

**MILLENNIAL LITHIUM CORP.**  
**(formerly Redhill Resources Corp.)**

**Consolidated Financial Statements**

**For the years ended February 28, 2017 and February 29, 2016**

**Expressed in Canadian Dollars**

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Table of Contents**  
**(Expressed in Canadian Dollars)**

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|  |          |
|--|----------|
| <b>Independent Auditors' Report</b>                        | <b>2</b> |
| <b>Financial Statements</b>                                |          |
| Consolidated Statements of Financial Position              | 3        |
| Consolidated Statements of Loss and Comprehensive Loss     | 4        |
| Consolidated Statements of Cash Flows                      | 5        |
| Consolidated Statements of Changes in Shareholders' Equity | 6        |
| Notes to Consolidated Financial Statements                 | 7        |

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Millennial Lithium Corp. (formerly Redhill Resources Corp.)

We have audited the accompanying consolidated financial statements of Millennial Lithium Corp. (formerly Redhill Resources Corp.), which comprise the consolidated statements of financial position as at February 28, 2017 and February 29, 2016 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and 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 the auditors' 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, the auditor considers 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.

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Millennial Lithium Corp. (formerly Redhill Resources Corp.) as at February 28, 2017 and February 29, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

June 23, 2017



**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

|   | February 28,<br>2017 | February 29,<br>2016 |
|---|----------------------|----------------------|
|   | \$                   | \$                   |
| <b>ASSETS</b>                                     |                      |                      |
| <b>Current</b>                                    |                      |                      |
| Cash  | 3,096,669            | 611,557              |
| Receivables (Note 3)                              | 247,414              | 7,435                |
| Prepays   | 674,195              | 29,820               |
| Financial assets (Note 7)                         | 140,400              | -                    |
|   | 4,158,678            | 648,812              |
| <b>Equipment (Note 4)</b>                         | 25,338               | 27,503               |
| <b>Exploration and evaluation assets (Note 5)</b> | 3,624,795            | 1,057,659            |
|   | <b>7,808,811</b>     | <b>1,733,974</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                      |                      |
| <b>Current</b>                                    |                      |                      |
| Accounts payable and accrued liabilities (Note 8) | 273,972              | 35,939               |
| Customer deposit                                  | 3,241                | 1,985                |
|   | 277,213              | 37,924               |
| <b>Shareholders' equity</b>                       |                      |                      |
| Share capital (Note 9)                            | 65,267,752           | 53,488,793           |
| Share subscriptions receivable (Note 9)           | (22,700)             | -                    |
| Reserves (Note 9)                                 | 4,305,101            | 394,846              |
| Deficit   | (62,018,555)         | (52,187,589)         |
|   | 7,531,598            | 1,696,050            |
|   | <b>7,808,811</b>     | <b>1,733,974</b>     |

**Nature and continuance of operations** (Note 1)  
**Commitments** (Note 11)  
**Subsequent events** (Note 17)

Approved and authorized by the Board on June 23, 2017.

**Approved on behalf of the Board of Directors:**

"Graham Harris"  
Director

"Andrew W. Bowering"  
Director

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

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

|   | <b>For the year ended</b>    |                              |
|---|------------------------------|------------------------------|
|   | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|   | <b>\$</b>                    | <b>\$</b>                    |
| <b>OPERATING EXPENSES</b>   |                              |                              |
| Advertising and related   | 653,524                      | -                            |
| Bad debts   | 46,325                       | 39,900                       |
| Consulting fees   | 923,914                      | -                            |
| Depreciation (Note 4)   | 6,911                        | 8,247                        |
| Foreign exchange (gain) loss  | 72,266                       | (327)                        |
| Investor relations  | 12,157                       | 1,517                        |
| Management and directors fees (Note 10)                             | 624,011                      | 551,090                      |
| Office and rent   | 297,332                      | 179,372                      |
| Professional fees (Note 10)   | 290,225                      | 64,787                       |
| Property investigation and due diligence                            | 77,280                       | 4,375                        |
| Regulatory and shareholder services                                 | 79,172                       | 12,281                       |
| Salaries and wages  | 127,069                      | 1,189                        |
| Share-based compensation (Notes 9 and 10)                           | 4,206,893                    | -                            |
| Travel and related  | 381,615                      | 22,185                       |
|   | <u>(7,798,694)</u>           | <u>(884,616)</u>             |
| Impairment of financial assets (Note 7)                             | -                            | (338,229)                    |
| Impairment of loan receivable (Note 6)                              | -                            | (610,168)                    |
| Interest income   | 3,527                        | 29,957                       |
| Other income  | 6,106                        | -                            |
| Loss on warrants held (Note 7)                                      | -                            | (924)                        |
| Loss on sale of financial assets (Note 7)                           | -                            | (315,422)                    |
| Gain on recovery of exploration and evaluation assets (Note 5)      | 205,275                      | -                            |
| Recovery (write-down) of exploration and evaluation assets (Note 5) | <u>(2,398,569)</u>           | <u>183,492</u>               |
|   | <u>(2,183,661)</u>           | <u>(1,051,294)</u>           |
| <b>Net loss for the year</b>  | <b>(9,982,355)</b>           | <b>(1,935,910)</b>           |
| <b>OTHER COMPREHENSIVE LOSS</b>                                     |                              |                              |
| Net change in fair value of financial assets, net of tax            | -                            | (338,229)                    |
| Reclassification of impairment on financial assets                  | <u>-</u>                     | <u>338,229</u>               |
|   | <u>-</u>                     | <u>-</u>                     |
| <b>Total loss and comprehensive loss for the year</b>               | <b>(9,982,355)</b>           | <b>(1,935,910)</b>           |
| Basic and diluted loss per common share                             |                              |                              |
| Net loss for the year   | \$ (0.45)                    | \$ (0.19)                    |
| Weighted average number of common shares outstanding                | 22,353,027                   | 10,341,199                   |

