

# DNI METALS INC.

INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDING DECEMBER 31, 2017

*Under national Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Company enclosed within this interim report have been prepared by and are the responsibility of the Company's management.*

*The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.*

**DNI Metals Inc.**  
**Interim Unaudited Consolidated Statements of Financial Position**  
**(Expressed in Canadian dollars)**

	As at December 31, 2017	As at March 31, 2017
	\$	\$
<b>ASSETS</b>		audited
Current assets		
Cash	95,472	-
Taxes and other receivables	75,965	48,015
Prepaid expenses	-	600
Total current assets	171,437	48,615
Equipment (Note 4)	1,399	1,668
Exploration and evaluation properties (Note 5)	3,770,862	1,397,883
Gold royalty asset (Note 6)	139,958	141,801
Total assets	4,083,656	1,589,967
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	545,327	891,862
Cheques issued in excess of cash	-	74,777
Current portion of loan payable (Note 8)	-	185,628
Total current liabilities	545,327	1,152,267
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 9)	29,065,366	26,634,575
Reserve for share-based payments (Note 9(c))	631,032	175,295
Warrants (Note 9(d))	1,613,061	175,631
Deficit	(27,771,130)	(26,547,801)
Total shareholders' equity	3,538,329	437,700
Total liabilities and shareholders' equity	4,083,656	1,589,967

Commitment and contingencies (Notes 1, 5(b), 8 and 14)

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

[signed] Daniel J. Weir  
Daniel J. Weir, President and Director

[signed] Paul Hart  
Paul Hart, Director

**DNI Metals Inc.**  
**Interim Unaudited Consolidated Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian dollars)**

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue	-	97,220	251,310	247,295
Cost of Sales	-	-	(205,145)	(117,808)
General and administrative expenses (Note 10)	(486,566)	(71,498)	(1,018,627)	(259,944)
Share-based compensation (Note 9 (b), (c))	-	-	(493,932)	(111,475)
Amortization	(84)	(125)	(269)	(375)
	(486,650)	25,597	(1,466,663)	(242,307)
Loss before the undernoted	(486,650)	25,597	(1,466,663)	(242,307)
Other expenses (income)				
Referral Fee	-	-	(149,000)	-
Write off exploration property	-	-	-	-
Exploration expenditures	810	-	90,210	-
Interest expense (Notes 8 and 11)	-	7,694	39,092	22,951
Foreign exchange	7,173	3,646	(9,809)	11,486
Total other expenses (income)	7,983	11,340	(29,507)	34,437
Impairment Charge	-	(4,153,548)	-	(4,153,548)
Net loss and comprehensive loss	(494,633)	(4,139,291)	(1,437,156)	(4,430,292)
Basic and diluted net loss per share	\$0.01	\$0.11	\$0.02	\$0.12
Weighted average number of common shares outstanding	97,496,949	38,560,204	71,090,075	38,083,528

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

**DNI Metals Inc.**  
**Interim Unaudited Consolidated Statements of Changes in Equity**  
**(Expressed in Canadian dollars)**

