 CAPITAL CORP.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended June 30, 2019 and 2018**  
**(Expressed in United States Dollars, unless otherwise indicated)**  
**(Unaudited)**

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**3. Significant Accounting Policies (Continued)**

*New accounting policies (continued)*

*(ii) Leases (“IFRS 16”) (continued)*

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

*(iii) Uncertainty over Income Tax Treatments (“IFRIC 23”)*

The Company adopted IFRIC 23 on January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation has been applied on a modified retrospective basis without restatement of comparative information. The adoption of IFRIC 23 had no material impact on the Company's consolidated financial statements.

*(iv) Business Combinations (“IFRS 3”)*

In October 2018, the IASB issued an amendment to IFRS 3, effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The amendment clarifies that a business must include, at minimum, an input and a substantive process that together contribute to the ability to create outputs, and assists companies in determining whether an acquisition is a business combination or an acquisition of a group of assets by providing supplemental guidance for assessing whether an acquired process is substantive. The Company has decided to early adopt the amendments to IFRS 3 effective January 1, 2019 and shall apply the amended standard in assessing business combinations on a prospective basis. For acquisitions that are determined to be acquisitions of assets as opposed to business combinations, the Company allocates the transaction price to the individual identifiable assets acquired and liabilities assumed based on their relative fair values, and no goodwill is recognized. Acquisitions that continue to meet the definition of a business combination are accounted for under the acquisition method, without any changes to the Company's accounting policy. There was no material impact on the Company's interim consolidated financial statements during the period ended June 30, 2019.

*(v) Debt*

Debt is initially recognised at fair value, net of transaction cost incurred. Debt is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**4. Key Sources of Estimation Uncertainty and Critical Accounting Judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, the areas which require management to make significant judgments, estimates and assumptions in determining carrying values are:

**Impairment of streaming interest**

When assessing whether there are any indicators that could give rise to the requirement to conduct an impairment test on the Company's streaming interest, the Company is required to use some degree of judgment, assumptions and estimates. The assessment of fair values requires the use of estimates and assumptions for long-term commodity prices, mine production and discount rates. In addition, the Company may use other approaches in determining fair value which may include judgment and estimates related to (i) dollar value per pound of reserve/resource and (ii) cash-flow multiples. Changes in any of the assumptions and estimates used in determining the fair value of the streaming interest could impact the impairment analysis.

**Business combinations**

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or an asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Highlands on May 17, 2019 did not meet the definition of a business and the transaction has been accounted for as an asset acquisition (note 8).

**5. Amounts receivable and other assets**

|  | <b>As at<br/>June 30,<br/>2019</b> | <b>As at<br/>December 31,<br/>2018</b> |
|--|------------------------------------|--|
| Amount receivable from MCC Ramu NiCo Limited | <b>\$ 4,273,719</b>                | \$ -                                   |
| Harmonized sales tax receivable              | <b>398,748</b>                     | 53,779                                 |
| Prepaid expenses                             | <b>103,570</b>                     | 54,040                                 |
| Deferred expenses                            | <b>231,748</b>                     | -                                      |
| Other receivables                            | <b>202,297</b>                     | 199,140                                |
|  | <b>\$ 5,210,082</b>                | \$ 306,959                             |

**6. Other Investments**

The Company holds 1,000,000 common shares of Minerva Intelligence Inc. ("Minerva"), which were acquired at a cost of \$188,915. As at June 30, 2019, the investment Minerva was valued at \$137,457 based on the applicable closing share price (December 31, 2018 - \$188,915).

In April 2019, Cobalt 27 acquired 3,980,000 common shares of Giga Metals Corp. ("Giga") for \$745,988. As at June 30, 2019, the investment Giga was valued at \$562,276 based on the applicable closing share price.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**7. Investment in Highlands Pacific Limited**

In June 2018, the Company purchased 142,530,500 ordinary shares representing an approximate 13% interest of Highlands Pacific Limited ("Highlands") for AUD\$0.105 per ordinary share for a total cost of \$11,235,957 (AUD\$14,965,703). In addition, Cobalt 27 earned the right to appoint a member to Highlands' board of directors, and accordingly, concurrent with the close of the investment in Highlands, Anthony Milewski, Chairman and CEO of Cobalt 27, was appointed to the board of directors of Highlands.

Between January 2, 2019 and January 11, 2019, the Company acquired an additional 75,969,500 ordinary shares of Highlands for a cost of \$5,615,827. As a result, the Company's ownership increased to 19.9%.

On January 2, 2019, the Company recorded a mark to market gain on the equity investment in Highlands of \$2,216,075 (net of tax) which was recorded in other comprehensive income. As at January 2, 2019, the date Cobalt 27 gained significant influence, the original 142,530,500 ordinary shares were valued at \$9,905,582 based on the share price on that date. The accumulated other comprehensive income balance of \$1,676,237 was transferred to deficit on January 2, 2019.

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|   |               |
|---|---------------|
| Acquisition of 142,530,500 Highlands ordinary shares            | \$ 11,235,957 |
| Fair value adjustment   | (3,892,311)   |
| <hr/>   |               |
| Balance, December 31, 2018                                      | 7,343,646     |
| January 2, 2019 gain through other comprehensive income         | 2,561,936     |
| <hr/>   |               |
| Balance, January 2, 2019  | 9,905,582     |
| Acquisition of 75,969,500 Highlands ordinary shares             | 5,615,827     |
| Equity loss for the period from January 2, 2019 to May 17, 2019 | (1,451,629)   |
| Carrying value of 19.9% accounted for in acquisition (note 8)   | (14,069,780)  |
| <hr/>   |               |
| Balance, June 30, 2019  | \$ -          |

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**8. Acquisition of Highlands Pacific Limited**

On May 17, 2019, the Company acquired all the issued ordinary shares of Highlands, that it did not already own by means of a scheme of arrangement (the "Scheme"), entered into on January 1, 2019, under Part XVI of the Papua New Guinea Companies Act.

Cobalt 27 acquired all of the issued ordinary shares of Highlands that it did not already own (the "Scheme Shares") for an all-cash offer price of AUD\$0.105 per share. In addition, if before December 31, 2019 the LME official closing cash settlement price for nickel is US\$13,220 per tonne or higher for a period of 5 consecutive trading days, Highlands' Scheme shareholders received contingent consideration of AUD\$0.010 per Scheme Share payable in cash (note 21(i)).

On May 17, 2019, in connection with the completion of the Scheme, Cobalt 27 and PanAust also completed the PanAust Buy-Back Agreement. PanAust transferred to the Company legal and beneficial ownership of 128,865,980 Highlands ordinary shares held by PanAust and cancelled approximately \$6.8 million owed by Highlands to PanAust, in return for the Company transferring to PanAust all of the shares in Highlands Freida Limited and \$130,000 in cash.

Based on management's judgment, the acquisition did not meet the IFRS definition of a business combination as the primary asset acquired, which is the investment in Ramu Nickel Mines is an investment in associate of which Highlands is not the mine operator. Consequently, the transaction was recorded as an asset acquisition.

A purchase price allocation of the assets acquired and the liabilities assumed based on the total consideration transferred at the closing date of the acquisition is as follows:

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**Assets acquired and liabilities assumed**

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|                                   |               |
|-----------------------------------|---------------|
| Cash and cash equivalents         | \$ 10,524,382 |
| Amounts receivable                | 4,577,262     |
| Property, plant and equipment     | 81,771        |
| Freida River asset <sup>(1)</sup> | 16,335,208    |
| Investment in Ramu Nickel Mine    | 185,251,128   |
| Trade and other payables          | (680,816)     |
| Debt - Ramu Nickel Mine           | (119,905,293) |
| Debt - PanAust <sup>(1)</sup>     | (6,887,532)   |
|                                   | <hr/>         |
|                                   | \$ 89,296,110 |

---

**Consideration transferred**

---

|   |               |
|---|---------------|
| Carrying value of 19.9% interest in Highlands (note 7)      | \$ 14,069,780 |
| Cash consideration 68.1% interest in Highlands              | 55,105,776    |
| Consideration for PanAust Buy-Back Agreement <sup>(1)</sup> | 9,447,676     |
| Contingent consideration (note 21(i))                       | 6,147,948     |
| Transaction costs   | 4,524,930     |
|   | <hr/>         |
|   | \$ 89,296,110 |

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<sup>(1)</sup> The Company's share of the Freida River asset as well as the PanAust Debt and any outstanding contingencies were transferred to PanAust as consideration for the PanAust's shares in Highlands in accordance with the PanAust BuyBack Agreement.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**9. Investment in Ramu Nickel Mine**

The investment in the Ramu Nickel Mine ("Ramu") consists of a 8.56% joint venture interest in the producing Ramu mine located near Madang on the north coast of Papua New Guinea. Ramu was financed, constructed and commissioned in 2012, by majority-owner and operator Metallurgical Corporation of China Limited ("MCC").

|   |                         |
|---|-------------------------|
| (i) Summarized financial information for Ramu Nickel Mine as at                     | <b>June 30, 2019</b>    |
| Current assets  | \$ 208,744,550          |
| Non-current assets  | 1,533,022,041           |
| Current liabilities   | (68,764,674)            |
| Non-current liabilities   | (30,458,566)            |
| <b>Net assets</b>   | <b>\$ 1,642,543,351</b> |
| <br>  |                         |
| Company's share of net assets   | \$ 140,601,711          |
| Fair value adjustment on acquisition  | 44,570,576              |
| <b>Investment at recoverable amount</b>   | <b>\$ 185,172,287</b>   |
| <br>  |                         |
| (ii) Interest in Ramu Nickel Mine for the period from May 17, 2019 to June 30, 2019 |                         |
| Revenue   | \$ 7,239,786            |
| Share of production costs and depreciation  | (6,950,671)             |
| Other costs   | (625,645)               |
| <b>Equity loss from Ramu Nickel Mine</b>  | <b>\$ (336,530)</b>     |
| <br>  |                         |
| (iii) Non-recourse debt (see note 13)   |                         |
| Opening balance   | \$ 119,905,293          |
| Interest accrued  | 759,210                 |
|   | <b>\$ 120,664,503</b>   |

On initial acquisition, Highlands recognized a loan balance owing to MCC Ramu NiCo Limited for its 8.56% share of capped development costs plus accumulated interest for monies paid by MCC Ramu NiCo Limited to lenders on behalf of the Highlands Group up to January 1, 2015. This debt is non-recourse to Highlands (excluding Ramu Nickel Limited) and are to be repaid by Ramu Nickel Limited out of its share of operating surpluses less ongoing capital expenditure requirements.