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

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

|   | <b>For the year ended</b>    |                              |
|---|------------------------------|------------------------------|
|   | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|   | <b>\$</b>                    | <b>\$</b>                    |
| <b>Cash flows used in operating activities</b>        |                              |                              |
| Loss for the year                                     | (9,982,355)                  | (1,935,910)                  |
| Items not affecting cash:                             |                              |                              |
| Bad debt expense                                      | 46,325                       | 39,900                       |
| Depreciation  | 6,911                        | 8,247                        |
| Accrued interest on loan receivable                   | -                            | (24,033)                     |
| Share-based compensation                              | 4,206,893                    | -                            |
| Impairment of loan receivable                         | -                            | 610,168                      |
| Impairment of financial assets                        | -                            | 338,229                      |
| Loss on warrants held                                 | -                            | 924                          |
| Loss on sale of financial assets                      | -                            | 315,422                      |
| Gain on disposal of exploration and evaluation assets | (205,275)                    | -                            |
| Write-off of exploration and evaluation assets        | 2,398,569                    | -                            |
| Changes in non-cash working capital items:            |                              |                              |
| Receivables   | (286,304)                    | (27,509)                     |
| Prepays   | (644,375)                    | 48,248                       |
| Accounts payable and accrued liabilities              | 194,810                      | (20,961)                     |
| Customer deposit                                      | 1,256                        | 1,985                        |
|   | <u>(4,263,545)</u>           | <u>(645,290)</u>             |
| <b>Cash flows from (used in) investing activities</b> |                              |                              |
| Exploration and evaluation asset expenditures         | (2,873,107)                  | (33,851)                     |
| Proceeds from sale of financial assets                | -                            | 105,715                      |
| Purchase of equipment                                 | (4,746)                      | -                            |
| Purchase of financial assets                          | -                            | (4,282)                      |
| Reclamation bonds                                     | -                            | 5,004                        |
|   | <u>(2,877,853)</u>           | <u>72,586</u>                |
| <b>Cash flows from financing activities</b>           |                              |                              |
| Shares issued for cash                                | 6,052,300                    | -                            |
| Share issuance costs                                  | (147,198)                    | -                            |
| Proceeds from exercise of options                     | 197,500                      | -                            |
| Proceeds from exercise of warrants                    | 3,523,908                    | -                            |
|   | <u>9,626,510</u>             | <u>-</u>                     |
| <b>Change in cash during the year</b>                 | <b>2,485,112</b>             | <b>(572,704)</b>             |
| <b>Cash, beginning of year</b>                        | <b>611,557</b>               | <b>1,184,261</b>             |
| <b>Cash, end of year</b>                              | <b>3,096,669</b>             | <b>611,557</b>               |

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

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Expressed in Canadian Dollars)**

|   | Number of<br>Shares<br>Issued | Share<br>Capital<br>\$ | Share<br>Subscriptions<br>Receivable | Reserves       |                        |                  | Deficit<br>\$       | Total<br>Shareholders'<br>Equity<br>\$ |
|---|-------------------------------|------------------------|--------------------------------------|----------------|------------------------|------------------|---------------------|--|
|   |                               |                        |                                      | Warrants<br>\$ | Share<br>Options<br>\$ | Total<br>\$      |                     |  |
| <b>Balance at February 28, 2015</b>   | 10,341,198                    | 53,488,793             | -                                    | -              | 622,939                | 622,939          | (50,479,772)        | 3,631,960                              |
| Forfeited share options   | -                             | -                      | -                                    | -              | (228,093)              | (228,093)        | 228,093             | -                                      |
| Comprehensive loss for the year   | -                             | -                      | -                                    | -              | -                      | -                | (1,935,910)         | (1,935,910)                            |
| <b>Balance at February 29, 2016</b>   | 10,341,198                    | 53,488,793             | -                                    | -              | 394,846                | 394,846          | (52,187,589)        | 1,696,050                              |
| Private placements  | 15,500,000                    | 6,075,000              | (22,700)                             | -              | -                      | -                | -                   | 6,052,300                              |
| Shares issued pursuant to acquisition<br>of exploration and evaluation assets | 2,000,000                     | 1,940,000              | -                                    | -              | -                      | -                | -                   | 1,940,000                              |
| Units issued for finders' fees  | 189,137                       | 336,664                | -                                    | 113,703        | -                      | 113,703          | -                   | 450,367                                |
| Share options exercised   | 620,000                       | 456,452                | -                                    | -              | (258,952)              | (258,952)        | -                   | 197,500                                |
| Warrants exercised  | 9,123,908                     | 3,523,908              | -                                    | -              | -                      | -                | -                   | 3,523,908                              |
| Share issuance costs  | -                             | (553,065)              | -                                    | -              | -                      | -                | -                   | (553,065)                              |
| Share-based compensation  | -                             | -                      | -                                    | -              | 4,206,893              | 4,206,893        | -                   | 4,206,893                              |
| Forfeited share options   | -                             | -                      | -                                    | -              | (151,389)              | (151,389)        | 151,389             | -                                      |
| Comprehensive loss for the year   | -                             | -                      | -                                    | -              | -                      | -                | (9,982,355)         | (9,982,355)                            |
| <b>Balance at February 28, 2017</b>   | <b>37,774,243</b>             | <b>65,267,752</b>      | <b>(22,700)</b>                      | <b>113,703</b> | <b>4,191,398</b>       | <b>4,305,101</b> | <b>(62,018,555)</b> | <b>7,531,598</b>                       |

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Millennial Lithium Corp. (the "Company") (formerly Redhill Resources Corp.) was incorporated on March 7, 2005 under the laws of the Province of British Columbia. The Company completed a change of name on June 24, 2016 and is currently listed on the TSX Venture Exchange ("TSX-V") under the symbol "ML" and the OTCQB markets in the United States under the symbol "MLNLF". The Company also trades on the Frankfurt stock exchange. The Company's principal business is to acquire, explore and develop lithium mineral properties and oil & gas resource interests.

The head office and principal address of the Company is Suite 2000, 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2K3. The registered and records office is located at Suite 650, 1188 West Georgia Street, Vancouver, BC, V6E 4A2.

In June 2016, the Company completed a share consolidation on the basis of one new post-consolidation common share for every two pre-consolidation common shares. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

The Company's exploration and evaluation assets are at the exploration stage and are without a known body of commercial ore or hydrocarbon reserves. The business of exploring for exploration and evaluation assets involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines or wells. Major expenses may be required to establish mineral property and oil and gas reserves, to acquire construction and operating permits and to construct mineral property and/or oil and gas production and processing facilities. The amounts shown as exploration and evaluation assets represent acquisition, holding and exploration and evaluation costs and do not necessarily represent present or future recoverable values. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the Company obtaining the necessary financing to complete the exploration and development of the properties, the discovery of economically recoverable reserves and future profitable operations.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiary will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at February 28, 2017, the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. The Company estimates it has sufficient working capital to continue operations for the upcoming year.

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



## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

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

The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on June 23, 2017.

### **Basis of presentation**

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

### **Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Proyecto Pastos Grandes S.A. All significant intercompany accounts and transactions between the Company and its subsidiary have been eliminated upon consolidation.

### **Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation assets including oil and gas interests, determination of functional currency, valuation of share-based compensation and other equity based payments, and the recoverability and measurement of deferred tax assets and liabilities.

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

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

Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of hydrocarbon deposits with similar characteristics to its own properties to proven and probable hydrocarbon reserves, a history of conversion of oil and gas reserves with similar characteristics to its own properties to proven and probable hydrocarbon reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

#### Functional currency

The functional currency of the Company and its wholly owned subsidiary is the Canadian dollar ("CAD"); however, determination of functional currency may involve certain judgments to determine the primary economic environment which is re-evaluated for each new entity or if conditions change.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Use of estimates (continued)**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

#### Valuation of share-based compensation, investment in warrants, and convertible features

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

#### Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

### **Foreign currency translation**

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

Transactions in currencies other than Canadian dollars are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities in foreign currencies are translated at historical rates. Revenues and expenses are translated at the average exchange rates approximating those in effect during the reporting period.

