Morien Resources Corp.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Morien Resources Corp.

We have audited the accompanying consolidated financial statements of Morien Resources Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income (loss), changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morien Resources Corp. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 23, 2018

Halifax, Canada

MORIEN RESOURCES CORP.

Consolidated Statements of Financial Position
(Canadian dollars)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Current assets:			
Cash		**$ 3,856,941**	$ 1,322,764
Marketable securities	**5**	**278,487**	80,955
Receivables		**109,819**	3,113
Prepaid expenses		**28,364**	22,859
Current portion of long-term receivable	**6**	**-**	2,000,000
		4,273,611	3,429,691
Non-current assets:			
Long-term receivable	**6**	**-**	1,264,191
TOTAL ASSETS		**$ 4,273,611**	$ 4,693,882
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables		**$ 77,736**	$ 67,253
TOTAL LIABILITIES		**77,736**	67,253
SHAREHOLDERS' EQUITY			
Share capital	**7**	**$ 4,036,415**	$ 24,705,285
Contributed surplus	**7**	**1,243,925**	17,731,330
Deficit		**(1,208,618)**	(38,565,776)
Accumulated other comprehensive income		**124,153**	755,790
TOTAL EQUITY		**$ 4,195,875**	$ 4,626,629
TOTAL LIABILITIES AND EQUITY		**$ 4,273,611**	$ 4,693,882

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

Approved on behalf of the Board:

signed *"John P. A. Budreski"* *Director*

signed *"John P. Byrne"* *Director*

MORIEN RESOURCES CORP.

Consolidated Statements of Comprehensive Income (Loss)
(Canadian dollars)

	Notes	For the years ended December 31, 2017	2016
Royalty revenue	**10**	**$ 166,092**	$ -
Corporate and administration expenses	**11**	**736,703**	861,766
Exploration and evaluation expenses		**38,219**	50,256
Other income		**(6,350)**	(6,673)
Foreign exchange loss		**16,368**	21,147
Operating expenses		**(784,940)**	(926,496)
Finance income		**30,120**	19,908
Loss from operations		**(588,728)**	(906,588)
Realized gain on receipt of long-term receivable	**6**	**991,137**	-
Other income	**12**	**151,757**	400,000
Net income (loss) before tax		**554,166**	(506,588)
Deferred income tax recovery	**9**	**22,774**	-
Net income (loss)		**$ 576,940**	$ (506,588)
Other comprehensive income (loss):			
Items which may subsequently be recycled through profit and loss			
Fair value adjustment on long-term receivable, net of tax of nil	**6**	**235,809**	485,537
Realized gain on receipt of long-term receivable	**6**	**$ (991,137)**	$ -
Unrealized gain on available-for-sale marketable securities, net of deferred tax of $22,774 (2016 - Nil)	**5**	**123,691**	462
Other comprehensive income (loss)		**(631,637)**	485,999
Total comprehensive loss		**$ (54,697)**	$ (20,589)
Basic income (loss) per share	**8**	**$ 0.01**	$ (0.01)
Diluted income (loss) per share	**8**	**$ 0.01**	$ (0.01)

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

MORIEN RESOURCES CORP.

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance at January 1, 2016		55,400,614	$ 25,427,254	$ 17,675,080	$ 269,791	$ (38,059,188)	$ 5,312,937
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(506,588)	(506,588)
Other comprehensive income		-	-	-	485,999	-	485,999
Normal course issuer bid purchase of common shares	7	(2,414,000)	(721,969)	-	-	-	(721,969)
Share-based compensation	8	-	-	56,250	-	-	56,250
Balance at December 31, 2016		52,986,614	$ 24,705,285	$ 17,731,330	$ 755,790	$ (38,565,776)	$ 4,626,629
Balance at January 1, 2017		**52,986,614**	**$ 24,705,285**	**$ 17,731,330**	**$ 755,790**	**$ (38,565,776)**	**$ 4,626,629**
Total comprehensive income for the period:							
Net income		**-**	**-**	**-**	**-**	**576,940**	**576,940**
Other comprehensive loss		**-**	**-**	**-**	**(631,637)**	**-**	**(631,637)**
Reduction of stated capital	7	**-**	**(21,804,126)**	**(16,000,000)**	**-**	**37,804,126**	**-**
Dividends paid to shareholders		**-**	**-**	**-**	**-**	**(272,013)**	**(272,013)**
Normal course issuer bid purchase of common shares	7	**(1,629,000)**	**(237,449)**	**-**	**-**	**(751,895)**	**(989,344)**
Options exercised	8	**3,045,000**	**1,372,705**	**(487,405)**	**-**	**-**	**885,300**
Balance at December 31, 2017		**54,402,614**	**$ 4,036,415**	**$ 1,243,925**	**$ 124,153**	**$ (1,208,618)**	**$ 4,195,875**

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

MORIEN RESOURCES CORP.