## COBALT 27 CAPITAL CORP.

### Notes to Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2019 and 2018

(Expressed in United States Dollars, unless otherwise indicated)

(Unaudited)

#### 10. Investments in cobalt

Details of cobalt holdings are as follows:

| Category of cobalt | June 30, 2019                        |                       |                           | December 31, 2018                    |                      |                           |
|--------------------|--------------------------------------|-----------------------|---------------------------|--------------------------------------|----------------------|---------------------------|
|                    | Quantity of cobalt metric tonne (mt) | Cost                  | Fair value <sup>(1)</sup> | Quantity of cobalt metric tonne (mt) | Cost                 | Fair value <sup>(1)</sup> |
| Alloy grade        | 2,192.1                              | \$ 152,404,154        | \$ 69,468,626             | 2,192.1                              | \$152,404,154        | \$131,084,276             |
| Standard grade     | 712.6                                | 43,723,739            | 21,444,722                | 712.6                                | 43,723,739           | 42,810,893                |
|                    | <b>2,904.7</b>                       | <b>\$ 196,127,893</b> | <b>\$ 90,913,348</b>      | <b>2,904.7</b>                       | <b>\$196,127,893</b> | <b>\$173,895,169</b>      |

| Location  | Facility | June 30, 2019                        |                      |                           | December 31, 2018                    |                      |                           |
|-----------|----------|--------------------------------------|----------------------|---------------------------|--------------------------------------|----------------------|---------------------------|
|           |          | Quantity of cobalt metric tonne (mt) | Cost                 | Fair value <sup>(1)</sup> | Quantity of cobalt metric tonne (mt) | Cost                 | Fair value <sup>(1)</sup> |
| Antwerp   | Steinweg | 142.0                                | \$ 8,574,719         | \$ 4,273,176              | 142.0                                | \$ 8,574,719         | \$ 8,530,700              |
| Baltimore | Steinweg | 180.0                                | 13,827,305           | 5,704,403                 | 180.0                                | 13,827,305           | 10,763,960                |
| Rotterdam | Steinweg | 2,582.7                              | 173,725,869          | 80,935,769                | 2,582.7                              | 173,725,869          | 154,600,509               |
|           |          | <b>2,904.7</b>                       | <b>\$196,127,893</b> | <b>\$ 90,913,348</b>      | <b>2,904.7</b>                       | <b>\$196,127,893</b> | <b>\$173,895,169</b>      |

<sup>(1)</sup> Based on the Metal Bulletin average alloy grade price of \$14.38 (December 31, 2018 - \$27.13) per pound and the Metal Bulletin average standard grade price of \$13.65 (December 31, 2018 - \$27.25) per pound as of June 30, 2019.

For three and six months ended June 30, 2019, the Company recorded unrealized loss on investments in cobalt of \$554,733 and \$82,981,821, respectively (three and six months ended June 30, 2018 - unrealized (loss) gain of \$(15,440,392) and \$35,929,593, respectively). The loss was attributable to the decrease in the price of cobalt.

#### 11. Royalty Contracts

On March 29, 2018, the Company completed the acquisition of a 1.75% Net Smelter Return ("NSR") royalty on all future production over all metals from the Dumont Nickel-Cobalt Project (the "Dumont Project"). The Company paid \$9,844,671 cash and issued 537,057 common shares as consideration for the 1.75% NSR. The 1.75% NSR royalty contains a \$15 million buyback right to the Dumont joint venture to repurchase 0.375% of the 1.75% NSR ("Repurchase Option"), which if exercised would result in a 1.375% remaining NSR. The one-time Repurchase Option is only exercisable to July 8, 2020.

On July 27, 2018, the Company completed the acquisition of a 2.0% NSR royalty over Giga Metals Corporation's Turnagain project for \$1 million in cash and 1,125,000 common shares. Under the terms of the royalty agreement, Giga Metals Corporation has a one-time repurchase option to repurchase 0.5% of the 2.0% royalty (resulting in a 1.5% remaining royalty) by paying the Company \$20 million in cash and by providing notice to the Company at least 30 days prior to the fifth (5<sup>th</sup>) anniversary.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**11. Royalty Contracts (Continued)**

On January 10, 2019, the Company acquired a 1.5% Gross Revenue Royalty ("GRR") on the Flemington Cobalt-Scandium-Nickel project ("Flemington Royalty") located west of Sydney, in New South Wales, Australia held under option by Australian Mines Ltd. and a 1.7% GRR on the Nyngan Scandium project ("Nyngan Royalty") located in Sydney and owned by Scandium International Mining Corp.

Cobalt 27 acquired the Flemington Royalty and Nyngan Royalty from Jervois Mining Limited for \$1.5 million in cash and 422,856 common shares of the Company.

As of June 30, 2019, the Company's Royalty Contracts consisted of the following:

| <b>Royalty Name</b>                           | <b>Owner</b>   | <b>Property Location</b> | <b>Stage</b> | <b>Primary Metal(s)</b> | <b>Royalty Type and %</b> | <b>Carrying value</b> |
|---|--|--------------------------|--------------|-------------------------|---------------------------|-----------------------|
| Dumont Project                                | 8248567 Canada Limited                                   | Québec                   | Development  | Ni-Co                   | 1.75% NSR                 | \$15,263,086          |
| Turnagain Project                             | Giga Metals Corporation                                  | British Columbia         | Exploration  | Ni-Co                   | 2% NSR                    | \$7,241,392           |
| Flemington Project                            | Australian Mines Ltd.                                    | Australia                | Exploration  | Ni-Co-Sc                | 1.5% GRR                  | \$1,943,514           |
| Nyngan Project                                | Scandium International Mining Corp.                      | Australia                | Development  | Sc- Ni-Co               | 1.7% GRR                  | \$971,757             |
| Triangle Property                             | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | \$190,362             |
| Rusty Lake Property                           | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | \$190,362             |
| Professor & Waldman Properties <sup>(1)</sup> | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | \$190,357             |
| North Canol Properties <sup>(1)</sup>         | Golden Ridge Resources Ltd.                              | Yukon                    | Exploration  | Ag-Pb-Zn-Co             | 2% Co NSR                 | \$38,072              |
| Sunset Mineral Corp.                          | Three Individuals  | British Columbia         | Exploration  | Cu-Zn-Co                | 2% Co NSR                 | \$38,072              |
| <b>Total Royalty Contracts</b>                |  |                          |              |                         |                           | <b>\$26,066,974</b>   |

<sup>(1)</sup> Two separate mineral properties to which a Co NSR applies.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**12. Streaming interest****Voisey's Bay Cobalt Stream**

On June 28, 2018, the Company closed the acquisition from a subsidiary of Vale S.A. ("Vale") of a cobalt stream, being an amount of finished cobalt equal to 32.6% of the cobalt production from Vale's Voisey's Bay Mine, including from the proposed Voisey's Bay Mine Expansion (the "VBME", and collectively, "Voisey's Bay"), commencing January 1, 2021, (the "Cobalt Stream"). Once the Company has purchased 23.8 million pounds of cobalt from Voisey's Bay, the Cobalt Stream will be reduced to 16.3% of the cobalt production from Voisey's Bay. The Company paid to Vale total upfront cash consideration of \$300 million, which represents a prepayment of a portion of the purchase price for the sale of cobalt to Cobalt 27 (the "Advance Amount"). Cobalt 27 will also make ongoing payments (the "Ongoing Payments") equal to 18% of the Cobalt Reference Price for each pound of cobalt delivered under the Cobalt Stream, until Cobalt 27 has recovered the full value of the Advance Amount through Vale's deliveries of finished cobalt under the Cobalt Stream. After this time, the Ongoing Payments will increase to 22% of the Cobalt Reference Price.

**Impairment**

Based on an updated outlook on long-term cobalt prices, the Company re-evaluated the carrying value of its stream investment. As a result of this review, the Company recorded, during the six months ended June 30, 2019, an impairment charge of \$68,892,638. The recoverable amount of \$235 million was determined using a discounted cash flow model in estimating the fair value.

**13. Non-recourse debt**

|   | <b>As at<br/>June 30,<br/>2019</b> | <b>As at<br/>December 31,<br/>2018</b> |
|---|------------------------------------|--|
| Loan from MCC Ramu NiCo Limited - current     | <b>\$ 9,413,000</b>                | \$ -                                   |
| Loan from MCC Ramu NiCo Limited - non-current | <b>111,251,503</b>                 | -                                      |
|   | <b>\$ 120,664,503</b>              | \$ -                                   |

These loans relate to the Company's interest (held in the wholly owned subsidiary Ramu Nickel Limited) in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. As part of the Joint Venture Agreement with MCC Ramu NiCo Limited, MCC Ramu NiCo Limited was responsible for development and financing of the mine. These loans represent the Company's 8.56% share of principal repayments (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third party lenders on behalf of the Company, plus any accumulated interest charged by MCC Ramu NiCo Limited. The loans are held in the Company's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the rest of the Company or its wholly owned subsidiaries. (See note 9(iv)).

The loans bear interest of 5.05% and are to be repaid out of Highlands' share of operating surpluses (sales revenue less operating costs and on-going capital expenditure).



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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**14. Credit Facility**

On May 6, 2019, Cobalt 27 entered into an amended and restated revolving term credit facility, (the "Amended Credit Facility"), whereby the Company will have access to a \$100 million credit facility and a \$50 million accordion facility. National Bank of Canada, Bank of Montreal and The Bank of Nova Scotia acted as Joint-Lead Arrangers with a syndicate of lenders which includes The Toronto Dominion Bank, Société Générale S.A., and Royal Bank of Canada (collectively the "Lenders"). National Bank of Canada is acting as Sole Bookrunner and Administrative Agent.

The Amended Credit Facility is secured by the Company's physical cobalt inventory as well as the Company's streaming and royalty investments. It has an initial term of three years maturing on May 6, 2022, which is extendable by mutual consent of the Lenders and Cobalt 27. The interest rate is based on the Company's adjusted leverage ratio and may range from Libor plus 275 basis points to 375 basis points. The standby fee is also based on the Company's adjusted leverage ratio and may range from 68.75 basis points to 93.75 basis points.

On May 13, 2019, and as part of the Company's closing procedures for the acquisition of Highlands Pacific, the Company drew \$55 million of the Amended Credit Facility.

|                             |               |
|-----------------------------|---------------|
| Initial drawdown            | \$ 55,000,000 |
| Repayment                   | (9,180,264)   |
| <hr/>                       |               |
| Balance as at June 30, 2019 | \$ 45,819,736 |

As at June 30, 2019, accrued interest and standby charges of \$511,502 were included in accounts payable and accrued liabilities.

**15. Share Capital**

a) Authorized: Unlimited number of common shares without par value.

b) Common shares issued:

(i) On March 9, 2018, the Company closed a private placement for 17,556,828 common shares at a price of CAD\$11.40 per common share for aggregate gross proceeds of \$152,400,700 (CAD\$200,147,839). Pursuant to the terms and conditions of an agency agreement, the Company paid a commission to the agents in an amount equal to 5.0% of the gross proceeds, being \$7,620,035. In addition, the Company paid \$1,522,881 for financial advisory fees and \$131,825 in legal and professional fees.