### **Equipment**

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of loss and comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is charged to earnings over the estimated useful lives using the declining balance method or straight line basis as follows:

|                              |     |
|------------------------------|-----|
| Computer equipment           | 30% |
| Other equipment and vehicles | 20% |

Leasehold improvements are amortized over the term of the related lease.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Exploration and evaluation assets**

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property when received.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### **Farm outs**

The Company uses the carrying amount of the exploration and evaluation asset interest before the farm-out as the carrying amount for the portion of the interest retained. Any cash consideration received is credited against the carrying amount of the portion of the interest retained and is recorded as a recovery, with any excess included as a gain in profit or loss. The Company does not record any expenditure made by the farmee on its account.

### **Asset retirement obligation ("ARO")**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

For the years presented, the Company did not have any asset retirement obligations.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Impairment of non-financial assets**

The carrying amount of the Company's non-financial assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in net income on the statement of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

### **Share capital**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity, net of tax.

#### *Valuation of equity units issued in private placements:*

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements is determined to be the more easily measurable component as they are valued at their fair value which is determined by the closing price on the issuance date. The remaining balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves. If the warrants expire unexercised, the value attributed to the warrants is transferred to deficit.

### **Loss per share**

Basic and diluted loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of shares outstanding during the reporting period. If applicable, diluted income per share is computed similar to basic income per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding share options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. All of the Company's 5,908,161 (February 29, 2016 – 582,500) outstanding options and warrants were anti-dilutive and therefore excluded from the diluted loss per share calculation.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Share-based compensation**

The Company operates an employee share option plan. Share-based compensation to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share option reserve. The fair value of options is determined using the Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company transfers the value of forfeited and expired unexercised vested stock options and compensatory warrants to deficit or share capital from reserves on the date of expiration based on the nature of the item.

### **Financial instruments**

#### Financial assets

The Company classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company classifies cash and its investment in Southern Lithium Corp's. common shares (Note 7) as fair value through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies receivables as loans and receivables.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive loss. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive loss and recognized in profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Financial instruments (continued)**

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*: This category consists of liabilities carried at amortized cost using the effective interest method, and includes accounts payable and accrued liabilities and customer deposits.

### **Income taxes**

#### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

#### Deferred income tax

Deferred income tax is provided for based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Current income and deferred tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### **Changes in accounting standards**

The Company has adopted the following accounting standards effective March 1, 2016 which had no significant impact on the consolidated financial statements:

- Amendments to IFRS 7, Financial Instruments: Disclosure
- Amendments to IAS 1, Presentation of Financial Statements
- Amendments to IAS 34, Interim Financial Reporting

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Accounting pronouncements not yet adopted**

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended February 28, 2017 and have not been applied in preparing these consolidated financial statements.

- a) IFRS 2 – Share Based Payments: the amendments eliminate the diversity in practice in the classification and measurement of particular share-based payment transactions which are narrow in scope and address specific areas of classification and measurement. It is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted provided it is disclosed. Management does not anticipate this standard having a material effect on the Company's consolidated financial statements.
- b) IFRS 9 – Financial Instruments: Classification and Measurement: applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Management does not anticipate this standard having a material effect on the Company's consolidated financial statements.
- c) IFRS 15 – Revenue from Contracts with Customers: establishes principles that an entity shall report more useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. More specifically to production (and sales) based royalties, variable consideration is estimated and included in the transaction price to the extent it is highly probable that there will be no significant reversal in the amount of cumulative revenue recognized when the uncertainty is resolved. This new approach to variable revenue could accelerate the recognition of revenue which depends on future production (or sales) levels. The standard was issued in May 2014 and is effective for annual periods beginning on or after January 1, 2018. Management is currently evaluating the impact this standard will have on the Company's consolidated financial statements.
- d) IFRS 16 – Leases: specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. Management is currently evaluating the impact this standard will have on the Company's consolidated financial statements.
- e) IAS 7 – Statement of Cash Flows (disclosure initiative): these amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment is effective for reporting periods beginning on or after January 1, 2017. Management does not anticipate this standard having a material effect on the Company's consolidated financial statements.

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting pronouncements not yet adopted (continued)**

- f) IAS 12 – Income Taxes: the amendments clarify the recognition of deferred tax assets for unrealized losses on debt instruments. It is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management does not anticipate this standard having a material effect on the Company's consolidated financial statements.

**3. RECEIVABLES**

|   | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|---|------------------------------|------------------------------|
|   | <b>\$</b>                    | <b>\$</b>                    |
| Sales tax receivable                                      | 230,255                      | 4,638                        |
| Other receivables, net of allowance for doubtful accounts | 17,159                       | 2,797                        |
|   | <b>247,414</b>               | <b>7,435</b>                 |

**4. EQUIPMENT**

|  | <b>Computer<br/>equipment</b> | <b>Other<br/>equipment</b> | <b>Total</b>  |
|--|-------------------------------|----------------------------|---------------|
|  | <b>\$</b>                     | <b>\$</b>                  | <b>\$</b>     |
| <b>Cost:</b>                               |                               |                            |               |
| At February 28, 2015 and February 29, 2016 | 78,775                        | 79,920                     | 238,734       |
| Additions                                  | 3,346                         | 1,400                      | 4,746         |
| At February 28, 2017                       | 82,121                        | 81,320                     | 243,480       |
| <b>Depreciation:</b>                       |                               |                            |               |
| At February 28, 2015                       | 63,561                        | 59,384                     | 202,984       |
| Additions                                  | 3,292                         | 4,955                      | 8,247         |
| At February 29, 2016                       | 66,853                        | 64,339                     | 211,231       |
| Additions                                  | 2,807                         | 4,104                      | 6,911         |
| At February 28, 2017                       | 69,660                        | 68,443                     | 218,142       |
| <b>Net book value:</b>                     |                               |                            |               |
| At February 29, 2016                       | 11,922                        | 15,581                     | 27,503        |
| <b>At February 28, 2017</b>                | <b>12,461</b>                 | <b>12,877</b>              | <b>25,338</b> |



**Millennial Lithium Corp.**  
(formerly Redhill Resources Corp.)  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**5. EXPLORATION AND EVALUATION ASSETS**