Consolidated Statements of Cash Flows

(Canadian dollars)

	Notes	For the years ended December 31, 2017	2016
Cash flows from operating activities:			
Net income (loss)		**$ 576,940**	$ (506,588)
Items not involving cash:			
Share-based compensation		**-**	56,250
Deferred income taxes	**9**	**(22,774)**	-
Gain on collection of long-term receivable	**6**	**(991,137)**	-
Net finance income		**(30,120)**	(19,908)
Net change in non-cash working capital		**(101,728)**	(41,013)
Cash flows from operating activities		**$ (568,819)**	$ (511,259)
Cash flows from financing activities:			
Proceeds on exercise of stock options	**8**	**885,300**	-
Dividends paid		**(272,013)**	-
Purchase of shares for cancellation		**(989,344)**	(721,969)
Cash flows from financing activities		**$ (376,057)**	$ (721,969)
Cash flows from investing activities:			
Purchase of marketable securites	**5**	**(51,067)**	(80,493)
Collection of long term receivable	**6**	**3,500,000**	-
Interest received		**30,120**	19,908
Cash flows from investing activities		**$ 3,479,053**	$ (60,585)
Increase (decrease) in cash		**$ 2,534,177**	$ (1,293,813)
Cash, beginning of period		**1,322,764**	2,616,577
Cash, end of period		**$ 3,856,941**	$ 1,322,764

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

1. Nature of operations

Morien Resources Corporation ("Morien" or the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2017 and 2016 comprise the Corporation and its subsidiary Advanced Primary Minerals USA Corp ("APMUSA"). The principal business of the Corporation is the identification and purchase of mineral projects.

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2018.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Items included in the financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Morien Resources Corp.

c) Use of estimates and judgments

The preparation of the financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Long-term receivable

Each reporting period, management assigned a probability assessment to the likelihood of collection of the Kameron Collieries ULC ("Kameron") milestone payments, which were then discounted at a risk free rate. Management's probability assessment was subject to significant uncertainty; therefore changes to the assessment could have a material impact to the fair value estimates.

Share-based payments

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

2. Basis of presentation

c) Use of estimates and judgments (continued)

Share-based payments (continued)

The Corporation makes assumptions in applying valuation techniques including estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee behaviors and corporate performance. Such assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Income taxes

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences, are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes underlying the Corporations royalties, commodity prices, reserves, capital expenditures, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by all subsidiaries of the Corporation.

a) Basis of consolidation

The consolidated financial statements include those of Morien and its wholly owned subsidiary Advanced Primary Minerals USA Corp, incorporated under the laws of Delaware, USA.

i) Subsidiaries

Subsidiaries are those entities over which the Corporation has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Corporation controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and cease to be consolidated from the date on which control is transferred out of the Corporation. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

3. Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency

i) Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from cumulative translation account to profit or loss on repayment of the monetary items.

ii) Foreign operations

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized as a separate component of equity ("cumulative translation account")

On the loss of control of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are recognized in the income statement as part of the gain or loss on sale.

c) Financial instruments

i) Financial assets

The Corporation initially recognizes loans and receivables and deposits at fair value on the date that they originate. All other financial assets are recognized initially on trade date at which the Corporation becomes party to the contractual provision of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

The Corporation has the following non-derivative financial assets: loans and receivables and marketable securities.

3. Summary of significant accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise receivables and cash.

Cash comprises cash on hand and demand deposits.

Available- for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are designated on acquisition and are carried at fair value. Changes in fair value of an available-for-sale financial asset are recognized in the statement of other comprehensive income or loss. The Corporation's marketable securities and the long-term receivable are classified as available-for-sale.