(ii) On June 27, 2018, the Company closed a bought deal offering for 30,800,000 common shares at a price of CAD\$9.75 per common share for aggregate gross proceeds of \$224,829,818 (CAD\$300,300,000).

Pursuant to the terms and conditions of an underwriting agreement, the Company paid a commission to the underwriters in an amount equal to 4.0% of the gross proceeds, being \$9,146,425. In addition, the Company paid \$3,000,000 for financial advisory fees and \$531,173 in legal and professional fees.

(iii) During the six months ended June 30, 2018, the Company issued 537,057 common shares in consideration for the Dumont Project royalty contract (see Note 11).

(iv) During the six months ended June 30, 2019, the Company issued 422,856 common shares in consideration for the Flemington and Nyngan Project royalty contracts (see Note 11).

(v) During the six months ended June 30, 2019, 178,680 RSUs with a fair value of \$557,163 were converted into common shares.

**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)****15. Share Capital (Continued)**

## c) Warrants

The following table reflects the continuity of warrants for the six-month periods ended June 30, 2018 and June 30, 2019:

|   | Number of<br>warrants | Weighted average<br>exercise price<br>(CAD\$) |
|---|-----------------------|---|
| <b>Balance, December 31, 2017 and June 30, 2018</b> | <b>3,750</b>          | <b>1.20</b>                                   |
| <b>Balance, December 31, 2018 and June 30, 2019</b> | <b>3,750</b>          | <b>1.20</b>                                   |

The following table reflects the warrants issued and outstanding as of June 30, 2019:

| Number of<br>warrants<br>outstanding | Exercise<br>price (CAD\$) | Expiry date    |
|--------------------------------------|---------------------------|----------------|
| 3,750                                | 1.20                      | March 21, 2022 |

## d) Stock options

The Company has a stock option plan in place under which it is authorized to grant options of up to 10% of its outstanding shares to officers, employees, directors, advisors and consultants. The exercise price is determined by the Board of Directors provided the minimum exercise price is set at the Company's closing share price on the day before the grant date. The options can be granted for a maximum term of ten years and vesting terms are determined by the Board of Directors at the date of grant.

The following table reflects the continuity of stock options for the six-month periods ended June 30, 2018 and June 30, 2019:

|                                   | Number of<br>stock options | Weighted average<br>exercise price<br>(CAD\$) |
|-----------------------------------|----------------------------|---|
| <b>Balance, December 31, 2017</b> | <b>663,750</b>             | <b>7.92</b>                                   |
| Granted (i)                       | 485,000                    | 11.80   |
| <b>Balance, June 30, 2018</b>     | <b>1,148,750</b>           | <b>9.56</b>                                   |
| <b>Balance, December 31, 2018</b> | <b>1,148,750</b>           | <b>9.56</b>                                   |
| Granted (ii)                      | 760,000                    | 4.44  |
| <b>Balance, June 30, 2019</b>     | <b>1,908,750</b>           | <b>7.52</b>                                   |

(i) On January 10, 2018, the Company granted a total of 485,000 stock options to certain directors, officers, advisors and consultants of the Company pursuant to the Company's stock option plan. The stock options are exercisable at a price of CAD\$11.80 per share, expire on January 10, 2023 and vested immediately. The fair value of the stock options was estimated to be \$1,413,306 using the Black-Scholes option pricing model on the following assumptions: exercise price of CAD\$11.80, risk free interest rate of 1.95%, an expected life of 2.5 years inclusive of an assumed forfeiture rate and an expected volatility of 50%. During the three and six months ended June 30, 2018, share based compensation of \$nil and \$1,413,306, respectively was recorded in the condensed interim consolidated statements of net and comprehensive income (loss).

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**15. Share Capital (Continued)**

## d) Stock options (continued)

(ii) On January 11, 2019, the Company granted a total of 760,000 stock options to certain directors, officers, advisors and consultants of the Company pursuant to the Company's stock option plan. The stock options are exercisable at a price of CAD\$4.44 per share and expire on January 11, 2024. These stock options vest as follows: 1/3 immediately and 1/3 annually over 2 years. The fair value of the stock options was estimated to be \$1,140,939 using the Black-Scholes option pricing model on the following assumptions: exercise price of CAD\$4.44, risk free interest rate of 1.89%, an expected life of 5 years inclusive of an assumed forfeiture rate and an expected volatility of 50%. During the three months ended June 30, 2019, share based compensation of \$174,620 and \$782,674, respectively was recorded in the condensed interim consolidated statements of net and comprehensive income (loss).

The following table reflects the Company's stock options outstanding and exercisable as at June 30, 2019:

| <b>Options outstanding</b> | <b>Options exercisable</b> | <b>Grant date fair value (\$)</b> | <b>Weighted average exercise price (CAD\$)</b> | <b>Weighted average remaining contractual life (years)</b> | <b>Expiry date</b> |
|----------------------------|----------------------------|-----------------------------------|--|--|--------------------|
| 153,750                    | 153,750                    | 388,818                           | 4.33   | 2.75   | March 31, 2022     |
| 510,000                    | 510,000                    | 1,086,949                         | 9.00   | 3.11   | August 7, 2022     |
| 485,000                    | 485,000                    | 1,413,306                         | 11.80  | 3.53   | January 10, 2023   |
| 760,000                    | 316,667                    | 1,140,939                         | 4.44   | 4.54   | January 11, 2024   |
| <b>1,908,750</b>           | <b>1,465,417</b>           | <b>4,030,012</b>                  | <b>7.52</b>                                    | <b>3.76</b>  |                    |

## (e) Restricted share units ("RSU")

On August 6, 2017, the Company adopted a Restricted Share Unit Plan (the "RSU Plan"). The maximum aggregate number of shares reserved for issuance under the RSU Plan, together with the Company's existing Stock Option Plan (as approved by its shareholders on May 18, 2017), shall not exceed a combined total of 10% of the Company's issued and outstanding shares. In addition, the RSU Plan sets out certain other restrictions in respect of grants to certain participants under the RSU Plan in accordance with the rules of the TSX-V. The Company granted RSU's before the Plan was approved by the shareholders and TSX-V and these RSUs were valued at the stock price at the end of each reporting period. When the Plan was approved in August 2018, the expense related to the RSU's then granted was adjusted to the fair value per share as of August 14, 2018. RSUs may be settled in cash or equity at the options of the holder.

The grant date fair value of the RSUs equals the fair market value of the corresponding shares at the grant date. The fair value of the cash-settled awards is recognized as compensation expense over the period that related services are rendered with a corresponding increase in liabilities. The total amount expensed is recognized over the vesting period, which is the period over which all the specified vesting conditions should be satisfied.

On January 11, 2019, the Company granted 913,000 RSUs to certain employees and officers, which vested as follows: 318,000 immediately, 120,000 monthly over 1 year and 475,000 1/3 annually over 3 years. On January 10, 2018, the Company granted 175,000 RSUs to certain officers and a director, which vested immediately. On August 7, 2017, the Company granted 700,000 RSUs to certain officers which vest over three years on a monthly basis from the date of issuance. For the three and six months ended June 30, 2019, the Company recorded compensation expense of \$481,667 and \$1,291,164, respectively (three and six months ended June 30, 2018 - \$(1,449,784) and \$1,493,650, respectively).

During the six months ended June 30, 2019, 178,680 RSUs were converted into common shares and 306,456 were settled for cash proceeds of \$1,001,719. As at June 30, 2019, there were 794,517 RSUs outstanding (December 31, 2018 - 366,653). The weighted average fair value of RSU's granted during the six months ended June 30, 2019 was CAD\$4.44 per share (December 31, 2018 - CAD\$3.30).

**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)****16. Net (Loss) Income per Common Share**

Basic and diluted (loss) income per share is as follows for the periods presented:

|  | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |               |
|--|--------------------------------|----------------|------------------------------|---------------|
|  | 2019                           | 2018           | 2019                         | 2018          |
| <b>Numerator:</b>                                  |                                |                |                              |               |
| Net (loss) income                                  | \$ (6,529,200)                 | \$ (9,119,063) | \$ (160,602,678)             | \$ 22,970,807 |
| <b>Denominator</b>                                 |                                |                |                              |               |
| Weighted average number of common shares - basic   | 85,392,811                     | 53,434,564     | 85,332,957                   | 46,126,611    |
| Effect of dilutive securities                      | -                              | -              | -                            | 235,684       |
| Weighted average number of common shares - diluted | 85,392,811                     | 53,434,564     | 85,332,957                   | 46,362,295    |
| Net (loss) income per share - basic                | \$ (0.08)                      | \$ (0.17)      | \$ (1.88)                    | \$ 0.50       |
| Net (loss) income per share - diluted              | \$ (0.08)                      | \$ (0.17)      | \$ (1.88)                    | \$ 0.50       |

The determination of the weighted average number of common shares outstanding for the calculation of diluted earnings per share for the three and six months ended June 30, 2019 does not include the following effect of warrants, stock options and RSUs.

|               | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                |
|---------------|--------------------------------|------------------|------------------------------|----------------|
|               | 2019                           | 2018             | 2019                         | 2018           |
| Warrants      | 3,750                          | 3,750            | 3,750                        | 3,374          |
| Stock options | 1,908,750                      | 1,148,750        | 1,908,750                    | 225,032        |
| RSUs          | 794,517                        | 875,000          | 794,517                      | 7,278          |
|               | <b>2,707,017</b>               | <b>2,027,500</b> | <b>2,707,017</b>             | <b>235,684</b> |

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**17. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are recorded at the exchange amount, being the amount agreed to between the related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and members of the Board of Directors.

Remuneration of key management personnel of the Company was as follows:

|  | Three Months Ended<br>June 30, |                       | Six Months Ended<br>June 30, |                     |
|--|--------------------------------|-----------------------|------------------------------|---------------------|
|  | 2019                           | 2018                  | 2019                         | 2018                |
| Consulting fees and salaries <sup>(1)(2)</sup> | \$ 217,894                     | \$ 104,697            | \$ 438,252                   | \$ 209,395          |
| Directors fees <sup>(2)</sup>                  | 102,489                        | 41,864                | 181,591                      | 88,185              |
| Share based compensation                       | 576,452                        | (1,449,784)           | 1,431,227                    | 2,528,132           |
|  | <b>\$ 896,835</b>              | <b>\$ (1,303,223)</b> | <b>\$ 2,051,070</b>          | <b>\$ 2,825,712</b> |

<sup>(1)</sup> Consulting fees and salaries paid to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer for their services.

<sup>(2)</sup> Included in accounts payable and accrued liabilities are fees owing to officers and directors of \$53,210 as at June 30, 2019 (December 31, 2018 - \$852,149).

<sup>(3)</sup> Included in amounts receivable and other assets is an amount of \$189,698 owed by an officer as at June 30, 2019 (December 31, 2018 - \$199,140).