|   | Mineral Properties            |                                    |                                   |                          |                          | Oil and Gas Properties   | Total       |
|---|-------------------------------|------------------------------------|-----------------------------------|--------------------------|--------------------------|--------------------------|-------------|
|   | Lincoln Lithium Project (USA) | Pastos Grandes Project (Argentina) | Cauchari East Project (Argentina) | Cruz Project (Argentina) | Pocitos West (Argentina) | Montney Project (Canada) |             |
|   | \$                            | \$                                 |                                   |                          |                          |                          |             |
| <b>Balance, February 28, 2015</b>               | -                             | -                                  | -                                 | -                        | -                        | 1,023,808                | 1,023,808   |
| Exploration expenditures:                       |                               |                                    |                                   |                          |                          |                          |             |
| Geological and engineering contractors          | -                             | -                                  | -                                 | -                        | -                        | 26,683                   | 26,683      |
| Lease rentals                                   | -                             | -                                  | -                                 | -                        | -                        | 7,168                    | 7,168       |
| Subtotal  | -                             | -                                  | -                                 | -                        | -                        | 33,851                   | 33,851      |
| <b>Balance, February 29, 2016</b>               | -                             | -                                  | -                                 | -                        | -                        | 1,057,659                | 1,057,659   |
| Acquisition costs                               | 1,325,000                     | 1,902,776                          | 13,076                            | 203,123                  | 131,985                  | -                        | 3,575,960   |
| Exploration expenditures:                       |                               |                                    |                                   |                          |                          |                          |             |
| Assays  | -                             | 27,649                             | -                                 | -                        | -                        | -                        | 27,649      |
| Drilling and metallurgical                      | -                             | 842,745                            | -                                 | -                        | -                        | -                        | 842,745     |
| Field Supplies                                  | -                             | 11,282                             | 23                                | -                        | -                        | -                        | 11,305      |
| Geological and engineering contractors          | 8,655                         | 458,487                            | 726                               | -                        | -                        | 87                       | 467,955     |
| Lease rentals                                   | -                             | -                                  | -                                 | -                        | -                        | 7,168                    | 7,168       |
| Maintenance                                     | -                             | 27,326                             | -                                 | -                        | -                        | -                        | 27,326      |
| Mining claims                                   | -                             | 67,281                             | 26,093                            | -                        | -                        | -                        | 93,374      |
| Permits   | -                             | -                                  | -                                 | -                        | 6,711                    | -                        | 6,711       |
| Travel and accommodations                       | -                             | 108,635                            | -                                 | 92                       | -                        | -                        | 108,727     |
| Subtotal  | 1,333,655                     | 3,446,181                          | 39,918                            | 203,215                  | 138,696                  | 7,255                    | 5,168,920   |
| Write-down of exploration and evaluation assets | (1,333,655)                   | -                                  | -                                 | -                        | -                        | (1,064,914)              | (2,398,569) |
| Recovery of exploration and evaluation assets   | -                             | -                                  | -                                 | (203,215)                | -                        | -                        | (203,215)   |
| <b>Balance, February 28, 2017</b>               | -                             | 3,446,181                          | 39,918                            | -                        | 138,696                  | -                        | 3,624,795   |

**5. EXPLORATION AND EVALUATION ASSETS (continued)**

**MINERAL PROPERTIES**

*Lincoln Lithium Project*

In May 2016, the Company entered into a property option and assignment agreement with a vendor to acquire 100% right, title and interest in and to the Lincoln Lithium Property (the "Lincoln Property") in Nevada. To earn its interest in the Lincoln Property, the agreement calls for the Company to make the following payments, share issuances, and work commitments:

- Pay to the underlying owner a non-refundable deposit of \$25,000 (paid) upon signing of the agreement;
- Pay to the underlying owner an additional \$225,000 (paid) upon approval of the agreement by the TSX Venture Exchange (the "Exchange");
- Issue to the vendor 1,500,000 common shares (issued for a value of \$1,050,000 – Note 9) upon closing of the agreement;
- Pay to the vendor \$750,000 on or before July 7, 2017; and
- Expend \$250,000 in exploration expenditures on the Lincoln Property on or before July 7, 2017.

Upon exercise of the option agreement, the underlying owner will retain a 1% gross overriding royalty. The Company may purchase the gross overriding royalty for cash consideration of \$1,000,000 at any time.

A finder's fee of \$25,000 was paid in connection with this agreement.

Based on certain assay results from drill activity in October 2016, management decided to cease exploration activity on the project and not pay any further option payments to maintain the property in good standing; as such, the Company wrote-down this project to \$Nil during the year.

*Pastos Grandes Lithium Project*

In July 2016, the Company entered into an initial purchase agreement to purchase 100% of the Pastos Grandes Lithium Property (the "Pastos Grandes Property") in Salta Province, Argentina. In September 2016, the Company finalized a definitive agreement with the vendors. Pursuant to the terms of the agreement, the Company can acquire a 100% interest in the Pastos Grandes Property in consideration for the following payments and share issuances to the vendor:

- Pay US\$200,000 (Cdn\$260,780 paid) deposit on execution of the initial agreement;
- Pay US\$500,000 (Cdn\$661,350 paid) and issue 500,000 common shares (issued for a value of \$890,000 – Note 9) on the Exchange approval of the definitive agreement;
- Pay US\$500,000 (paid subsequently) and issue 500,000 common shares (issued subsequently) of the Company on or before April 6, 2017;
- Make exploration expenditures of US\$1,600,000 on or before September 16, 2017; and
- Pay US\$1,000,000 to the vendors on or before October 6, 2017.

The Pastos Grandes Property is subject to a royalty equal to 1.5% of the gross annual sales of lithium from the project, which the Company has the option to purchase for US\$3,000,000 until October 6, 2019.

A finder's fee equal to 5% of all cash payments and share issuance is payable based on the cash payments and share issuance schedule required to be made to the vendors as described above. As at February 28, 2017, US\$35,000 (Cdn\$46,146) was paid in cash and 25,000 common shares, with a value of \$44,500, have been issued (Note 9).

## **5. EXPLORATION AND EVALUATION ASSETS (continued)**

### *Cauchari East Lithium Project*

In September 2016, the Company entered into a property option agreement with a vendor to acquire 100% of the Cauchari East Lithium Property (the "Cauchari East Property") in Jujuy Province, Argentina. In April 2017, the Company signed an amendment to the original agreement. Pursuant to the terms of the amending agreement, the Company can acquire a 100% interest in the Cauchari East Property in consideration of the following payments, shares issuances, and work commitments:

- To earn a 50% interest in the property:
  - Pay to the vendor US\$250,000 (US\$10,000 (Cdn\$13,076)) paid; US\$240,000 paid subsequently) within 10 days of confirmation of title (the "Confirmation") to the property being obtained by the Company;
  - Issue to the vendor US\$500,000 worth of the Company's common shares (issued subsequently) within 10 business days of the later of the date of the Exchange approval of this agreement or the date of receipt by the Company of the Confirmation of this agreement;
  - Pay to the vendor an additional US\$70,000 on or before April 5, 2018;
  - Issue to the vendor an additional US\$1,000,000 worth of the Company's common shares on or before April 5, 2018; and
  - Make US\$2,000,000 in expenditures on the property on or before April 5, 2018 unless another date is agreed by the parties;
- To earn a further 50% interest in the property:
  - pay to the vendors an additional US\$1,000,000 on or before April 5, 2020;
  - issue to the vendors an additional US\$1,000,000 worth of the Company's common shares on or before April 5, 2020; and
  - make an additional US\$2,000,000 in expenditures on or before April 5, 2020.

For the purpose of the Company making the share issuances above, the value per share will be set at the average closing trading price of the Company's shares for the five trading days prior to the date of issuance.

Upon acquiring a 100% interest in the Cauchari East Property, the vendor will retain a 3.5% gross overriding royalty. The Company may purchase 2% of the gross overriding royalty for cash consideration of US\$2,000,000 at any time after exercising 100% of the option.

A finder's fee of US\$157,500 in cash payments is payable on acquiring the first 50% interest in the property and a further US\$100,000 in cash payments is payable if the Company earns a 100% interest in the property. As at February 28, 2017, no finder's fees had been paid.