Fair value

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 levels to classify the inputs to valuation techniques used to measure fair value.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Investments in common shares that have direct listings on an exchange are classified as Level 1.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

ii) Financial liabilities

The Corporation initially recognizes other financial liabilities on the trade date at which the Corporation becomes party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Corporation derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative other financial liabilities: trade and other payables.

3. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

d) Marketable securities

Marketable securities are carried at the lower of cost or market value at the end of the reporting period. The change in fair value is treated as Other Comprehensive Income until a security is sold. Realized gains or losses are based on the average cost of the particular security held at the time of sale.

e) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

f) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

3. Summary of significant accounting policies (continued)

f) Income taxes (continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from tax losses carried forward and fair value adjustments on assets acquired in business combinations.

g) Share-based compensation

Equity-settled share-based awards to employees and others providing similar services are measured at fair value of the equity instruments at the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no-true-up for differences between expected and actual outcomes.

Equity-settled share-based award transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

h) Revenue

The Corporation recognizes royalty revenue based on the fair value of the consideration received or receivable when management can reliably estimate the amount pursuant to the underlying royalty agreements. Under the terms of the Donkin royalty agreement, the sales price used to calculate royalty revenue is subject to certain deductions for handling and transportation costs.

i) Earnings per share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares.

4. Future changes in accounting policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated statements:

IFRS 2 – Share-based Payments

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The amendments apply for annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact of adopting this standard on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

This standard is effective for annual periods beginning on or after January 1, 2018 and provides a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Corporation intends to adopt IFRS 15. The extent of the impact of adoption has yet to be determined.

IFRS 9 - Financial Instruments

The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 for the annual period beginning January 1, 2018. The Corporation does not expect the new standard to have a material impact of the financial statements.

Amendments to IAS 12 – Income taxes

This amendment is effective for annual periods beginning on or after January 1, 2019 to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, Other Comprehensive Income, or equity.

The Corporation intends to adopt this amendment in its financial statements for the annual period beginning January 1, 2019. The extent of the impact of adoption of the amendment has yet to be determined.

(Canadian dollars)

5. Marketable securities

In the year ended December 31, 2017, the Corporation purchased certain publicly traded marketable securities which management classifies as available-for-sale. The cost of purchases in 2017 was $51,067 (2016 - $80,493). At December 31, 2017, the fair value of these securities was $278,487 (December 31, 2016 – $80,955). The Corporation recognized other comprehensive income on the unrealized gain of $146,465 in 2017 (2016 - $462).

6. Receivables from Kameron

On January 7, 2015, the Corporation signed an agreement with Kameron Collieries ULC ("Kameron") to sell the Corporation's 25% working interest in the Donkin Coal Mine ("Donkin") in Cape Breton, Nova Scotia. Pursuant to the agreement, Kameron agreed to pay Morien aggregate cash consideration of $5.5 million; $2.0 million on closing, $2.0 million on or before the earlier of the sale of first domestic coal and the 2nd anniversary of closing, and $1.5 million on or before the earlier of the first export sale of coal and the 3rd anniversary of closing. The transaction closed on February 27, 2015.

Each reporting period the Corporation revalued the remaining $3.5 million of milestone payments owed to the Corporation by Kameron by applying a probability assessment. In February 2017 the Corporation received $2.0 million of the remaining $3.5 million due from Kameron and therefore management increased the probability of collection of this amount from 80% to 100% in the 2016 financial statements. The fair value adjustment was recorded, net of any tax effect, in accumulated other comprehensive income (loss) until the funds were received, at which point the adjustment flowed through the statement of income (loss). At December 31, 2016 the probability assessment for the remaining $1.5 million was increased from 80% to 85% in the 2016 financial statements. The resultant amount was discounted at a risk free rate of 0.73% to arrive at a fair value for the long-term receivable of $1,264,191 at December 31, 2016. The revaluation of the milestone payments resulted in other comprehensive income of $485,537 during 2016. In December 2017 the Corporation collected the final milestone payment of $1.5 million from Kameron. Receipt of this payment resulted in a fair value adjustment of $235,809 in 2017. As a result of collecting the remaining milestone payments from Kameron, the Corporation realized a gain of $991,137 in 2017.