**18. Financial Instruments and Cobalt Investments****Fair value of financial instruments and cobalt investments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;

Level 2: Valuations based on directly or indirectly observable inputs for the asset or liability, other than quoted Level 1 prices, such as quoted interest rates or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not observable, such as discounted cash flow methodologies based on internal cash flow forecasts.

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## **COBALT 27 CAPITAL CORP.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2019 and 2018**

**(Expressed in United States Dollars, unless otherwise indicated)**

**(Unaudited)**

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#### **18. Financial Instruments and Cobalt Investments (continued)**

As of June 30, 2019, the Company's financial instruments consist of cash and cash equivalents, amounts receivable, investments, accounts payable and accrued liabilities, credit facility and non-recourse debt. Cash and cash equivalents are stated at amortized cost. Investments are stated at fair value and classified within Level 1. The fair values of amounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these instruments. The non-recourse debt and credit facility are stated at amortized cost.

Investments in cobalt are categorized in Level 2. Investments in cobalt are measured at fair value at each reporting period based on the most recent month end spot prices for cobalt published by Metal Bulletin. The Company may also adjust the fair value of the investments in cobalt based on its assessment of the valuation impact of risks associated with the third-party storage facilities at which the Company's cobalt is held.

#### **19. Financial Risks**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### Credit Risk

Credit risk is the risk of loss due to a counter-party's inability to meet its obligations under a financial instrument or contractual agreement that will result in a financial loss to the Company. The Company's credit risk exposure includes the carrying amounts of cash and cash equivalents and amounts receivable. To limit the credit risk exposure on its cash and cash equivalents, the Company holds all its cash and cash equivalents in credit worthy financial institutions, while investments in cobalt are held with storage facilities owned by organizations that are credible and financially stable. The Company believes no impairment is necessary in respect of amounts receivable from MCC Ramu NiCo Limited and other receivables as balances are monitored on a regular basis with the result that exposure to bad debt is insignificant.

##### Liquidity risk

Financial liquidity represents the Company's ability to fund future operating activities. The Company may generate cash from the lending, relocation, or sale of cobalt, or the sale of additional equity securities, as well as through debt financing. The Company will fund its ongoing operations with its existing cash balance, drawdowns from the credit facility and has the ability to sell some of its inventory of cobalt to generate additional cash if required. Although the Company may enter into commitments to purchase additional cobalt or acquire cobalt streams, royalties, and direct interests in mineral properties containing cobalt, those commitments are normally funded by use of the Company's available cash or are contingent on its ability to raise funds through the sale of additional equity securities or debt financing. The Company's accounts payable and accrued liabilities are due within the next 12 months. The credit facility has a maturity date of May 6, 2022. The non-recourse debt is due as follows: \$9,413,000 within the next 12 months and \$111,251,503 after 12 months, however this loan is repayable from the Company's share of operating surplus.

##### Market risk

###### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations as a result of the credit facility and its borrowings. As at June 30, 2019, the Company has estimated that a 1% decrease or increase in the interest rate, all other variables remaining constant, the result would be a decrease or increase in net income before taxes of \$832,000.

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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**19. Financial Risks (continued)**

## (ii) Foreign currency risk

Foreign currency risk arises from transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's functional currency is United States dollars. The Company incurs expenses in Canadian dollars, Australian dollars and European Euro. As at June 30, 2019, the Company had approximately CAD\$589,000 and AUD\$8,997,000 of net assets. As at June 30, 2019, the Company has estimated that a 5% decrease or increase in the value of the Canadian and Australian dollars, all other variables remaining constant, the result would be a decrease or increase in net income before taxes of \$321,000.

## (iii) Price risk

The Company is exposed to price risk with respect to the share prices of its investments. The value of the Company's investment in Minerva and Giga may be adversely affected by a decline in share prices of Minerva and Giga.

As at June 30, 2019, the Company estimated that a 5% decrease or increase in the share prices of Minerva and Giga, all other variables remaining constant, would result in a corresponding decrease or increase in income before taxes of \$35,000.

The value of the Company's physical holdings of cobalt may be adversely affected by a decline in the price of cobalt. The price of cobalt fluctuates widely and is affected by numerous factors beyond the Company's control, including but not limited to global and regional supply and demand, and the political and economic conditions of major cobalt producing countries throughout the world.

As at June 30, 2019, the Company has estimated that a 5% decrease or increase in the price of cobalt, all other variables remaining constant, would result in a corresponding decrease or increase in income before taxes of \$4,545,667.

**20. Segmented Information**

The Company operates in three reportable operating segments, being the cobalt investments, streaming and royalty interests and corporate activities. Operating segment information is as follows:

| <b>Three Months Ended June 30, 2019</b>                              | <b>Cobalt Investments</b> | <b>Streaming and Royalties</b> | <b>Ramu Nickel Mine</b> | <b>Corporate</b>      | <b>Total</b>          |
|--|---------------------------|--------------------------------|-------------------------|-----------------------|-----------------------|
| Mark to market component of unrealized loss on investments in cobalt | \$ (554,733)              | \$ -                           | \$ -                    | \$ -                  | \$ (554,733)          |
| Equity loss from Highlands Pacific Limited                           | -                         | -                              | -                       | (1,183,452)           | (1,183,452)           |
| Equity loss from Ramu Nickel Mine                                    | -                         | -                              | (336,530)               | -                     | (336,530)             |
| Operating expenses   | (114,832)                 | -                              | -                       | (2,408,256)           | (2,523,088)           |
| Financing costs  | -                         | -                              | (759,210)               | (945,219)             | (1,704,429)           |
| Foreign exchange loss  | -                         | -                              | -                       | (195,220)             | (195,220)             |
| Deferred tax expense   | -                         | -                              | -                       | (31,748)              | (31,748)              |
| <b>Net loss</b>  | <b>\$ (669,565)</b>       | <b>\$ -</b>                    | <b>\$ (1,095,740)</b>   | <b>\$ (4,763,895)</b> | <b>\$ (6,529,200)</b> |

**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)****20. Segmented Information (Continued)**

| <b>Six Months Ended June 30, 2019</b>                                | <b>Cobalt Investments</b> | <b>Streaming and Royalties</b> | <b>Ramu Nickel Mine</b> | <b>Corporate</b>      | <b>Total</b>            |
|--|---------------------------|--------------------------------|-------------------------|-----------------------|-------------------------|
| Mark to market component of unrealized loss on investments in cobalt | \$ (82,981,821)           | \$ -                           | \$ -                    | \$ -                  | \$ (82,981,821)         |
| Impairment of streaming interest                                     | -                         | (68,892,638)                   | -                       | -                     | (68,892,638)            |
| Equity loss from Highlands Pacific Limited                           | -                         | -                              | -                       | (1,451,629)           | (1,451,629)             |
| Equity loss from Ramu Nickel Mine                                    | -                         | -                              | (336,530)               | -                     | (336,530)               |
| Operating expenses   | (199,241)                 | -                              | -                       | (4,871,989)           | (5,071,230)             |
| Financing costs  | -                         | -                              | (759,210)               | (1,348,983)           | (2,108,193)             |
| Foreign exchange loss  | -                         | -                              | -                       | (74,750)              | (74,750)                |
| Deferred tax recovery  | -                         | -                              | -                       | 314,113               | 314,113                 |
| <b>Net loss</b>  | <b>\$ (83,181,062)</b>    | <b>\$ (68,892,638)</b>         | <b>\$ (1,095,740)</b>   | <b>\$ (7,433,238)</b> | <b>\$ (160,602,678)</b> |
| <b>Assets</b>  | <b>\$ 90,913,348</b>      | <b>\$ 261,066,974</b>          | <b>\$ 185,172,287</b>   | <b>\$ 28,316,768</b>  | <b>\$ 565,469,377</b>   |

| <b>Three Months Ended June 30, 2018</b>                                | <b>Cobalt Investments</b> | <b>Streaming and Royalties</b> | <b>Corporate</b>    | <b>Total</b>          |
|--|---------------------------|--------------------------------|---------------------|-----------------------|
| Mark to market component of unrealized loss on investments in cobalt   | \$ (20,446,966)           | \$ -                           | \$ -                | \$ (20,446,966)       |
| Foreign exchange component of unrealized gain on investments in cobalt | 5,006,574                 | -                              | -                   | 5,006,574             |
| Operating expenses   | (98,031)                  | -                              | (168,571)           | (266,602)             |
| Financing costs  | -                         | -                              | (628,984)           | (628,984)             |
| Foreign exchange gain  | -                         | -                              | 3,021,541           | 3,021,541             |
| Deferred tax recovery  | -                         | -                              | 4,195,374           | 4,195,374             |
| <b>Net income (loss)</b>   | <b>\$ (15,538,423)</b>    | <b>\$ -</b>                    | <b>\$ 6,419,360</b> | <b>\$ (9,119,063)</b> |

| <b>Six Months Ended June 30, 2018</b>                                  | <b>Cobalt Investments</b> | <b>Streaming and Royalties</b> | <b>Corporate</b>       | <b>Total</b>          |
|--|---------------------------|--------------------------------|------------------------|-----------------------|
| Mark to market component of unrealized gain on investments in cobalt   | \$ 24,723,587             | \$ -                           | \$ -                   | \$ 24,723,587         |
| Foreign exchange component of unrealized gain on investments in cobalt | 11,206,006                | -                              | -                      | 11,206,006            |
| Operating expenses   | (344,019)                 | -                              | (5,233,593)            | (5,577,612)           |
| Financing costs  | -                         | -                              | (628,984)              | (628,984)             |
| Foreign exchange gain  | -                         | -                              | 2,855,915              | 2,855,915             |
| Deferred tax expense   | -                         | -                              | (9,608,105)            | (9,608,105)           |
| <b>Net income (loss)</b>   | <b>\$ 35,585,574</b>      | <b>\$ -</b>                    | <b>\$ (12,614,767)</b> | <b>\$ 22,970,807</b>  |
| <b>Assets</b>  | <b>\$ 265,239,293</b>     | <b>\$ 319,802,949</b>          | <b>\$ 68,155,028</b>   | <b>\$ 653,197,270</b> |

The Company has an administrative office in Canada and stores its cobalt inventories in two geographical locations, the United States and Europe. Geographical information is as follows:

| <b>As at June 30, 2019</b> | <b>Canada</b>         | <b>United States</b> | <b>Europe</b>        | <b>Australia</b>      | <b>Total</b>          |
|----------------------------|-----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Current assets             | \$ 13,262,843         | \$ -                 | \$ -                 | \$ 14,276,090         | \$ 27,538,933         |
| Non-current assets         | 258,851,436           | 5,704,403            | 85,208,945           | 188,165,660           | 537,930,444           |
| <b>Total assets</b>        | <b>\$ 272,114,279</b> | <b>\$ 5,704,403</b>  | <b>\$ 85,208,945</b> | <b>\$ 202,441,750</b> | <b>\$ 565,469,377</b> |



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**COBALT 27 CAPITAL CORP.****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended June 30, 2019 and 2018****(Expressed in United States Dollars, unless otherwise indicated)****(Unaudited)**

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**20. Segmented Information (Continued)**

| <b>As at December 31, 2018</b> | <b>Canada</b>        | <b>United States</b> | <b>Europe</b>        | <b>Australia</b>    | <b>Total</b>         |
|--------------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|
| Current assets                 | \$ 45,935,236        | \$ -                 | \$ -                 | \$ -                | \$ 45,935,236        |
| Non-current assets             | 327,233,256          | 10,763,960           | 163,131,209          | 7,343,646           | 508,472,071          |
| <b>Total assets</b>            | <b>\$373,168,492</b> | <b>\$ 10,763,960</b> | <b>\$163,131,209</b> | <b>\$ 7,343,646</b> | <b>\$554,407,307</b> |

**21. Subsequent Event**

As of July 19, 2019, the LME official closing cash settlement price for nickel was above US\$13,220 per tonne for a period of 5 consecutive trading days which triggered the payment of the Scheme contingent consideration of AUD\$0.01 per share to Highlands shareholders. The Company had previously funded an escrow account on closing of the Scheme on May 17, 2019 and funds from that escrow account will be utilized to fund the contingent Scheme consideration.