### *Cruz Lithium Project*

In October 2016, the Company entered into a property option agreement with a vendor to acquire 100% of the Cruz Lithium Property (the "Cruz Property") in Salta Province, Argentina. Under the terms of the agreement, the Company can acquire a 100% interest in the Cruz Property in consideration of the following payments:

- Pay to the vendor US\$25,000 (Cdn\$33,285 paid) within 10 business days of the execution of the agreement;
- Pay to the vendor US\$125,000 (Cdn\$169,838 paid) upon receiving Exchange approval;
- Pay to the vendor US\$550,000 on or before October 11, 2017; and
- Pay to the vendor US\$550,000 on or before October 11, 2018.

**5. EXPLORATION AND EVALUATION ASSETS (continued)**

**MINERAL PROPERTIES (continued)**

*Cruz Lithium Project (continued)*

In November 2016, the Company entered into a property option agreement with Southern Lithium Corp. ("Southern Lithium") whereby Southern Lithium will be granted the option to acquire up to an 80% interest in the Cruz Property. Under the terms of the agreement, Southern Lithium can acquire an 80% interest in the Cruz Property in consideration of the following payments, shares issuances, and work commitments:

- To earn a 70% interest in the property:
  - Pay to the Company US\$150,000 (Cdn\$200,750 received) prior to the execution of the agreement;
  - Pay to the Company US\$50,000 (Cdn\$67,340 received) upon execution of the agreement;
  - Issue to the Company 540,000 common shares (received at a value of \$140,400 – Note 7) of Southern Lithium within 5 business days of the date of the Exchange approval of this agreement is received by Southern Lithium;
  - Deposit to a joint exploration bank account US\$500,000 prior to November 30, 2016 (deposit made);
  - Expend US\$500,000 in exploration expenditures on the property on or before October 1, 2017;
  - Pay to the Company US\$1,000,000 on or before October 1, 2017; and
  - Pay to the Company US\$1,000,000 on or before October 1, 2018;
- To earn a further 10% interest in the property, Southern Lithium must complete a bankable commercial feasibility study on the property on or before May 10, 2020.

As at February 28, 2017, the Company had received \$408,490 in deposits and shares from Southern Lithium resulting in a recovery of exploration and evaluation expenses of \$203,215 and a gain on recovery of exploration and evaluation expenses of \$205,275.

*Pocitos West Lithium Project*

In February 2017, the Company entered into an exploration and purchase option agreement to purchase 100% of the Pocitos West Lithium Property (the "Pocitos West Property") in Salta Province, Argentina. Under the terms of the agreement, the Company can acquire a 100% interest in the Pocitos West Property in consideration of the following payments:

- Pay US\$100,000 (Cdn\$131,985 paid) within two days of February 1, 2017;
- Pay US\$150,000 on or before April 1, 2017 (paid subsequently), subject to the Exchange approval of the agreement and delivery of certificate of ownership issued by the Court of Mines;
- Pay US\$250,000 on or before August 1, 2017;
- Pay US\$500,000 on or before February 1, 2018;
- Pay US\$500,000 on or before August 1, 2018;
- Pay US\$500,000 on or before February 1, 2019;
- Pay US\$500,000 on or before August 1, 2019; and
- Pay US\$2,000,000 on or before February 1, 2020.

*Other*

In September 2015, the Company received a mining tax credit of \$183,970 (which included interest of \$478) relating to a previously written-down property. As such, the Company recorded a recovery of exploration and evaluation assets of \$183,492 during the year ended February 29, 2016.

**5. EXPLORATION AND EVALUATION ASSETS (continued)**

**OIL AND GAS PROPERTIES**

*Montney Project*

In September 2014, the Company acquired a 100% interest in a total of eight sections of crown petroleum and natural gas leases (the "Montney Leases") from the Government of Alberta's September 17, 2014 public offering of Crown land rights for total consideration of \$1,008,640. The Montney Leases cover 2,048 hectares in North Western Alberta, have a four-year exploration term, and require annual lease rentals of \$7,168. The acquired rights are in the exploration and pre-production phase and as such, the Company has capitalized all related exploration expenditures incurred. All costs incurred prior to obtaining the land rights were expensed as property investigation and due diligence costs in the statement of loss and comprehensive loss.

In February 2016, the Company entered into a farm-out arrangement with an arm's length party ("PrivateCo"). Under the terms of the arrangement, PrivateCo is required to drill a single step-out well on the project by September 30, 2016 (later extended to January 31, 2017) to earn the lands and evaluate the project for subsequent drilling and development. Upon completion of a test well to the Montney formation, PrivateCo will then earn 100% of the Company's pre farm-out working interest in the Montney project.

In exchange for the earned rights, PrivateCo will pay a gross overriding royalty to the Company of 2.5% of the gross monthly production thereof produced from each royalty well, payable prior to operating expenses, and at no capital risk to the Company.

Pursuant to this agreement, on May 8, 2017 the Company transferred title to the Montney Leases to PrivateCo; as such, the Company wrote-down this project as at February 28, 2017.

*GORR Lands*

In December 2013, the Company acquired a 100% interest in seven-crown petroleum and natural gas leases (the "Leases") located in North Western Alberta from the Government of Alberta public offering of Crown land rights. In May 2014, the Leases were sold to High North Resources Ltd ("High North").

The Company retained a 2.5% gross overriding royalty in any production for the Leases. As at February 28, 2017, there was no production from these leases.

**6. LOAN RECEIVABLE**

In April 2014, the Company purchased 850 12% one-year convertible debentures at a subscription price of \$1,000 per debenture. The debentures bore interest at 12% per annum which was payable semi-annually. Each debenture was convertible at the holder's option into common shares of High North for a period of one year at \$0.85 per common share.

High North informed the Company they were not able to repay the principal and remaining interest payment of the debenture that matured on April 4, 2015. In March 2015, the Company waived the event of default by High North and agreed to participate in a Plan of Arrangement (the "Plan"). Under the Plan, the Company agreed to convert the principal and accrued interest receivable into common shares of High North at a deemed value of \$0.06 per share. Annual interest was reduced to 6% from April 4, 2015 up to the date of redemption, resulting in the recognition of \$24,033 in total interest income during the year ended February 29, 2016.

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

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**6. LOAN RECEIVABLE (continued)**

In July 2015, the Company finalized the election under the Plan to convert its entire principal and remaining interest balance into common shares of High North, which resulted in the receipt of 15,254,203 High North common shares (Note 7) at a fair value of \$0.02 per share. The Company recognized an impairment on its loan receivable of \$610,168 due to the terms of the transaction during the year ended February 29, 2016.

**7. FINANCIAL ASSETS**

- a) In October 2013, the Company subscribed to 3,000,000 units of High North (the "High North Unit") at a price of \$0.35 per unit for \$1,050,000. Each High North Unit consisted of one common share and one-half share purchase warrant, which was exercisable for two years at an exercise price of \$0.50 per whole warrant. No value was allocated to the warrants on initial recognition.

In July 2015, the Company received 15,254,203 common shares of High North valued at \$0.02 per share as a result of the Company's election to fully convert its debenture and remaining interest payment (Note 6).