7. Share Capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The number of common shares outstanding at year-end is as follows:

	2017		**2016**	
	Shares	**$**	**Shares**	**$**
Issued and outstanding at January 1	**52,986,614**	**24,705,285**	55,400,614	25,427,254
Normal course issuer bid purchases	**(1,629,000)**	**(237,449)**	(2,414,000)	(721,969)
Stock options exercised	**3,045,000**	**1,372,705**	-	-
Reduction in stated capital	**-**	**(21,804,126)**	-	-
Issued and outstanding at December 31	**54,402,614**	**4,036,415**	52,986,614	24,705,285

Under the terms of a normal course issuer bid ("NCIB"), Morien purchased and cancelled 1,629,000 shares in the year ended December 31, 2017 (2016 – 2,414,000) at a total cost of $989,344 (2016 - $721,969), including $9,724 in transaction costs (2016- $10,305).

(Canadian dollars)

7. Share Capital (continued)

As approved by shareholders at the Corporation's Annual General Meeting held on June 14, 2017, the stated capital of the Corporation's common shares was reduced to $2,160,000 effective June 14, 2017. The reduction will allow management the flexibility to take certain corporate actions, including declaring or paying dividends. For more information, refer to the Corporation's Management Information Circular dated May 12, 2017, which can be found on the Corporation's website (www.morienres.com) or under the Corporation's profile on www.sedar.com. In conjunction with the reduction in the stated capital, the Corporation also reduced the contributed surplus of the Corporation by $16,000,000 via Board of Directors approval. The combined reduction of share capital and contributed surplus was applied to deficit which was reduced by $37,804,126.

The Corporation declared and paid a special dividend of $0.005 (one-half of one cent) per share in December 2017 for total dividends paid of $272,013 (2016 – nil).

8. Stock options, warrants and per share amounts

(a) Stock options

The Corporation has an incentive stock option plan whereby it can grant options to employees, officers, directors and consultants of Morien to acquire up to 10% of the outstanding shares at the time of grant. The board of directors of the Corporation shall determine the exercise price, term and vesting provisions of options granted. Under Morien's stock option plan, the exercise price of each option may not be less than the market price of its shares at the date of grant less a discount permitted by the TSX-V. Options granted under the Morien plan will have a term not to exceed 5 years so long as the Corporation is classified as a Tier 2 issuer by the TSX-V.

The changes in stock options for the years ended December 31, 2017 and 2016 were as follows:

	December 31, 2017			December 31, 2016		
	Number of options	Weighted average exercise price		Number of options	Weighted average exercise price	
Outstanding at January 1	**5,202,500**	**$**	**0.27**	4,985,000	$	0.29
Granted	**-**		**-**	275,000		0.27
Exercised	**(3,045,000)**		**0.29**	-		-
Expired	**-**		**-**	(57,500)		1.49
Outstanding at December 31	**2,157,500**	**$**	**0.25**	5,202,500	$	0.27
Exercisable at December 31	**2,157,500**	**$**	**0.25**	5,202,500	$	0.27

During the year ended December 31, 2017 the Corporation received net proceeds of $885,300 (2016 – Nil) on the exercise of options.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2017:

Expiry date	Number of options outstanding	Weighted average exercise price		Remaining contractual life (years)
October 6, 2019	1,882,500	$	0.25	1.76
January 26, 2021	125,000	$	0.22	3.07
June 30, 2021	150,000	$	0.31	3.50
	2,157,500	$	0.25	1.96

(Canadian dollars)

8. Stock options, warrants and per share amounts (continued)

(b) Share-based compensation

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows (no options were granted in 2017):

		Year-ended December 31, 2016
Share price at grant date	$	0.25
Exercise price	$	0.27
Risk-free interest rate		0.59%
Expected life		4.55 years
Expected volatility		133%
Weighted average grant date fair value	$	0.20

Expected volatility is estimated by considering historic average share price volatility. All options granted in 2016 vested immediately and have a five year term.

(c) Warrants

The following table summarizes the continuity of the warrants for the years ended December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Number of warrants		Weighted average exercise price	Number of warrants		Weighted average exercise price
Outstanding at January 1	-	$	-	341,728	$	0.25
Broker warrants expired	-		-	(341,728)		(0.25)
Outstanding at December 31	-	$	-	-	$	-
Exercisable at December 31	-	$	-	-	$	-

(d) Per share amounts

Per share amounts were calculated on the weighted average number of shares outstanding as outlined below.