	Capital stock		Share based compensation	Warrants	Deficit	Total
	Number	\$				
			\$	\$	\$	\$
<b>Balance, March 31, 2016</b>	<b>32,987,204</b>	<b>26,398,062</b>	<b>470,340</b>	<b>293,932</b>	<b>(19,739,430)</b>	<b>7,422,904</b>
Shares issued	7,533,571	377,798	-	-	-	377,798
Issued as finder's fee	38,000	1,900	-	-	-	1,900
Warrants issued	-	(113,154)	-	113,154	-	-
Warrants expired	-	-	-	(231,455)	231,455	-
Share issue costs	-	(30,031)	-	-	-	(30,031)
Options issued	-	-	111,475	-	-	111,475
Options expired	-	-	(406,520)	-	406,520	-
Net loss for the year	-	-	-	-	(7,446,346)	(7,446,346)
<b>Balance, March 31, 2017</b>	<b>40,558,775</b>	<b>26,634,575</b>	<b>175,295</b>	<b>175,631</b>	<b>(26,547,801)</b>	<b>437,700</b>
Shares issued	22,264,773	1,447,210	-	-	-	1,447,210
Issued as finder's fee	144,607	9,399	-	-	-	9,399
Warrants issued	-	(329,298)	-	329,298	-	-
Warrants expired	-	-	-	-	-	-
Share issue costs	-	(86,585)	-	-	-	(86,585)
Options issued	-	-	-	-	-	-
Options expired	-	-	(17,820)	-	17,820	-
Net loss for the period	-	-	-	-	(37,585)	(37,585)
<b>Balance, June 30, 2017</b>	<b>62,968,155</b>	<b>27,675,301</b>	<b>157,475</b>	<b>504,929</b>	<b>(26,567,566)</b>	<b>1,770,139</b>
Shares issued	20,798,325	1,669,970	-	-	-	1,669,970
Issued as finder's fee	21,000	1,680	-	-	-	1,680
Warrants issued	-	(773,147)	-	773,147	-	-
Warrants expired	-	-	-	(62,184)	62,184	-
Share issue costs	-	(123,534)	-	-	-	(123,534)
Options issued	-	-	493,932	-	-	493,932
Options expired	-	-	(20,375)	-	20,375	-
Net loss for the period	-	-	-	-	(904,938)	(904,938)
<b>Balance, Sept 30, 2017</b>	<b>83,787,480</b>	<b>28,450,270</b>	<b>631,032</b>	<b>1,215,892</b>	<b>(27,389,945)</b>	<b>2,907,249</b>
Shares issued	14,911,890	1,192,951	-	-	-	1,192,951
Issued as finder's fee	73,985	5,919	-	-	-	5,919
Warrants issued	-	(510,616)	-	510,616	-	-
Warrants expired	-	-	-	(113,447)	113,447	-
Share issue costs	-	(73,158)	-	-	-	(73,158)
Net loss for the period	-	-	-	-	(494,632)	(494,632)
<b>Balance, Dec 31, 2017</b>	<b>98,773,355</b>	<b>29,065,366</b>	<b>631,032</b>	<b>1,613,061</b>	<b>(27,771,130)</b>	<b>3,538,329</b>

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

**DNI Metals Inc.**  
**Interim Unaudited Consolidated Statements of Cash Flows**  
**(Expressed in Canadian dollars)**

	Three Months ended Dec. 31,		Nine Months ended Dec. 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Operating Activities</b>				
Net loss	(494,632)	(4,139,291)	(1,437,155)	(4,430,292)
Non-cash items				
Impairment Charge	-	4,153,548	-	4,153,548
Share-based compensation	-	-	493,932	111,475
Long-term debt accretion	-	6,948	3,500	19,621
Foreign Exchange	-	3,646	-	(1,425)
Amortization of equipment	84	125	269	375
	(494,548)	24,976	(939,454)	146,698
Changes in non-cash working capital	691,796	15,048	(373,885)	133,155
Cash flows from operating activities	197,248	40,024	(1,313,339)	(13,543)
<b>Investing Activities</b>				
Exploration and evaluation property	(1,561,403)	(37,350)	(2,372,979)	(125,342)
Gold royalty received	506	450	1,843	3,853
Cash flows from investing activities	(1,560,897)	(36,900)	(2,371,136)	(121,489)
<b>Financing Activities</b>				
Units Not Issued (Note 12)	(163,800)	-	-	-
Advances from related parties	-	-	(189,128)	-
Issuance of common shares	688,254	-	3,807,114	334,950
Warrants (Note 9(d))	510,616	-	510,616	-
Debt repayment	-	-	-	(171,705)
Share issue costs	(73,158)	-	(273,878)	(30,705)
Cash flows from financing activities	961,912	-	3,854,724	132,540
Increase in cash	(401,737)	3,124	170,249	(2,492)
Cash, beginning of Period	497,209	7,216	(74,777)	12,832
Cash, end of Period	95,472	10,340	95,472	10,340

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

**1. Nature of operations and going concern**

DNI Metals Inc. ("DNI or the "Company") is an exploration and evaluation stage company. The registered head office of the Company is located at 5616 McAdam Rd, Mississauga, Ontario, Canada.