During the year ended February 29, 2016, the Company acquired an additional 424,000 common shares of High North for \$0.01 per share and sold 12,824,203 common shares of High North for total proceeds of \$105,715, which resulted in a loss on sale of financial assets of \$315,422.

At February 28, 2017, the Company held 8,854,000 (February 29, 2016 – 8,854,000) High North shares; however, management determined that the shares had a fair value of \$Nil (February 29, 2016 – \$Nil) as High North was placed into receivership in January 2016. As a result, the Company recorded a permanent impairment of these financial assets, net of tax, of \$338,229 during the year ended February 29, 2016.

Warrants:

In October 2015, the 1,500,000 warrants held in High North expired unexercised. As a result, the Company recorded a loss on warrants held of \$924 during the year ended February 29, 2016.

- b) In February 2017, the Company received 540,000 common shares of Southern Lithium ("Southern Lithium shares") in relation to a property option agreement. On initial recognition and February 28, 2017, the Southern Lithium shares had a value of \$140,400.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                     | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|---------------------|------------------------------|------------------------------|
| Accounts payable    | \$ 167,784                   | \$ 6,939                     |
| Accrued liabilities | 68,982                       | 29,000                       |
| Payroll liabilities | 37,206                       | -                            |
|                     | <b>273,972</b>               | <b>35,939</b>                |

## **9. SHARE CAPITAL AND RESERVES**

### **Authorized share capital**

Unlimited number of common shares without par value.

In June 2016, the Company completed a share consolidation on the basis of one new post-consolidation common share for every two pre-consolidation common shares. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

### **Issued share capital**

During the year ended February 28, 2017, the Company:

- a) Completed a non-brokered private placement in July 2016 which consisted of the issuance of 8,000,000 units at a price of \$0.15 per unit for gross proceeds of \$1,200,000. Each unit consisted of one common share and one share purchase warrant exercisable for a two-year period at an exercise price of \$0.30 per warrant. The warrants are subject to an acceleration clause whereby if the Company's shares closes at or above \$1.00 for a period of 20 consecutive trading days, the holders of the Warrant will either have to exercise them on 14 days notice or the warrants will be cancelled;
- b) Completed a non-brokered private placement in September 2016 which consisted of the issuance of 7,500,000 units at a price of \$0.65 per unit for gross proceeds of \$4,875,000. Each unit consisted of one common share and one-half share purchase warrant exercisable for a two-year period at an exercise price of \$1.00 per warrant. The Company paid finders' fees of \$106,938 and issued 164,137 finders' shares valued at \$292,164 in connection with the private placement;
- c) Issued 1,500,000 shares valued at \$1,050,000 pursuant to the Lincoln Property agreement (Note 5);
- d) Issued 500,000 shares valued at \$890,000 pursuant to the Pastos Grandes Property agreement (Note 5). The Company issued 25,000 finders' shares valued at \$44,500 in connection with the issuance of these shares;
- e) Issued 620,000 common shares in connection with the exercise of 150,000 share options at \$0.31 per option for proceeds of \$46,500, 20,000 share options at \$0.80 per option for proceeds of \$16,000, and 450,000 share options at \$0.30 per option for proceeds of \$135,000. As a result, the Company transferred \$258,952 representing the fair value of the exercised share options from reserves to share capital; and
- f) Issued 9,123,908 common shares in connection with the exercise of 8,000,000 share warrants at \$0.30 per warrant for proceeds of \$2,400,000 and 1,123,908 share warrants at \$1.00 per warrant for proceeds of \$1,123,908.

No shares were issued during the year ended February 29, 2016.

### **Share Options**

The Company has a share option plan (the "Plan") whereby the Company can grant share options to directors, officers, employees and consultants enabling them to acquire up to 10% of the issued common shares of the Company. Options granted can have a maximum term of ten years and the board of directors can determine the vesting requirements.

During the year ended February 28, 2017, the Company granted 3,675,000 (2016 – nil) share options with a total fair value of \$4,206,893 (February 29, 2016 - \$nil).

During the year ended February 28, 2017, 187,500 (February 29, 2016 - 565,000) stock options were forfeited. As a result, \$151,389 (February 29, 2016 - \$228,093) was transferred from reserves to deficit.

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**9. SHARE CAPITAL AND RESERVES (continued)**

**Share Options (continued)**

The following weighted average assumptions were used in the Black-Scholes option-pricing model for the valuation of the share options granted:

|  | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|--|------------------------------|------------------------------|
| Risk-free interest rate                | 0.70%                        | -                            |
| Dividend yield                         | Nil                          | -                            |
| Expected life                          | 4.33 years                   | -                            |
| Volatility                             | 128.51%                      | -                            |
| Weighted average fair value per option | \$1.07                       |                              |

Share options transactions are summarized as follows:

|                                   | <b>Number of<br/>Share Options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-----------------------------------|------------------------------------|--|
|                                   |                                    | <b>\$</b>                                  |
| Balance, February 28, 2015        | 865,000                            | 0.72                                       |
| Forfeited                         | (282,500)                          | 0.80                                       |
| Balance, February 29, 2016        | 582,500                            | 0.70                                       |
| Granted                           | 3,675,000                          | 1.33                                       |
| Exercised                         | (620,000)                          | 0.33                                       |
| Forfeited                         | (187,500)                          | 0.80                                       |
| <b>Balance, February 28, 2017</b> | <b>3,450,000</b>                   | <b>1.42</b>                                |

A summary of the share options outstanding and exercisable at February 28, 2017 is as follows:

| <b>Number of Share<br/>Options</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|------------------------------------|-----------------------|--------------------|
|                                    | <b>\$</b>             |                    |
| 175,000                            | 0.80                  | August 11, 2019    |
| 50,000                             | 1.00                  | September 25, 2019 |
| 800,000                            | 1.22                  | August 25, 2021    |
| 1,550,000                          | 1.65                  | October 12, 2021   |
| 250,000                            | 1.35                  | November 18, 2021  |
| 225,000                            | 1.45                  | December 20, 2021  |
| 400,000                            | 1.40                  | January 16, 2019   |
| <b>3,450,000</b>                   |                       |                    |

The weighted average life of share options outstanding at February 28, 2017 was 4.16 years.



**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**9. SHARE CAPITAL AND RESERVES (continued)**

**Warrants**

During the year ended February 28, 2017, the Company issued 8,000,000 warrants with an exercise price of \$0.30 per warrant in connection with the July 2016 private placement and a further 3,832,069 warrants with an exercise price of \$1.00 per warrant in connection with the September 2016 private placement. Included in the September 2016 private placement warrants is 82,069 warrants issued as finders' fees ("finders' warrants") with a total fair value of \$113,703.