	For the year ended December 31 2017		2016	
Net income (loss) for the year	**$**	**576,940**	$	(506,588)
Weighted average number of common share				
- Basic		**53,396,333**		54,233,652
- Diluted		**58,598,833**		59,617,659
Net income (loss) per weighted average common share				
- Basic	**$**	**0.01**	$	(0.01)
- Diluted	**$**	**0.01**	$	(0.01)

(Canadian dollars)

9. Income taxes and deferred tax liability

The Corporation's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

	For the year ended December 31, 2017	2016
Statutory tax rates	**31.0%**	31.0%
Income taxes (recovery) computed at the statutory rates	**$ 171,791**	$ (157,042)
Benefit of tax deductions not recognized	**110,255**	140,197
Impact of gain on long-term receivable	**(307,252)**	-
Expenses not deductible for tax purposes	**850**	18,466
Effect of foreign tax rates	**1,582**	(1,621)
Provision for income taxes	**$ (22,774)**	$ -

The enacted or substantively enacted tax rate in Canada of 31.0% (2016 - 31.0%) and in the USA of 24.9% (2016 – 39.0%) where the Corporation operates are applied in the tax provision calculation.

The following table reflects the Corporation's deferred income tax assets (liabilities).

	For the year ended December 31, 2017	2016
Non-capital losses carried forward	**$ 22,774**	$ -
Marketable securities	**(22,774)**	-
Net deferred income tax assets (liabilities)	**$ -**	$ -

The following temporary differences, capital and non-capital losses have not been recognized in the consolidated financial statements.

	2017			2016		
	Canada	**USA**	**Total**	Canada	USA	Total
Non-capital losses carried forwarc	**$5,515,338**	**$10,540,979**	**$16,056,317**	$5,135,635	$11,106,313	$16,241,948
Property, plant & equipment	**9,834**	**-**	**9,834**	9,834	-	9,834
Share issuance costs	**65,793**	**-**	**65,793**	101,893	-	101,893
Intangible assets	**724,214**	**402,304**	**1,126,518**	724,214	556,569	1,280,783
Long-term receivable	**-**	**-**	**-**	235,809	-	235,809
Deferred resource expenses	**1,128,299**	**-**	**1,128,299**	1,128,299	-	1,128,299
	$7,443,478	**$10,943,283**	**$18,386,761**	$7,335,684	$11,662,882	$18,998,566

As at December 31 2017, the Corporation has non-capital losses available to be carried forward and applied against taxable income of future years. The non-capital losses expire from 2025 to 2037.

(Canadian dollars)

10. Royalty revenue

	For the year ended December 31	
	2017	**2016**
Donkin Mine (Kameron Collieries)	**$ 116,092**	$ -
Black Point (Vulcan Materials)	**50,000**	-
	$ 166,092	$ -

In 2017 the Donkin Coal Mine went into commercial production. The Corporation receives a quarterly royalty on sales based on of 2% on the first 500,000 tonnes of coal sales (net of certain coal handling and transportation costs) per calendar quarter and 4% on tonnage above 500,000 tonnes. In the third quarter of 2017, Vulcan Materials began making minimum quarterly royalty payments of $25,000 to the Corporation related to the Black Point Project. Minimum royalties are subject to an annual inflationary adjustment and will be credited against any future production royalties from Black Point.

11. Corporate and administration expenses

	For the year ended December 31	
	2017	**2016**
Employee and service agreement fees	**$ 377,754**	$ 467,642
Share-based compensation	**-**	56,250
Investor relations and communications	**88,634**	64,850
Office and sundry	**32,806**	27,618
Professional fees	**76,667**	73,838
Regulatory compliance	**148,422**	154,980
Travel and accomadations	**12,420**	16,588
	$ 736,703	$ 861,766

12. Other income

In 2017, the Corporation received a payment of $151,757 from Glencore PLC ("Glencore"). The payment was triggered on production at the Donkin Mine. The payment fulfils all obligations under the Corporation's prior alliance agreement with Glencore.