These consolidated financial statements were approved by the Board of Directors of the Company on February 28, 2018.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, expropriation of properties, currency exchange fluctuations and restrictions and political uncertainty.

The Company relies on debt and equity financing for working capital and for exploration and evaluation of its properties. Because of continuing operating losses and a cumulative deficit, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The consolidated financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments may be material.

**2. Accounting policies and basis of presentation**

***Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company's reporting for the year ended March 31, 2017 and period ending December 3, 2017. They have been prepared on the historical cost basis except for those financial instruments measured at fair value and on an accrual basis except for cash flow information.

## **2. Accounting policies and basis of presentation (continued)**

### ***Basis of consolidation***

These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

The following companies have been consolidated within these financial statements:

Company	Registered	Principal activity
DNI Metals Inc.	Quebec, Canada	Exploration company
Dumont Mining Company	Utah, USA	Exploration company
DNI Metals Madagascar Sarl	Madagascar	Exploration company
DNIM Holdings No. 1 SARL	Madagascar	Exploration company

The Company formed DNI Metals Madagascar Sarl, a wholly owned subsidiary in Madagascar, in May 2015 in order to carry out business of its first property, Vohitsara.

The Company formed DNIM Holdings No. 1 SARL, a wholly owned subsidiary in Madagascar, in July 2017 in order to carry out business of DNI's second property, Marofody.

### ***Critical judgments and estimation uncertainties***

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

Areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

### ***Assets' carrying values and impairment charges***

In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence for a significant or prolonged decline of fair value of financial assets indicating impairment. These determinations and their individual assumptions require that management make decisions based on the best available information at each reporting period.

### ***Capitalization of exploration and evaluation costs***

Management has determined that exploration and evaluation costs incurred during the periods presented have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information, which may include, but is not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 5 for details of capitalized exploration and evaluation costs.

### ***Estimation of decommissioning and restoration costs and the timing of expenditure***

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is.

**2. Accounting policies and basis of presentation (continued)**

***Critical judgments and estimation uncertainties (continued)***

determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

***Impairment of exploration and evaluation properties***

While assessing whether any indications of impairment exist for exploration and evaluation properties, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation properties. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation properties.

***Income, value added, withholding and other taxes***

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

***Share-based compensation***

Management determines costs for share-based compensation using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

***Present value of loan payable***

Refer to (Notes 1, 5(b), 8 and 14).

***Commitments and contingencies***

Refer to Note 14.



**2. Accounting policies and basis of presentation (continued)**

***Cash and cash equivalents***

Cash and cash equivalents may include cash on account, demand deposits and temporary investments with original maturities of less than 90 days, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. As at December 31, 2017 such cash was \$95,472 (December 31, 2016 - \$10,340).

***Functional and reporting currency***

The functional and reporting currency, as determined by management, of the Company and its subsidiaries is the Canadian dollar.

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in operations in the year in which they occur.

***Exploration and evaluation properties***

Exploration and evaluation properties are carried at the aggregate of acquisition cost and exploration and evaluation expenditures thereupon. Management continually assesses the viability of each of the Company's exploration and evaluation properties based on an assessment of the potential of an economic outcome. If a property is determined to no longer be economic, the property is typically abandoned and related costs and deferred expenditures are written off in the Company's consolidated financial statements.

All exploration and evaluation expenses relating to mineral properties in which the Company has an interest are capitalized. Other general exploration expenses are charged to operations as incurred. Costs incurred before the Company has obtained the legal right to explore an area are recognized in the consolidated statement of loss. The costs of exploration and evaluation properties that are abandoned or sold are charged to loss in the year of sale or abandonment.

Management continually reviews the Company's exploration and evaluation properties to determine whether events or changes in circumstances have occurred which indicate that the carrying value of any given exploration and evaluation property interest may not be recoverable. The recoverability of expenditures incurred on exploration and evaluation properties is dependent upon many factors including exploration and evaluation results, environmental risks, commodity risks, political risks, and the ability to attain profitable production. An impairment loss will be recognized when the carrying amount of an exploration and evaluation property is deemed to exceed its fair value.