The following weighted average assumptions were used in the Black-Scholes option-pricing model for the valuation of the finders' warrants granted:

|                         | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|-------------------------|------------------------------|------------------------------|
| Risk-free interest rate | 0.58%                        | -                            |
| Dividend yield          | Nil                          | -                            |
| Expected life           | 2 years                      | -                            |
| Volatility              | 145.37%                      | -                            |

Warrant transactions are summarized as follows:

|                                   | <b>Number of<br/>Warrants</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-----------------------------------|-------------------------------|--|
|                                   |                               | <b>\$</b>                                  |
| Balance February 28, 2015         | 1,412,499                     | 0.32                                       |
| Expired                           | (1,412,499)                   | 0.32                                       |
| Balance February 29, 2016         | -                             | -  |
| Granted                           | 11,832,069                    | 0.52                                       |
| Exercised                         | (9,123,908)                   | 0.38                                       |
| <b>Balance, February 28, 2017</b> | <b>2,708,161</b>              | <b>1.00</b>                                |

A summary of the warrants outstanding at February 28, 2017 is as follows:

| <b>Number of Warrants</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|---------------------------|-----------------------|--------------------|
|                           | <b>\$</b>             |                    |
| 2,708,161                 | 1.00                  | September 16, 2018 |
| <b>2,708,161</b>          |                       |                    |

The weighted average life of warrants outstanding at February 28, 2017 was 1.55 years.

## **10. RELATED PARTY TRANSACTIONS**

In August 2014, the Company signed two Executive Employment Agreements, which stated that each executive would earn an annual salary of \$180,000 plus bonuses. In November 2015, the Company and the current executives and officers agreed to reduce their monthly salaries to \$4,000 effective January 2016 as part of cost cutting initiatives. In July 2016, several executives and officers entered into new consulting agreements (described below).

In July 2015, the former CEO resigned and agreed to settle \$60,000 of deferred salary for \$30,000 resulting in a recovery of \$30,000. The employee will have no further claims to the Company.

In May 2016, the CEO agreed to resign from his position in exchange for a termination payment of \$40,000.

In July 2016, the Company signed three new consulting agreements with officers and a director of the Company. The agreements require total combined payments of \$60,000 per month for an effective term of five years. Included in each agreement is a provision for a one-year payout in the event of a termination without notice.

In August 2016, the Company signed a consulting agreement with the VP of Exploration and Development whereby the consultant will earn a monthly salary of USD\$17,940 for an effective term of one year and a signing bonus of \$130,000. Included in the agreement is a provision for a ninety-day payout in the event of a termination without notice.

During the year ended February 28, 2017, the Company entered into the following transactions with related parties, not disclosed elsewhere in these consolidated financial statements:

- a) Rent recoveries of \$22,600 (February 29, 2016 - \$23,600), office recoveries of \$22,400 (February 29, 2016 - \$20,400), and payroll recoveries of \$Nil (February 29, 2016 - \$4,000) were received from companies related by way of common directors and officers.

As at February 28, 2017, the Company had a receivable of \$Nil (February 29, 2016 - \$147) owed by a company related by way of a director whom acts in capacity as an officer of this company.

As at February 28, 2017, the Company made prepayments of \$150,000 (February 29, 2016 - \$Nil) to officers and directors of the Company for future management fees which is included in prepaids.

As at February 28, 2017, the Company owed \$64,877 (February 29, 2016 - \$400) to directors of the Company for reimbursement of expenses which is included in accounts payable and accrued liabilities.

Summary of key management personnel compensation:

|                                       | <b>For the year ended</b>    |                              |
|---------------------------------------|------------------------------|------------------------------|
|                                       | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|                                       | <b>\$</b>                    | <b>\$</b>                    |
| Director's fees                       | -                            | 5,000                        |
| Management fees                       | 623,000                      | 541,000                      |
| Professional fees                     | 45,079                       | -                            |
| Exploration expenditures – consulting | 322,902                      | -                            |
| Share based compensation              | 2,084,926                    | -                            |
|                                       | <b>3,075,907</b>             | <b>546,000</b>               |

## **11. COMMITMENTS**

- a) Commencing June 1, 2009, the Company entered into a three-year term lease agreement for office space in Vancouver, British Columbia. The Company receives recoveries on a month to month basis from various sub-tenants. On January 4, 2012, the Company signed a lease amending agreement extending the lease for an additional five years to May 2017. In February 2017, the Company signed a lease amending agreement extending the lease for an additional two years to May 2019. The remaining minimum future lease payments, excluding operating costs are as follows:

|                                    |            |
|------------------------------------|------------|
| March 1, 2017 to February 28, 2018 | \$ 116,239 |
| March 1, 2018 to February 28, 2019 | \$ 119,295 |
| March 1, 2019 to May 31, 2019      | \$ 29,824  |

- b) In August 2016, the Company entered into an agreement with a consultant to provide consulting services to the Company for a one-year period of \$22,000 per month. Included in this agreement is a provision for a sixty-day payout in the event of a termination without notice.

## **12. CAPITAL DISCLOSURE AND MANAGEMENT**

The Company manages its capital structure and makes adjustments, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral and oil and gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In the management of capital, the Company includes shareholders equity and long term obligations as capital.

In order to carry out planned exploration and development activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. In addition, the Company is dependent upon external financings to fund activities. The Company will continue to explore its existing properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to any externally imposed capital restrictions.

## **13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

### **13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

The Company's financial instruments consist of cash, receivables, financial assets, accounts payable and accrued liabilities, and customer deposit. The fair value of receivables, accounts payables and accrued liabilities, and customer deposit approximates their carrying values. Cash and financial assets are measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity, commodity price and market price risk.

#### **a) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The functional currency of the Company and its wholly owned subsidiary is the Canadian dollar. While the Company's parent is Canadian and its capital is raised in Canadian dollars, the Company conducts business outside of Canada in that it has mineral properties located in Argentina. Therefore, the Company is exposed to foreign currency risk to the extent expenditures incurred and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily United States dollars ("US") and Argentinean pesos ("pesos")).

As at February 28, 2017, the Company has net monetary assets of US\$776,181 which has a Canadian dollar equivalent of \$1,028,362 (February 29, 2016 – US\$12 with Cdn \$ equivalent of \$17) as such, each 1% change in the Canadian dollar versus the United States dollar would result in a gain/loss of approximately \$10,000.

As at February 28, 2017, the Company has net monetary liabilities of 1,919,835 pesos which has a Canadian dollar equivalent of \$163,870 (February 29, 2016 – Nil pesos) as such, each 1% change in the Canadian dollar versus the Argentinean peso would result in a gain/loss of approximately \$1,600.

The Company has not entered into any foreign currency contracts to mitigate any currency risks.

#### **b) Credit risk**

Credit risk is risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in large Canadian and Argentinean financial institutions and its receivables consist of amounts due from the Canadian and Argentinean governments and various businesses. The Company is not exposed to significant credit risk on its balances due from the Canadian and Argentinean governments; however, there is credit risk related to the balances due from the various businesses as there is no guarantee those receivables will be fully collected. As at February 28, 2017, the Company recorded \$78,225 of allowance for doubtful accounts, which is representative of the high credit risk, associated with these receivables.