**COBALT 27 CAPITAL CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE AND SIX MONTHS ENDED JUNE 30, 2019**

**(EXPRESSED IN UNITED STATES DOLLARS)**



## **Introduction**

The following management's discussion & analysis ("MD&A") of the financial condition and results of the operations of Cobalt 27 Capital Corp. (the "Company" or "Cobalt 27") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months ended June 30, 2019. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2019 and 2018, together with the notes thereto. Results are reported in United States dollars, unless otherwise noted. The Company's unaudited condensed interim consolidated financial statements and the financial information contained in this MD&A, unless otherwise indicated, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee. Information contained herein is presented as of August 29, 2019, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Cobalt 27's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Information about the Company and its operations can be obtained from the offices of the Company or on the System for Electronic Documents Analysis and Retrieval ("SEDAR") and is available for review under the Company's profile on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

## **Description of Business**

Cobalt 27 is a publicly listed company incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) on May 9, 2006 and its shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KBLT". In March 2017, the Company redirected its efforts from a mineral exploration company to become a company focused on the acquisition of cobalt by physical possession, entering into streaming contracts and cobalt net smelter return royalty ("Co NSR") agreements and/or participation in producing cobalt mines or early stage exploration and development of mineral properties containing cobalt.

The Company owns 2,905 Mt of physical cobalt, the Voisey's Bay Cobalt Stream on Vale S.A.'s ("Vale") world-class Voisey's Bay Mine beginning production on January 1, 2021, including the announced underground expansion, and acquired a 8.56% joint venture interest in the producing Ramu Nickel Mine. The Company also manages a portfolio of eleven royalties and intends to continue to invest in a cobalt-focused portfolio of streams, royalties and direct interests in mineral properties containing cobalt, while potentially adding to its physical cobalt holdings when opportunities arise.

## **Company Highlights**

### **Acquisition of Highlands Pacific Limited**

On May 17, 2019, the Company acquired all of the issued ordinary shares of Highlands, that it did not already own by means of a scheme of arrangement (the "Scheme"), entered into on January 1, 2019, under Part XVI of the Papua New Guinea Companies Act.

Cobalt 27 acquired all of the issued ordinary shares of Highlands that it does not already own (the "Scheme Shares") for an all-cash offer price of AUD\$0.105 per share. If before December 31, 2019 the London Metal Exchange ("LME") official closing cash settlement price for nickel is US\$13,220 per tonne or higher for a period of 5 consecutive trading days, Highlands' scheme shareholders will receive contingent consideration of AUD\$0.01 per Scheme Share payable in cash. The total purchase price for all of the Scheme Shares amounted to \$75 million, which included transaction costs of \$4.5 million.

On May 17, 2019, in connection with the completion of the Scheme, Cobalt 27 and PanAust Limited and its subsidiaries ("PanAust") also completed the PanAust Buy-Back Agreement. PanAust transferred to the Company legal and beneficial ownership of 128,865,980 Highlands ordinary shares held by PanAust and cancelled any outstanding liabilities owed by Highlands to PanAust, in return for the Company transferring to PanAust all of the shares in Highlands Frieda Limited and \$130,000 in cash.

Based on management's judgment, the acquisition did not meet the IFRS definition of a business combination as the primary asset acquired, which is the investment in Ramu Nickel mines is an investment in associate of which Highlands is not the mine operator. Consequently, the transaction was recorded as an asset acquisition.

Prior to completion of the above mentioned transaction, Cobalt 27 owned approximately 218.5 million ordinary shares of Highlands, which represented approximately 20% of Highlands issued ordinary shares, was accounted for as an investment in an associate, using the equity method and the carrying amount on May 17, 2019 was \$14,069,780.

As of July 19, 2019, the LME official closing cash settlement price for nickel was above US\$13,220 per tonne for a period of 5 consecutive trading days which triggered the payment of the Scheme contingent consideration of AUD\$0.01 per share to Highlands's shareholders. The Company had previously funded an escrow account on closing of the Scheme on May 17, 2019 and funds from that escrow account were utilized to fund the contingent Scheme consideration.

### **Pala transaction**

On June 18, 2019, the Company announced that it has entered into an agreement (the "Arrangement Agreement") with Pala Investments Limited ("Pala") pursuant to which Pala will acquire 100% of Cobalt 27's issued and outstanding common shares, other than the approximately 19% that Pala already owns. Under the terms of the transaction Cobalt 27 shareholders will receive CAD\$5.75 per common share, comprised of CAD\$3.57 in cash plus a common share of a newly listed company to be named Nickel 28 Capital Corp. ("Nickel 28") (collectively, the "Consideration").

**COBALT 27 CAPITAL CORP.**  
**Management's Discussion & Analysis**  
**Three and Six Months Ended June 30, 2019**  
**Discussion dated: August 29, 2019**

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Terms of the Transaction

The transaction will be carried out pursuant to the Arrangement Agreement under a court-approved statutory plan of arrangement (the "Arrangement") governed by the Business Corporations Act (British Columbia). Under the Arrangement Agreement, Pala will acquire all of the issued and outstanding common shares of Cobalt 27, other than the approximately 19% that Pala already owns. Each common share of Cobalt 27 acquired will be exchanged for:

- CAD\$3.57 in cash; and
- One new common share of Nickel 28

Pursuant to the Arrangement, certain assets of Cobalt 27 will be transferred to Nickel 28, the shares of which will be distributed to Cobalt 27 shareholders as part of the Consideration. Effective on closing of the Arrangement, the following key assets and liabilities will be transferred to and held by Nickel 28:

- the 8.56% joint venture interest in the Ramu Nickel Mine and related debt;
- portfolio of royalties;
- equity stakes in Giga Metals Corporation and Minerva Intelligence Inc.; and
- \$5 million of cash to provide for initial working capital.

Following the completion of the Arrangement, Pala will retain a 4.9% interest in Nickel 28.

**Royalty contracts**

On January 18, 2019, the Company completed the acquisition of a 1.5% Gross Revenue Royalty ("GRR") on the Flemington Cobalt-Scandium-Nickel project ("Flemington Royalty") located west of Sydney, Australia and owned by Australian Mines Ltd. and a 1.7% GRR on the Nyngan Scandium project ("Nyngan Royalty") located in Sydney, Australia and owned by Scandium International Mining Corp.

Cobalt 27 acquired the Flemington Royalty and Nyngan Royalty from Jervois Mining Limited for total consideration of approximately \$3 million, comprised of \$1.5 million in cash and 422,856 common shares of the Company.

See "Plan of Operations" below for more details.

**Other investment**

In April 2019, Cobalt 27 acquired 3,980,000 common shares of Giga Metals Corp. for \$745,988.

**Credit facility**

On May 6, 2019, Cobalt 27 entered into a second amended and restated revolving term credit facility, whereby the Company will have access to a \$100 million credit facility and a \$50 million accordion facility which replaces its undrawn credit facility announced on October 24, 2018.

On May 13, 2019, as part of the Company's closing procedures for the acquisition of Highlands Pacific, the Company drew \$55 million of its \$100 million credit facility. On May 23, 2019, the Company repaid the lenders \$9,180,264.

## **Other Company Highlights**

### **RSU plan and stock option grants**

On January 11, 2019, the Company granted a total of 760,000 stock options to certain directors, officers, advisors and consultants of the Company pursuant to the Company's stock option plan. The stock options are exercisable at a price of CAD\$4.44 per share and expire on January 11, 2024. These stock options will vest as follows: 1/3 immediately and 1/3 annually over 2 years. In addition, the Company also granted a total of 913,000 RSUs to certain employees and officers. These RSUs will vest as follow: 318,000 RSUs immediately, 120,000 RSUs monthly over 1 year and 475,000 RSUs 1/3 annually over 3 years.

## **Cobalt Industry Overview**

The Company believes the narrative of the electric vehicle is akin to that of the mobile phone. Once inefficient, impractical and priced beyond the reach of the average consumer, management believes the electric vehicle is on the cusp of reaching the next wave of adoption. Improving energy density of batteries together with declining battery costs and a growing desire to pursue environmentally-friendly technologies and the development of fully-autonomous vehicles has led to an inflection point where the electric vehicle is now entering the mainstream at a more economically attractive price point. The Company believes now could be the beginning of a paradigm shift in automobile transportation. A shift that the Company believes will be fueled in part by a relatively unknown metal in increasingly scarce supply - cobalt.

## **Plan of Operations**

The Company applies a disciplined investing and operating approach to pursuing battery metals streaming, royalty and direct interest opportunities to provide shareholders with near-term revenue and cash flow, diversified asset exposure, and additional future avenues for growth within the electric vehicle and energy storage systems thematic. The Company intends to further fund working capital through its cash flows from its investments and, if needed, commercially prudent financing arrangements.

### **Physical Cobalt**

The initial strategy of Cobalt 27 was to invest in physical holdings of cobalt. This strategy was intended to provide investors with an ability to effectively invest in cobalt in a manner that does not directly include risks associated with investments in companies that explore for, mine and process cobalt. The Company's primary objective relating to its physical cobalt holdings is to achieve appreciation in the value of its holdings. While it is not the current intention of the Company to do so in the short term, opportunities may arise in the future which may be advantageous to acquire additional physical cobalt or dispose of some of its current physical cobalt holdings. The proceeds from any sale, in the absence of some other proper business purpose, would be used to further the Company's business, most likely to acquire additional streams, royalties or other interests in cobalt.

The Company held 2,192.1 metric tonnes of alloy grade cobalt and 712.6 metric tonnes of standard grade cobalt at a fair value of \$90,913,348 (based on cobalt prices on Metal Bulletin) as at June 30, 2019. All of the Company's physical cobalt is held in three LME bonded warehouses in the U.S. and Europe and is fully insured.