***Restoration, rehabilitation and environmental obligations***

The Company is required to record a liability for the estimated future costs associated with legal or constructive obligations relating to the reclamation and closure of its exploration and evaluation properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration and evaluation properties and is amortized over the useful life of the property. Management is not aware of any significant restoration, rehabilitation and environmental obligations at September 30, 2017 and 2016.

***Loss per share***

Basic loss per share is calculated using the weighted average number of shares outstanding. In order to determine diluted loss per share, it is allowed that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. All outstanding options and warrants were considered anti-dilutive and are therefore excluded from the diluted loss per share calculation for the periods presented.

## 2. Accounting policies and basis of presentation (continued)

### **Share issue costs**

Share issue costs are accounted for as a reduction of the value of the capital stock.

### **Equipment and gold royalty asset**

Equipment and gold royalty asset are recorded at cost. The equipment and gold royalty asset noted below are amortized over their estimated useful lives using the following annual rates and methods:

Computer equipment	30%	Declining balance
Office furniture and equipment	20%	Declining balance
Gold royalty asset		Unit of production method

### **Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted and substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax liabilities are recognized for taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### **Share-based compensation**

Employees, including directors and officers of the Company receive a portion of their remuneration in the form of share-based compensation transactions, whereby employees render services in consideration for options granted under the Company's stock option plan.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified or if the goods or services received cannot be estimated reliably, the equity instruments are measured at fair value of the share-based compensation. Otherwise, share-based compensation issued to non-employee are measure at fair value of goods or services received.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted and they are recognized, together with a corresponding increase in shareholders' equity, categorized as reserve for share-based compensation, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The Company's currency policy is that all options vest on the date of the grant other than options granted to investor relations consultants, which will vest over a period of time.

**2. Accounting policies and basis of presentation (continued)**

The Company records the cost of share-based compensation based on the fair value of stock options as determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and as a reserve for share-based compensation. When options expire or are forfeited, the reserve is reduced by the related grant date fair value amount, which is then credited to deficit if the options expire or credited to share-based compensation expense if forfeited.

On the exercising of options, the proceeds received and grant date fair value of the options exercised is credited to share capital.

***Warrant Reserve***

The warrant reserve records the grant date fair value of warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to capital stock. If the warrants expire unexercised, the amount recorded is transferred to deficit.

***Flow-through financing***

The Company has adopted a policy whereby proceeds from flow through shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. Any premium between the quoted market price and the price paid by investors for flow through shares will be recognised as a liability of the Company at the time the shares are issued. When these expenditures are renounced, a deferred tax liability is set up and the initial premium liability is reversed, with the difference being recognized in the consolidated statement of loss.

***Financial instruments***

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "fair value through profit or loss", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Fair value through profit or loss financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the statement of financial position or until such losses are determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

The Company's financial assets and liabilities include cash, other receivables, bank indebtedness, accounts payable and accrued liabilities and loan payable.

## **2. Accounting policies and basis of presentation (continued)**

### ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of graphite. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, the Company has delivered products to the customer, the customer has full discretion over the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the date upon which the goods are dispatched to the customer, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Royalty revenue is recognized on an accrual basis, based on production, sales and/or other measures, in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

### ***New and revised standards***

The Company has adopted the following new and revised standards, along with any amendments, effective April 1, 2016. These changes were made in accordance with the applicable transitional provisions.

The adoption of this standard had no significant impact on the Company's consolidated financial statements.

## **3. Future accounting pronouncements**

The IASB has issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial years beginning on or after April 1, 2017.

IFRS 2 – Share-based Payment ("IFRS 2") was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**3. Future accounting pronouncements (continued)**

introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 7 – Statement of Cash Flows (“IAS 7”) was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognised in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

Management has not yet considered the impact of the adoption of these standards.