#### **c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is minimal interest rate risk, as the Company does not have any interest-bearing debt.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. As at February 28, 2017, the Company had a cash balance of \$3,096,669 and working capital of \$3,881,465. However, additional funds may be required to meet the option payments pursuant to the option agreements for the Pastos Grandes Lithium Project, Cauchari East Lithium Project, Cruz Lithium Project, and Pocitos West Lithium Project to keep these properties in good standing.

e) Commodity price risk

The Company is subject to price risk for fluctuations in the market price of oil and gas and lithium. Mineral resources and oil and gas prices are affected by numerous factors beyond the Company's control, including central bank sales, producer hedging activities, the relative exchange rate of the US with other major currencies, global and regional demand, and political and economic conditions. Worldwide lithium and oil and gas production levels also affect the respective pricing of these resources, and the price of oil and gas are occasionally subject to rapid short-term changes due to speculative activities. The Company does not actively manage its exposure to price risk associated with these commodities.

f) Market price risk

Market price risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**14. SUPPLEMENTAL NON-CASH DISCLOSURES**

|  | <b>For the year ended</b>    |                              |
|--|------------------------------|------------------------------|
|  | <b>February 28,<br/>2017</b> | <b>February 29,<br/>2016</b> |
|  | <b>\$</b>                    | <b>\$</b>                    |
| Cash paid for interest   | -                            | -                            |
| Cash paid for taxes  | -                            | -                            |
| Conversion of loan receivable into financial assets  | -                            | 305,084                      |
| Reallocation of value of options of exercise   | 258,952                      | -                            |
| Reallocation of reserves on forfeited and expired options and warrants                       | 151,389                      | 228,093                      |
| Shares issued pursuant to acquisition of exploration and evaluation assets                   | 1,940,000                    | -                            |
| Shares issued for finders' fees pursuant to acquisition of exploration and evaluation assets | 44,500                       | -                            |
| Warrants issued for finders' fees pursuant to share issuances                                | 113,703                      | -                            |
| Exploration and evaluation assets in accounts payable  | 43,223                       | -                            |
| Shares received pursuant to option out of an exploration and evaluation asset                | 140,400                      | -                            |

**15. SEGMENTED INFORMATION**

The Company has one operating segment, being the exploration of resource properties. Geographic information is as follows:

|                    | <b>As at February 28, 2017</b> |                  |                  |
|--------------------|--------------------------------|------------------|------------------|
|                    | <b>Canada</b>                  | <b>Argentina</b> | <b>Total</b>     |
|                    | <b>\$</b>                      | <b>\$</b>        | <b>\$</b>        |
| Equipment          | 25,338                         | -                | 25,338           |
| Mineral properties | -                              | 3,624,795        | 3,624,795        |
|                    | <b>25,338</b>                  | <b>3,624,795</b> | <b>3,650,133</b> |

As at February 29, 2016, all equipment, mineral properties, and oil and gas interests were located in Canada.

**Millennial Lithium Corp.**  
**(formerly Redhill Resources Corp.)**  
**Notes to Consolidated Financial Statements**  
**February 28, 2017**  
**(Expressed in Canadian Dollars)**

**16. INCOME TAXES**

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

|  | <b>Year ended<br/>February 28,<br/>2017</b> | <b>Year ended<br/>February 29,<br/>2016</b> |
|--|---|---|
|  | <b>\$</b>                                   | <b>\$</b>                                   |
| Loss before income taxes   | (9,982,355)                                 | (1,935,910)                                 |
| Expected income tax expense (recovery) at statutory rates        | (2,595,000)                                 | (503,000)                                   |
| Change in statutory tax, foreign tax, and foreign exchange       | (16,000)                                    | 86,000                                      |
| Permanent difference   | 1,102,000                                   | 130,000                                     |
| Share issue cost   | (38,000)                                    | -   |
| Adjustment to prior years provision versus statutory tax returns | (166,000)                                   | -   |
| Change in unrecognized deductible temporary differences          | 1,713,000                                   | 287,000                                     |
| <b>Income tax expense (recovery)</b>                             | <b>-</b>                                    | <b>-</b>                                    |

The significant components of temporary differences, unused tax losses and unused tax credits that have not been recognized on the consolidated statements of financial position are as follows:

|                                   | <b>February 28,<br/>2017</b> | <b>Expiry dates</b> | <b>February 29,<br/>2016</b> | <b>Expiry dates</b> |
|-----------------------------------|------------------------------|---------------------|------------------------------|---------------------|
|                                   | <b>\$</b>                    |                     | <b>\$</b>                    |                     |
| Investment tax credit             | 73,000                       | 2028 to 2034        | 73,000                       | 2028 to 2034        |
| Share issue costs                 | 119,000                      | 2018 to 2021        | 13,000                       | 2037 to 2038        |
| Debt with accretion               | -                            | Not applicable      | 675,000                      | Not applicable      |
| Capital losses – Canada           | 16,850,000                   | Not applicable      | 15,768,000                   | Not applicable      |
| Non-capital losses – Canada       | 20,537,000                   | 2026 to 2037        | 17,923,000                   | 2026 to 2036        |
| Non-capital losses - Argentina    | 154,000                      | 2022                | -                            | Not applicable      |
| Equipment                         | 177,000                      | Not applicable      | 170,000                      | Not applicable      |
| Exploration and evaluation assets | 8,841,000                    | Not applicable      | 6,273,000                    | Not applicable      |

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

**17. SUBSEQUENT EVENTS**

- Subsequent to February 28, 2017, the Company issued 285,125 common shares for the exercise of 285,125 warrants at \$1.00 per warrant for proceeds of \$285,125.
- In March 2017, the Company completed a non-brokered private placement, which consisted of the issuance of 4,750,000 units at a price of \$1.25 per unit for gross proceeds of \$5,937,500. Each unit consisted of one common share and one-half share purchase warrant exercisable for a two-year period at an exercise price of \$1.50 per warrant. The Company paid finders' fees of \$86,581 and issued 69,264 finders' warrants in connection with the close of this private placement.
- In May 2017, the Company granted 800,000 share options to certain officers, directors, consultants, and employees of the Company with a term of 5 years which are exercisable at a price of \$1.40 per common share.

**17. SUBSEQUENT EVENTS (continued)**

- d) In May 2017, the Company entered into a property option agreement with Liberty One Lithium Corp. ("Liberty One") whereby Liberty One will be granted the option to acquire up to an 80% interest in the Pocitos West Property. Under the terms of the agreement, Liberty One can acquire an 80% interest in the Pocitos West Property in consideration of the following payments and work commitments:
- To earn a 70% interest in the property:
    - Pay to the Company US\$17,500 (received subsequently) upon execution of the agreement;
    - Pay to the Company US\$582,500 (received subsequently) on the closing date of the agreement;
    - Pay to the Company US\$600,000 on or before 13 months from the closing date of the agreement;
    - Pay to the Company US\$600,000 on or before 18 months from the closing date of the agreement;
    - Pay to the Company US\$600,000 and expend \$500,000 in exploration expenditures on the property on or before 24 months from the closing date of the agreement;
    - Pay to the Company US\$600,000 on or before 30 months from the closing date of the agreement; and
    - Pay to the Company US\$2,500,000 and expend \$500,000 in exploration expenditures on the property on or before 36 months from the closing date of the agreement.
  - To earn a further 10% interest in the property, Liberty One must complete a bankable commercial feasibility study on the property on or before 42 months from the closing date of the agreement.