### **Royalty and Streaming**

The Company has built up a material portfolio of streams and royalties and is actively pursuing further streaming and royalty acquisitions, and discussions with additional potential streaming counterparties are ongoing. Streaming opportunities will continue to be the Company's primary focus that could potentially provide the Company with material near-term cash flow, exposure to long life and low-cost operating mines and direct leverage to the cobalt price and exploration and production upside. The Company believes its current portfolio of a stream and eleven royalties provide shareholders with long-term optionality on the price of cobalt. This portfolio includes our current Voisey's Bay Cobalt Stream on the Voisey's Bay Mine, as described below and also includes an 8.56% interest in the producing Ramu Nickel-Cobalt Mine in Papua New Guinea. Investors are cautioned that in respect of the Company's stream and eleven royalties, there is no guarantee that (i) the applicable mineral properties will ever be placed into production or (ii) that material quantities of cobalt or nickel will be contained in product extracted from the property.

### **Voisey's Bay Cobalt Stream**

On June 28, 2018, the Company closed the acquisition from a subsidiary of Vale of the Voisey's Bay Cobalt Stream, being an amount of finished cobalt equal to 32.6% of the cobalt production from Vale's Voisey's Bay Mine, including from the Voisey's Bay Mine Expansion (the "VBME"), commencing January 1, 2021. The Company paid to Vale the Advance Amount, being total upfront cash consideration of \$300 million, which represents a prepayment of a portion of the purchase price for the sale of cobalt to Cobalt 27. Cobalt 27 will also make the Ongoing Payments equal to 18% of the Cobalt Reference Price for each pound of cobalt delivered under the Voisey's Bay Cobalt Stream, until Cobalt 27 has recovered the full value of the Advance Amount through Vale's deliveries of finished cobalt under the Voisey's Bay Cobalt Stream. After this time, the Ongoing Payments will increase to 22% of the Cobalt Reference Price.

Vale has continued construction of the VBME, with its first year of material production scheduled for 2021. Total estimated capital expenditures to complete construction and commissioning of the VBME are estimated by Vale to be approximately US\$1.7 billion and will extend the life of mine to 2034. Once an aggregate of approximately 10.8kt (23.8mmlb) of cobalt has been delivered to Cobalt 27, which would occur once Voisey's Bay cobalt production after January 1, 2021 reaches approximately 33.1kt (73.0mmlb), the proportion of cobalt production delivered to Cobalt 27 will reduce to 16.3%. Under the terms of the Cobalt Stream, Vale has agreed that if mill throughput does not reach 85% of targeted levels by December 31, 2025, some or all of the Advance Amount may be refunded to Cobalt 27 and/or the applicable cobalt stream percentages may be increased.

Voisey's Bay is located on the north coast of Labrador, Canada and began production in 2005 and was purchased by Vale in 2006. The integrated open-pit mine and 8,100 tonnes per day milling operations, produces a copper concentrate and nickel-cobalt-copper concentrate from ore mined from the Ovoid open pit with the nickel-cobalt-copper concentrate being shipped for processing at Vale's Long Harbour hydrometallurgical refinery in Newfoundland which produces nickel rounds, copper cathode and cobalt rounds. The Long Harbour refinery began operations in 2014, and has a nameplate capacity of 50,000 metric tons of nickel per year. The VBME will focus on the Reid Brook and Eastern Deeps deposits. Once in operation, underground mining is scheduled to extend Voisey's Bay life of mine to at least 2034, based on total estimated underground reserves of 26 million tonnes, with a nickel grade of 2.17% and cobalt grade of 0.14%. The life of the mine may extend beyond the current scheduled reserve base as exploration drilling has shown mineralization continues below the current resource boundaries. The project is 17% complete and start-up is expected in the first half of 2021.

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Based on an updated outlook on long-term cobalt prices, the Company re-evaluated the carrying value of its stream investment. As a result of this review, the Company recorded, during the six months ended June 30, 2019, an impairment charge of \$68,892,638. The recoverable amount of \$235 million was determined using a discounted cash flow model in estimating the fair value.

**Highlands Pacific Limited**

On May 17, 2019, the Company acquired all of the Scheme Shares through the Scheme, entered into on January 1, 2019, under Part XVI of the Papua New Guinea Companies Act.

As a result of the acquisition, Cobalt 27 now holds an 8.56% joint venture interest in the producing Ramu mine ("Ramu"), a long-life, low-cost nickel-cobalt operation located near Madang on the north coast of Papua New Guinea ("PNG"). Ramu was financed, constructed and commissioned in 2012, by majority-owner and operator Metallurgical Corporation of China Limited ("MCC"), for US\$2.1 billion which, at the time, was China's largest overseas mining investment. In 2018, the Ramu mine achieved record annual production of 35,355 tonnes of nickel and 3,275 tonnes of cobalt. Following repayment of Highlands' attributable construction and development loans, Cobalt 27's ownership interest in the Ramu mine, and attributable nickel and cobalt production, would increase to 11.3%.

**Current Royalties**

On July 4, 2017, the Company acquired seven royalties on exploration-stage mineral properties containing cobalt in consideration for a total of 94,445 common shares valued at \$647,225.

On March 29, 2018, the Company completed the acquisition of a 1.75% NSR royalty on all future production over all metals from the Dumont Project, which contains undeveloped, permitted, and construction-ready reserves of nickel and cobalt, located in the Abitibi region of the Canadian province of Québec. The Dumont NSR royalty was the Company's first investment held by its wholly-owned subsidiary, Electric Metals Streaming. The Company paid \$9,819,843 in cash and issued 537,057 common shares as consideration for the 1.75% NSR. The 1.75% NSR royalty contains a \$15 million buyback right to the Dumont joint venture to repurchase 0.375% of the 1.75% NSR ("Repurchase Option"), which if exercised would result in a 1.375% remaining NSR. The one-time Repurchase Option is only exercisable on the third, fourth or fifth anniversary of the original royalty agreement dated July 8, 2015.

On July 12, 2018, the Company completed the acquisition of a 2.0% NSR royalty over Giga Metals Corporation's Turnagain project for \$1 million in cash and 1,125,000 common shares for a total value of \$7,241,392.

On January 18, 2019, the Company completed the acquisition of a 1.5% GRR on the Flemington Royalty located west of Sydney, Australia and owned by Australian Mines Ltd. and a 1.7% GRR on the Nyngan Royalty located in Sydney, Australia and owned by Scandium International Mining Corp. Outside existing by-product production in Russia and China, the Nyngan project is the most advanced scandium development opportunity globally, with initial off-take contracts in place.

Cobalt 27 acquired the Flemington Royalty and Nyngan Royalty from Jervois Mining Limited for total consideration of \$3 million, comprised of \$1.5 million in cash and 422,856 common shares of the Company.



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As at the date of this MD&A, the Company's royalties consisted of the following:

| <b>Royalty Name</b>                           | <b>Owner</b>   | <b>Property Location</b> | <b>Stage</b> | <b>Primary Metal(s)</b> | <b>Royalty Type and %</b> | <b>Stream ROFR</b> |
|---|--|--------------------------|--------------|-------------------------|---------------------------|--------------------|
| Dumont Nickel Project                         | RNC Minerals   | Quebec                   | Development  | Ni-Co                   | 1.75% NSR                 | No                 |
| Triangle Property                             | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | Yes                |
| Rusty Lake Property                           | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | Yes                |
| Professor & Waldman Properties <sup>(1)</sup> | New Found Gold Corp. (formerly Palisade Resources Corp.) | Ontario                  | Exploration  | Co-Ag                   | 2% Co NSR                 | Yes                |
| North Canal Properties <sup>(1)</sup>         | Golden Ridge Resources Ltd.                              | Yukon                    | Exploration  | Ag-Pb-Zn-Co             | 2% Co NSR                 | Yes                |
| Sunset Mineral Property                       | Three Individuals  | British Columbia         | Exploration  | Cu-Zn-Co                | 2% Co NSR                 | Yes                |
| Turnagain Project                             | Giga Metals Corporation                                  | British Columbia         | Exploration  | Ni-Co                   | 2.0% NSR                  | Yes                |
| Flemington Project                            | Australian Mines Ltd.                                    | Australia                | Exploration  | Ni-Co-Sc                | 1.5% GRR                  | No                 |
| Nyngan Project                                | Scandium International Mining Corp.                      | Australia                | Development  | Sc-Ni-Co                | 1.7%GRR                   | No                 |

<sup>(1)</sup> Two separate mineral properties to which a Co NSR applies.

### **Off-Balance Sheet Arrangements**

As at the date of this MD&A, the Company did not have any off-balance sheet arrangements.

### Selected Quarterly Information

A summary of selected information for each of the eight most recent quarters prepared in accordance with IFRS is as follows:

| Three Months Ended              | Net Revenues (\$) | Net Income or (Loss)         |  |  |
|---------------------------------|-------------------|------------------------------|--|--|
|                                 |                   | Total (\$)                   | Per Share - Basic <sup>(10)</sup> (\$) | Per Share - Diluted <sup>(10)</sup> (\$) |
| 2019-June 30                    | -                 | (6,529,200) <sup>(1)</sup>   | (0.08)                                 | (0.08)                                   |
| 2019-March 31                   | -                 | (154,073,478) <sup>(2)</sup> | (1.81)                                 | (1.81)                                   |
| 2018-December 31                | -                 | (44,747,874) <sup>(3)</sup>  | (0.53)                                 | (0.53)                                   |
| 2018-September 30               | -                 | (29,757,143) <sup>(4)</sup>  | (0.35)                                 | (0.35)                                   |
| 2018-June 30                    | -                 | (9,119,063) <sup>(5)</sup>   | (0.17)                                 | (0.17)                                   |
| 2018-March 31                   | -                 | 32,089,870 <sup>(6)</sup>    | 0.83                                   | 0.82                                     |
| 2017-December 31 <sup>(9)</sup> | -                 | 13,860,394 <sup>(7)</sup>    | 0.52                                   | 0.52                                     |
| 2017-October 31                 | -                 | 4,872,631 <sup>(8)</sup>     | 0.20                                   | 0.20                                     |

- (1) Net loss of \$6,529,200 consisted primarily of an unrealized loss on investments in cobalt of \$554,733, financing costs of \$1,704,429, equity loss from Highlands Pacific Limited of \$1,183,452 and share based compensation of \$656,287.
- (2) Net loss of \$154,073,478 consisted primarily of unrealized loss on investments in cobalt of \$82,427,088, impairment of streaming interest of \$68,892,638, share based compensation of \$1,417,551, consulting fees of \$436,486, financing costs of \$403,764 and other operational expenditures offset by deferred income tax recovery of \$345,861.
- (3) Net loss of \$44,747,874 consisted primarily of unrealized loss on investments in cobalt of \$43,951,300, consulting fees of \$2,126,209, financing costs of \$1,475,661 and professional fees of \$557,030 and other operational expenditures offset by deferred tax recovery of \$5,296,395.
- (4) Net loss of \$29,757,143 consisted primarily of unrealized loss on investments in cobalt of \$40,786,342, financing costs of \$237,517, professional fees of \$563,578, marketing and promotion of \$335,992 and other operational expenditures offset by share based compensation recovery of \$1,032,092, deferred tax recovery of \$12,010,242 and net gain on insurance proceeds of \$212,920.
- (5) Net loss of \$9,119,063 consisted primarily of unrealized loss on investments in cobalt of \$15,440,392, financing costs of \$628,984, professional fees of \$536,571, project evaluation costs of \$601,799 and other operational expenditures offset by share based compensation recovery of \$1,449,784, deferred tax recovery of \$4,195,374 and foreign exchange gain of \$3,021,541.