**4. Equipment**

	Computer equipment	Office furniture and equipment	Total
	\$	\$	\$
<b>Cost</b>			
Cost as at March 31, 2015, 2016 and 2017	37,606	21,132	58,738
<b>Accumulated amortization</b>			
Accumulated amortization as at March 31, 2016	36,933	19,636	56,569
Amortization during 2017	202	299	501
Accumulated amortization as at March 31, 2017	37,135	19,935	57,070
Amortization during the three-month ended June 30, 2017	35	60	95
Accumulated amortization as at June 30, 2017	37,170	19,995	57,165
Amortization during the three-month ended Sept 30, 2017	33	57	90
Accumulated amortization as at Sept 30, 2017	37,203	20,052	57,255
Amortization during the three-month ended Dec 31, 2017	31	53	84
Accumulated amortization as at Dec 31, 2017	37,172	19,999	57,171
<b>Net Book Value</b>			
Net book value as at March 31, 2017	471	1,197	1,668
Net book value as at June 30, 2017	436	1,137	1,573
Net book value as at September 30, 2017	403	1,080	1,483
Net book value as at December 31, 2017	372	1,027	1,399

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**5. Exploration and Evaluation properties**

Changes in the carrying value of exploration and evaluation properties are detailed below:

	March 31, 2016	Impairment Charge	Transactions	March 31, 2017	Transactions	December 31, 2017
	\$	\$	\$	\$	\$	\$
SBH Shales Alberta						
Acquisition	18,642	(18,642)	-	-	-	-
Exploration	6,834,906	(6,834,906)	-	-	-	-
Madagascar, Vohitsara						
Acquisition	1,142,853		-	1,142,853	-	1,142,853
Exploration	184,943		70,087	255,030	249,771	504,801
Marofody						
Acquisition	-		-	-	2,123,208	2,123,208
Exploration	-		-	-	-	-
	8,181,344	(6,853,548)	70,087	1,397,883	2,372,979	3,770,862

**a) SBH Shales Alberta Property, Athabasca Region, Alberta**

The Company previously held a 100% undivided direct interest in 21 metallic and industrial mineral permits, located in the Athabasca region, approximately 120 kilometres north of Fort McMurray, Alberta, giving DNI the exclusive right to explore for metallic and industrial minerals for a fourteen-year term subject to traditional bi-annual assessment work performance requirements. Assembly and acquisition of the property commenced in late 2007 and it has since been periodically expanded or modified to retain strategic portions. Remote lower priority permits were allowed to lapse in March 2014 to focus future work on the eastern parts of the property wherein the polymetallic black shale Buckton deposit, the Buckton South resource and the Asphalt Zone are located. Additional adjoining permits were acquired in June 2014 to secure localities over new fracsand targets. The SBH Property is held under 21 permits with expiry dates ranging from 2020 to 2022.

During 2017, the Company decided to focus on its property in Madagascar and therefore recorded a full impairment on the SBH Shales Alberta Property.

**b) Vohitsara Graphite Property, Madagascar**

On March 6, 2015, the Company entered into an agreement with MPE International Inc. ("MPE"), a private company, whereby DNI obtained the right to acquire a property in Madagascar ("Vohitsara property"). The total acquisition cost of the property is US\$400,000 plus the issuance of 4,000,000 common shares. An initial payment of US\$10,000 (\$13,012) was paid at that time, initiating a 90-day due diligence period, at the end of which US\$90,000 (\$111,963) was payable, which amount was paid when the final agreement was signed on June 12, 2015. The common shares were issued on June 29, 2015 at a price of \$0.115 per share, based on the quoted market share price. Following these payments, the agreement to acquire the property was completed and all mining claims were acquired by DNI Metals Madagascar Sarl, a subsidiary of DNI. A further US\$150,000 is payable six months after signing of the final agreement, with a final payment of US\$150,000 due on the earlier of the Company's decision to mine the property or June 12, 2018. On June 9, 2017, DNI made the final payment of US\$150,000 and fulfilled all commitments under this agreement. See Note 8.

On November 9, 2016 and revised on December 13, 2016, DNI signed and LOI with Cougar Metals NL ("Cougar"), whereby Cougar would earn a working interest to participate in an earn in option ("Working Right and Earn In") to develop the Vohitsara property. A definitive agreement was signed on March 24, 2017.