In 2016, the Corporation received a $400,000 milestone payment from Vulcan Materials Company ("Vulcan") following receipt of the positive provincial and federal environmental approvals on the Black Point Project. Morien is due to receive an additional $400,000 milestone payment from Vulcan upon the completion of related and pending permitting agreements for Black Point. Future milestone payments will be recorded when they are received.

(Canadian dollars)

13. Related Parties

Compensation of key management personnel:

The total remuneration of the Directors and other key management personnel were as follows:

	For the years ended December 31, 2017	2016
Directors' fees	**81,000**	96,000
Share-based compensation to directors	**-**	24,500
Key management compensation and benefits	**214,242**	310,500
Share-based compensation to key management	**-**	24,400
	295,242	455,400

Key management compensation and benefits includes part-time CEO salary costs and management fees charged from Erdene Resource Development Corporation for the services of a part-time CFO and other key management personnel.

14. Capital management

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to finance its business plans and ensure the Corporation remains in sound financial position. The Corporation defines capital that it manages as its equity attributable to common shareholders of the Corporation, which is comprised of share capital, contributed surplus, accumulated other comprehensive income and deficit.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust the capital structure, the Corporation (upon approval from its Board of Directors, as required) may issue additional capital, primarily through equity financings. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions, major investments, as well as annual capital and operating budgets. The Corporation is not subject to externally imposed capital requirements.

15. Financial instruments

Credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2017	December 31, 2016
Cash	**$ 3,856,941**	$ 1,322,764
Receivables	**109,819**	3,113
Current portion of long-term receivable	**-**	2,000,000
Long-term receivable	**-**	1,264,191
	$ 3,966,760	$ 4,590,068

The Corporation manages credit risk by holding the majority of its cash with Schedule 1 banks in Canada, where management believes the risk of loss to be low. Receivables in 2017 include royalty payments from Kameron. The credit risk on the Kameron receivables is considered to be low.

15. Financial instruments (continued)

Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of December 31, 2017, the Corporation had a cash balance of $3,856,941 (December 31, 2016 - $1,322,764) to settle current liabilities of $77,736 (December 31, 2016 - $67,253).

The Corporation holds marketable securities with a fair market value as at December 31, 2017 of $278,487 (December 31, 2016 - $80,955). The daily exchange traded volume of these shares may not be sufficient for the Corporation to liquidate its position in a short period of time without potentially affecting the market value of the shares.

Market risk:

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

(a) Interest rate risk

The Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

(b) Foreign currency risk

Morien operates in Canada, and equity financings are in Canadian dollars. APMUSA is based in the United States but is not currently in active operations; therefore, the exposure to foreign currency risk is limited. The Corporation does not use any form of hedging against fluctuations in foreign exchange.

The Corporation's exposure to USD dollar currency risk was as follows:

	December 31, 2017	December 31, 2016
Cash	**$ 164,655**	$ 9,960
	$ 164,655	$ 9,960

Sensitivity to a plus or minus 10% change in the USD dollar exchange rate would affect comprehensive loss and deficit by approximately $16,500 (2016 - $1,000).

(c) Commodity price risk

The Corporation is exposed to commodity price risk. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Corporation monitors prices for the commodities underlying the Corporation's royalties. At this point the Corporation doesn't enter into any hedging to offset risk.

(d) Equity price risk

The Corporation is exposed to equity price risk through its marketable securities. Sensitivity to a plus or minus 10% change in the market value of its marketable securities would affect comprehensive loss by approximately $27,800 (2016 - $8,100). The Corporation manages exposure to equity price risk within acceptable parameters as approved by the Board of Directors.

(Canadian dollars)

15. Financial instruments (continued)

Fair value

During the years ended December 31, 2017 and 2016, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	December 31, 2017			**December 31, 2016**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets:						
Cash	**$ 3,856,941**	**$ -**	**$ -**	$ 1,322,764	$ -	$ -
Marketable securities	**278,487**	**-**	**-**	80,955	-	-
Current portion of long-term receivable	**-**	**-**	**-**	-	-	2,000,000
Financial asset classified as available-for-sale long-term receivable	**-**	**-**	**-**	-	-	1,264,191

The receivables related to the sale of the Corporation's 25% working interest in Donkin are financial assets categorized as level 3 because the fair value measurement was based on significant inputs not observable in the market, (see note 6).