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- (6) Net income of \$32,089,870 consisted primarily of unrealized gain on investments in cobalt of \$51,369,985 offset by share based compensation of \$4,356,740, deferred income tax of \$13,803,479, professional fees of \$284,872, foreign exchange loss of \$165,626, transport and storage expense of \$245,988 and other operational expenditures.
- (7) Net income of \$13,860,394 consisted primarily of unrealized gain on investments in cobalt of \$24,805,158 offset by share based compensation of \$1,295,671, deferred income tax of \$6,632,515, consulting fees and salaries of \$1,292,952, foreign exchange loss of \$1,022,002, transport and storage expense of \$229,561 and other operational expenditures.
- (8) Net income of \$4,872,631 consisted primarily of unrealized gain on investments in cobalt of \$9,075,920 offset by share based compensation of \$2,672,019, deferred income tax of \$1,066,017, consulting fees and salaries of \$113,964, marketing and promotion expense of \$86,585 and other operational expenditures.
- (9) Represents the two months ended December 31, 2017 as a result of the Company changing its year end.
- (10) Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.

## **Results of Operations**

### **Three months ended June 30, 2019 compared to the three months ended June 30, 2018**

The Company realized a net loss of \$6,529,200 during the three months ended June 30, 2019 as compared to a net loss of \$9,119,063 for the three months ended June 30, 2018. The decrease in net loss of \$2,589,863 resulted from the following significant variances:

- During the three months ended June 30, 2019, the Company recognized an unrealized loss on investments in cobalt of \$554,733 compared to an unrealized loss of \$15,440,392 for the three months ended June 30, 2018. The loss in the current period is mainly attributable to the decrease in the price of cobalt over the current three month period from \$14.08 per pound on March 31, 2019 to \$13.65 per pound on June 30, 2019 for standard grade cobalt. The loss in the prior period was mainly attributable to the decrease in the price of cobalt over the three month period from \$43.50 per pound on March 31, 2018 to \$40.35 per pound on June 30, 2018 for alloy grade cobalt.
- During the three months ended June 30, 2019, the Company recorded share based compensation of \$656,287 compared to a recovery of \$1,449,784 in the comparative period. Share based compensation for the current period included vesting of the 760,000 stock options granted during the period and was impacted by the vesting of previously issued RSUs and the valuation of the RSU liability using the share price as at June 30, 2019 of CAD\$4.23. Share based compensation for the three months ended June 30, 2018 included the vesting of 485,000 stock options and adjustment to the RSU value at each reporting period end which was required prior to August 14, 2018 (date of grant based on shareholder and TSX-V approval of the Company's Long Term Incentive Plan).

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- During the three months ended June 30, 2019, the Company recorded deferred tax expense of \$31,748 compared to \$4,195,374 deferred tax recovery for the three months ended June 30, 2018. The deferred tax expense in the current period was attributable to the temporary tax differences in relation to equity investment Giga and Minerva, while the deferred tax recovery for the comparative 2018 period was mainly attributable to the temporary tax differences in relation to cobalt investments.
- During the three months ended June 30, 2019, financing costs totaled \$1,704,429 compared to \$628,984 for the three months ended June 30, 2018. The financing costs in the current period relate to standby fees and interest charges for the Company's credit facility and interest charges related to the Ramu Nickel loan offset by interest income received. The financing costs in the prior period relate to upfront costs and standby fees for the Company's credit facility.
- During the three months ended June 30, 2019, equity loss from Highlands was \$1,183,452 compared to \$nil for the three months ended June 30, 2018. The Company accounts for its investment in Highlands as an investment in associate using the equity method until May 17, 2019 and recorded its share of loss from Highlands accordingly.
- During the three months ended June 30, 2019, the Company recorded a foreign exchange loss of \$195,220 compared to a gain of \$3,021,541 for the three months ended June 30, 2018 due to fluctuations in the exchange rates of the Canadian dollar, Australian dollars and European Euro relative to the US dollar. The Company makes certain payments in Canadian dollar, Australian dollars and European Euro.

**Six months ended June 30, 2019 compared to the six months ended June 30, 2018**

The Company realized a net loss of \$160,602,678 during the six months ended June 30, 2019 as compared to a net income of \$22,970,807 for the six months ended June 30, 2018. The increase in net loss of \$183,573,485 resulted from the following significant variances:

- During the six months ended June 30, 2019, the Company recognized an unrealized loss on investments in cobalt of \$82,981,821 compared to an unrealized gain of \$35,929,593 for the six months ended June 30, 2018. The loss in the current period is mainly attributable to the decrease in the price of cobalt over the current six month period from \$27.13 per pound on December 31, 2018 to \$14.38 per pound on June 30, 2019 for alloy grade cobalt. The gain in the prior period was mainly attributable to the increase in the price of cobalt over the six month period from \$36.70 per pound on December 31, 2017 to \$40.35 per pound on June 30, 2018 for alloy grade cobalt.
- During the six months ended June 30, 2019, the Company recorded an impairment of \$68,892,638 on its streaming interest on the Voisey's Bay mine. The impairment is based on an updated outlook on long-term cobalt prices, production profile of the Voisey's Bay mine and the pounds expected from the stream.
- During the six months ended June 30, 2019, the Company recorded share based compensation of \$2,073,838 compared to \$2,906,956 in the comparative period. Share based compensation for the current period included vesting of the 760,000 stock options granted during the period and was impacted by the vesting of previously issued RSUs and the valuation of the RSU liability using the share price as at June 30, 2019 of CAD\$4.23. Share based compensation for the six months ended June 30, 2018 included the vesting of 485,000 stock options and adjustment to the RSU value at each reporting period end which was required prior to August 14, 2018 (date of grant based on shareholder and TSX-V approval of the Company's Long Term Incentive Plan).

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- During the six months ended June 30, 2019, the Company recorded deferred tax recovery of \$314,113 compared to \$9,608,105 deferred tax expense for the six months ended June 30, 2018. The deferred tax recovery in the current period was mainly attributable to the temporary tax differences in relation to equity investment in Highlands while the deferred tax expense in the comparative 2018 period was mainly attributable to the temporary tax differences in relation to cobalt investments.
- During the six months ended June 30, 2019, financing costs totaled \$2,108,193 compared to \$628,984 for the six months ended June 30, 2018. The financing costs in the current period relate to standby fees and interest charges for the Company's credit facility and interest charges related to the Ramu Nickel loan offset by interest income received. The financing costs in the prior period relate to upfront costs and standby fees for the Company's credit facility.
- During the six months ended June 30, 2019, equity loss from Highlands was \$1,451,629 compared to \$nil for the six months ended June 30, 2018. On January 2, 2019, the Company increased its holdings in Highlands to approximately 20% and started accounting for its investment in Highlands as an investment in associate using the equity method up until May 17, 2019 when the Company acquired 100% of Highlands.
- During the six months ended June 30, 2019, the Company recorded a foreign exchange loss of \$74,750 compared to a gain of \$2,855,915 for the six months ended June 30, 2018 due to fluctuations in the exchange rates of the Canadian dollar, Australian dollars and European Euro relative to the US dollar. The Company makes certain payments in Canadian dollar, Australian dollars and European Euro.

## **Liquidity and Financial Position**

As of June 30, 2019, the Company had working capital of \$14,426,492 which management believes is adequate to fund its business strategy for the foreseeable future. However, the Company currently has no assets that generate cash flow. The Company's ability to meet its obligations and execute its business strategy depends on its ability to generate cash flow through the sale of a portion of its physical cobalt holdings, the issuance of common shares pursuant to private placements, public offerings of its shares, the exercise of stock options and warrants and short term or long term loans.

There is no assurance that the Company will be able to access equity funding at the times and in the amounts required to meet the Company's obligations and fund activities, however the Company may utilize its credit facility to meet its obligations and fund activities. The outlook for the world economy remains uncertain and vulnerable to various shocks that could adversely affect the Company's ability to raise additional funding going forward.

### **Cash flows**

#### *Operating Activities*

Cash used in operating activities was \$6,242,676 for the six months ended June 30, 2019 and resulted from operating expenses during the normal course of business, a decrease in accounts payable and an increase in amounts receivable and other assets.

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*Investing Activities*

During the six months ended June 30, 2019, the Company used cash of \$5,615,827 to purchase additional shares in Highlands, \$745,988 to purchase common shares of Giga Metals Corporation, \$1,500,000 relating to the purchase of the Flemington royalty and Nyngan royalty and \$65,778,654 to acquire the remaining shares of Highlands offset \$10,524,382 of cash was acquired from Highlands on its acquisition

*Financing Activities*

During the six months ended June 30, 2019, the Company received \$45,819,736 of proceeds from the credit facility.

**Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are recorded at the exchange amount, being the amount agreed to between the related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and members of the Board.

Remuneration of key management personnel of the Company was as follows:

|  | <b>Three Months Ended<br/>June 30, 2019<br/>(\$)</b> | <b>Three Months Ended<br/>June 30, 2018<br/>(\$)</b> | <b>Six Months Ended<br/>June 30, 2019<br/>(\$)</b> | <b>Six Months Ended<br/>June 30, 2018<br/>(\$)</b> |
|--|--|--|--|--|
| Consulting fees and salaries <sup>(1)(2)</sup> | 217,894  | 104,697  | 438,252  | 209,395  |
| Directors fees <sup>(2)</sup>                  | 102,489  | 41,864   | 181,591  | 88,185   |
| Share based compensation                       | 576,452  | (1,449,784)  | 1,431,227  | 2,528,132  |
| <b>Total</b>                                   | <b>896,835</b>                                       | <b>(1,303,223)</b>                                   | <b>2,051,070</b>                                   | <b>2,825,712</b>                                   |

<sup>(1)</sup> Consulting fees and salaries paid to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer for their services.

<sup>(2)</sup> Included in accounts payable and accrued liabilities are fees owing to officers and directors of \$53,210 as at June 30, 2019 (December 31, 2018 - \$852,149).