**5. Exploration and Evaluation properties (continued)**

In order to maintain the Working Right and Earn In in good standing, Cougar shall:

- Pay DNI AUD\$200,000; (paid) within 10 days of a capital raising of at least AUD\$500,000 or March 31, 2017 whichever is earlier; and
- Pay DNI USD\$150,000 by June 7, 2017; (paid) as full and final settlement for the acquisition of the Property by DNIM and the removal of the Robert Barnes Lien from the Property; and
- AUD\$11,000 plus expenses per month from March 31, 2017 to June 30, 2017. representing payment for the main focus of the DNI Madagascar team to assist Cougar's Earn In. Any additional workers hired by the DNI Madagascar team as needed for development on the NI 43-101 compliant mineral resource report and/or PEA, shall be billed by DNI to Cougar separately.

In order to maintain the Working Right and Earn In in good standing Cougar shall, in addition to payments referred to above:

- Design, fund, manage and present to DNI a NI 43-101 compliant mineral resource report covering a pre-selected area of the project measuring approximately 300m x 900m by June 30, 2017. This area is shown in schedule B of this Agreement.
- Complete a NI 43-101 compliant PEA using the parameters of 10,000 TPA graphite production from the Property, by October 31, 2017.
- The mineral resource report and the PEA shall include a minimum of 3,000m of drilling to a maximum of 50m and 1000m of surface trenching.
- The Program shall be conducted in such a way as to not unreasonably hinder future development of the Property and shall be based on sound mining practice and other applicable industry standards and practices and in material compliance with the terms of all applicable permits and laws.
- If there are any delays in Cougar's ability to complete the Program, beyond the reasonable control of Cougar then the date by which the Programs must be completed and the Earn In Period may be extended on prior consent in writing of DNI, with consent not being unreasonably held.
- As of June 30, 2017, Cougar has made all payments, but is they have not completed the drilling, trenching, and the NI-43-101 compliant resource report.
- As of August 21, 2017, DNI and Cougar were able to negotiate an extension to October 31, 2017 to complete the NI-43-101 resource report and December 31, 2017 to complete the PEA.
- In July 2017, DNI's board ascertained, that Cougar's R/C drilling rig, would not provide proper samples to determine the flake size distribution of the graphite. DNI brought in and paid for 1,040 meters of Diamond core drilling, not assess the flake size distribution.
- At October 31, 2017, Cougar did not complete its required 3,000 meters of drilling and did not present DNI with a 43-101 compliant resource report.
- DNI granted Cougar an additional extension to November 20, 2017, again Cougar did not complete its required 3,000 meters of drilling and did not present DNI with a 43-101 compliant resource report.
- As reported in DNI's press release of December 8, 2017, DNI has terminated the Option Agreement with Cougar as a result of Cougar's failure to pay certain payments under Option Agreement.
- DNI received a request for arbitration from Cougar pursuant to the Option Agreement.
- DNI has responded to the arbitration request. An arbitrator has been appointed to review all the information, and a schedule set. If the Arbitration continues to its full extent, the final evidentiary hearing will take place during the week of September 24, 2018. The arbitrator's final award is expected to be rendered after that hearing.

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

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**5. Exploration and Evaluation properties (continued)**

**c) Marofody Graphite Property, Madagascar**

On July 26, 2017, the Company entered into a non-binding agreement ("LOI") to buy a property in Madagascar called the Marofody property. The purchase price for Marofody was US\$1,650,000 cash, payable as follows:

1. US\$100,000 was paid upon signing the LOI on July 24, 2017
2. US\$550,000 was paid on September 25, 2017
3. US\$1,000,000 was paid on October 23, 2017

DNI has completed the purchase of the Marofody property and formed a new subsidiary to hold the mining claims, named DNIM Holdings No. 1 SARL. The mining claims PE 8904 are being transferred from the seller name to DNI's subsidiary name.