<sup>(3)</sup> Included in amounts receivable and other assets is an amount of \$189,698 owed by an officer as at June 30, 2019 (December 31, 2018 - \$199,140).

## Share Capital

As of the date of this MD&A, the Corporation had 85,474,974 common shares outstanding.

As of the date of this MD&A, the following stock options were outstanding:

| Expiry date      | Number of stock options | Exercise price (CAD\$) |
|------------------|-------------------------|------------------------|
| March 31, 2022   | 153,750                 | \$4.33                 |
| August 7, 2022   | 510,000                 | \$9.00                 |
| January 10, 2023 | 485,000                 | \$11.80                |
| January 11, 2024 | 760,000                 | \$4.44                 |
|                  | <b>1,908,750</b>        |                        |

As of the date of this MD&A, the following warrants were outstanding:

| Expiry date    | Number of warrants | Exercise price (CAD\$) |
|----------------|--------------------|------------------------|
| March 21, 2022 | 3,750              | \$1.20                 |

As of the date of this MD&A, there were 738,865 RSUs outstanding.

## Financial Instruments and Cobalt Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;

Level 2: Valuations based on directly or indirectly observable inputs for the asset or liability, other than quoted Level 1 prices, such as quoted interest rates or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not observable, such as discounted cash flow methodologies based on internal cash flow forecasts.

As of June 30, 2019, the Company's financial instruments consist of cash and cash equivalents, amounts receivable, investments and accounts payable and accrued liabilities, credit facility and non-recourse debt. Cash and cash equivalents are stated at amortized cost. Investments are stated at fair value and classified within Level 1. The fair values of amounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these instruments. The non-recourse debt and credit facility are stated at amortized cost.

Investments in cobalt are categorized in Level 2. Investments in cobalt are measured at fair value at each reporting period based on the most recent month end spot prices for cobalt published by Metal Bulletin. The Company may also adjust the fair value of the investments in cobalt based on its assessment of the

valuation impact of risks associated with the third party storage facilities at which the Company's cobalt is held.

## **Financial risks**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### Credit Risk

Credit risk is the risk of loss due to a counter-party's inability to meet its obligations under a financial instrument or contractual agreement that will result in a financial loss to the Company. The Company's credit risk exposure includes the carrying amounts of cash and cash equivalents and amounts receivable. To limit the credit risk exposure on its cash and cash equivalents, the Company holds all its cash and cash equivalents in credit worthy financial institutions, while investments in cobalt are held with storage facilities owned by organizations that are credible and financially stable. The Company believes no impairment is necessary in respect of amount receivable from MCC Ramu NiCo Limited and other receivables as balances are monitored on a regular basis with the result that exposure to bad debt is insignificant.

### Liquidity risk

Financial liquidity represents the Company's ability to fund future operating activities. The Company may generate cash from the lending, relocation, or sale of cobalt, or the sale of additional equity securities, as well as through debt financing. The Company will fund its ongoing operations with its existing cash balance, drawdowns from the credit facility and has the ability to sell some of its inventory of cobalt to generate additional cash if required. Although the Company may enter into commitments to purchase additional cobalt or acquire cobalt streams, royalties, and direct interests in mineral properties containing cobalt, those commitments are normally funded by use of the Company's available cash or are contingent on its ability to raise funds through the sale of additional equity securities or debt financing. The Company's accounts payable and accrued liabilities are due within the next 12 months. The credit facility has a maturity date of May 6, 2022. The loan from MCC Ramu Nico Limited is due as follows: \$9,413,000 within the next 12 months and \$111,251,503 after 12 months, however this loan is repayable from the Company's share of operating surplus.

### Market risk

#### *(a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations as a result of the credit facility and its borrowings. As at June 30, 2019, the Company has estimated that a 1% decrease or increase in the interest rate, all other variables remaining constant, the result would be a decrease or increase in net income before taxes of \$832,000.

#### *(b) Foreign currency risk*

Foreign currency risk arises from transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's functional currency is United States dollars. The Company incurs expenses in Canadian dollars, Australian dollars and European Euro. As at June 30, 2019, the Company had approximately CAD\$589,000 and AUD\$8,997,000 of net assets. As at June 30, 2019, the Company has estimated that a 5% decrease or increase in the value of the



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Canadian and Australian dollars, all other variables remaining constant, the result would be a decrease or increase in net income before taxes of \$321,000.

*(c) Price risk*

The Company is exposed to price risk with respect to the share prices of its investments. The value of the Company's investment in Minerva and Giga may be adversely affected by a decline in share prices of Minerva and Giga.

As at June 30, 2019, the Company estimated that a 5% decrease or increase in the share prices of Minerva and Giga, all other variables remaining constant, would result in a corresponding decrease or increase in income before taxes of \$35,000.

The value of the Company's physical holdings of cobalt may be adversely affected by a decline in the price of cobalt. The price of cobalt fluctuates widely and is affected by numerous factors beyond the Company's control, including but not limited to global and regional supply and demand, and the political and economic conditions of major cobalt producing countries throughout the world.

As at June 30, 2019, the Company has estimated that a 5% decrease or increase in the price of cobalt, all other variables remaining constant, would result in a corresponding decrease or increase in income before taxes of \$4,545,667.

### **Newly Adopted Accounting Policies**

The following summarizes changes in accounting policies including initial adoption during the period.

*(i) Interest in associates*

Associates are entities, including unincorporated entities such as partnerships, over which the Company has significant influence and that are neither subsidiaries nor interests in joint arrangements. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates are equity accounted for from the effective date of commencement of significant influence to the date that the Company ceases to have significant influence.

Results of associates are equity accounted for using the results of their most recent annual financial statements or interim financial statements, as applicable. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, a share of the post-acquisition retained earnings and losses and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

*(ii) Leases ("IFRS 16")*

The Company adopted IFRS 16, which replaced IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach without restatement of comparative amounts, electing to measure the right-of-use asset at an amount equal to the lease liability. The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

An assessment was made and there was no impact to the Company's consolidated financial statements as at January 1, 2019. Certain contracts qualified as short-term or low value leases and met the scope exemption for disclosure. As a result of applying this scope exemption, the Company recognizes the lease payments associated with these short-term or low value leases as an expense on a straight-line basis over the lease term. No other significant differences have been identified in relation to the adoption of IFRS 16.

Accounting policy

As a result of adopting this standard, the Company's accounting policy for leases is stated below. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The cost of the right of use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs; and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects

the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these leases are instead recognized as an expense over the lease term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

*(iii) Uncertainty over Income Tax Treatments ("IFRIC 23")*

The Company adopted IFRIC 23 on January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation has been applied on a modified retrospective basis without restatement of comparative information. The adoption of IFRIC 23 had no material impact on the Company's consolidated financial statements.

*(iv) Business Combinations ("IFRS 3")*

In October 2018, the IASB issued an amendment to IFRS 3, effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The amendment clarifies that a business must include, at minimum, an input and a substantive process that together contribute to the ability to create outputs, and assists companies in determining whether an acquisition is a business combination or an acquisition of a group of assets by providing supplemental guidance for assessing whether an acquired process is substantive. The Company has decided to early adopt the amendments to IFRS 3 effective January 1, 2019 and shall apply the amended standard in assessing business combinations on a prospective basis. For acquisitions that are determined to be acquisitions of assets as opposed to business combinations, the Company allocates the transaction price to the individual identifiable assets acquired and liabilities assumed on the basis of their relative fair values, and no goodwill is recognized. Acquisitions that continue to meet the definition of a business combination are accounted for under the acquisition method, without any changes to the Company's accounting policy. There was no material impact on the Company's interim consolidated financial statements during the period ended June 30, 2019.

*(v) Debt*

Debt is initially recognised at fair value, net of transaction cost incurred. Debt is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

### **Key Sources of Estimation Uncertainty and Critical Accounting Judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, the areas which require management to make significant judgments, estimates and assumptions in determining carrying values are:

*Impairment of streaming interest*

When assessing whether there are any indicators that could give rise to the requirement to conduct a formal impairment test on the Company's streaming interest, the Company is required to use of some degree of judgment, assumptions and estimates. The assessment of fair values requires the use of estimates and assumptions for long-term commodity prices, mine production and discount rates. In addition, the Company may use other approaches in determining fair value which may include judgment and estimates related to (i) dollar value per pound of reserve/resource and (ii) cash-flow multiples. Changes in any of the assumptions and estimates used in determining the fair value of the streaming interest could impact the impairment analysis.

*Business combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or an asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Highlands on May 17, 2019 did not meet the definition of a business and the transaction has been accounted for as an asset acquisition.

## **Disclosure of Internal Controls**

Management has established processes to provide it with sufficient knowledge to support representations that it has exercised reasonable diligence to ensure that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements, and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **Risk Factors**

The Company's financial condition, results of operation and business are subject to certain risks, which may negatively affect them. A detailed discussion of these risks can be found on pages 23 to 31 of our Annual MD&A for the financial period ended December 31, 2018 under "Risk Factors" (available on SEDAR at [www.sedar.com](http://www.sedar.com)) and elsewhere in this MD&A, including under "Cautionary Note Regarding Forward-Looking Information".

### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements. In particular, this MD&A contains forward-looking statements pertaining to the following:

- future debt levels, financial capacity, liquidity and capital resources;
- anticipated future sources of funds to meet working capital requirements;
- future capital expenditures and contractual commitments;
- expectations respecting future financial results;
- expectations regarding benefits of certain transactions and capital investments;
- the Company's objectives, strategies and competitive strengths;
- future development activities, including acquiring streams, royalties, and direct interests in mineral properties containing cobalt;
- the Company's growth strategy;
- expectations with respect to future opportunities;
- expectations with respect to the Company's financial position;
- the Company's capital expenditure programs and future capital requirements;
- capital resources and the Company's ability to raise capital; and
- industry conditions pertaining to the cobalt industry and in the industries in which cobalt is used.

With respect to forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things:

- market prices of cobalt;
- future global economic and financial conditions;
- future commodity prices, demand for cobalt and the product mix of such demand and levels of activity in the battery metals industry and in such other areas in which the Company may operate, and supply of cobalt and the product mix of such supply; and
- the accuracy and veracity of information and projections sourced from third parties respecting, among other things, future industry conditions and demand for cobalt.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and included elsewhere in this MD&A, including:

- volatility in market prices and demand for cobalt;
- effects of competition and pricing pressures;
- risks related to interest rate fluctuations and foreign exchange rate fluctuations;

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- changes in general economic, financial, market and business conditions in the industries in which cobalt is used;
- changes in the technologies pertaining to the use of cobalt;
- alternatives to and changing demand for cobalt;
- potential conflicts of interests;
- actual results differing materially from management estimates and assumptions;
- commodity price hedging instruments; and
- the other factors discussed under "*Risk Factors*".

This list of factors should not be construed as exhaustive.

**Additional Information**

Additional information concerning the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).