**6. Gold royalty asset**

Changes in the carrying value of the gold royalty asset are detailed below:

	March 31, 2017	Transactions	Dec. 31, 2017
	\$	\$	\$
Clifton Gold Hill Royalty		(US\$1,410)	
	141,801	(1,843)	139,858

***Clifton Gold Hill Royalty, Tooele County, Utah***

This consists of the Company's interest in a 0.5% net smelter return royalty in the claims related to the Clifton-Gold Hill and Cane Springs property. The Company received \$1843 in the nine months ending December 31, 2017 (December 31, 2016 - \$3853) in royalty payments.

**7. Other long-term asset**

On October 20, 2015, the Company paid a non-refundable deposit of \$50,000 to a third party with respect to the purchase of a metallurgical testing laboratory in the Greater Toronto Area. During the year ended March 31, 2017, DNI has decided not to move forward with the purchase and accordingly the \$50,000 deposit was expensed and recorded in general and administrative expenses at March 31, 2017.



**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

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**8. Loan payable**

	\$
Present value of loan payable, June 12, 2015	404,784
Repayments	(121,994)
Accretion	50,834
Foreign exchange adjustment	3,271
Loan payable, March 31, 2016	336,895
Loan repayment	(180,096)
Accretion	28,829
Total loan payable as of March 31, 2017	185,628
Loan repayment	(189,128)
Accretion	3,500
Total loan payable as of December 31, 2017	-

As indicated in Note 5, the Company, through its wholly-owned subsidiary DNI Metals Madagascar Sarl, financed part of the acquisition cost of the Vohitsara property with US\$380,000 of non-interest bearing loan as per a loan agreement dated June 12, 2015.

The original terms of the loan called for repayment of US\$80,000 upon execution of the loan agreement and, as per the related Mining Permit Sale Agreement and Loan Agreement, both dated June 12, 2015, subsequent payments were to be made as follows: installment 1 of US\$80,000 on June 12, 2015, installment 2 of US\$150,000 on December 12, 2015 and a final installment 3 of US\$150,000 on the earlier date of decision to mine or June 12, 2018. In the event of the Company not making the final payment of US\$150,000, then the shares of DNI Metals Madagascar Sarl would revert to the lender.

Through amendments dated December 11, 2015 and February 18, 2016, the installment payment schedule on the loan, plus interest and penalties totalling US\$14,000, were changed to: an instalment payment of US\$30,000 by February 11, 2016; an installment payment of US\$134,000 by April 18, 2016 and a final instalment payment of US\$150,000 by June 12, 2017.

Accretion and late payment penalties totalling \$28,829 (US\$21,965) (2016 – \$69,269 (US\$52,327)) were recorded in interest expense on the consolidated statement of loss for the year ended March 31, 2017.

The loan is non-interest bearing. Management estimated the present value of the loan payable using the effective interest rate method, using an interest rate of 15%. The rate used in determining the appropriate present value of the loan payable and to appropriately apply the effective interest rate method was subject to significant management estimation.

The remaining amount of the loan of US\$150,000 was repaid on June 9, 2017.

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**9. Capital stock**

a) Common shares

Authorized capital of the Company is an unlimited number of common shares without par value.

Issued and outstanding common shares

	Number	Value
Balance, March 31, 2016	32,987,204	26,398,062
Private placement (vii), (viii), (ix)	6,399,000	318,983
Warrants issued (vii), (viii), (ix)	-	(113,154)
Shares issued as a finder's fee	38,000	1,900
Debt settlement (x)	300,000	15,000
Share issue costs	-	(30,031)
Debt settlement (xi)	834,571	43,815
Balance March 31, 2017	<b>40,558,775</b>	26,634,575
Private placement (xii), (xiii), (xiv)	22,264,773	1,447,210
Warrants issued (xii), (xiii), (xiv)	-	(329,298)
Shares issued as a finder's fee	144,607	9,399
Share issue costs	-	(86,585)
Balance June 30, 2017	<b>62,968,155</b>	27,675,301
Warrant Exercise (xv)	100,000	10,000
New Warrants issued (xv)	-	(7,407)
Warrant Broker Exercise (xvi)	28,200	2,820
Warrant Exercise (xvii)	100,000	10,000
New Warrants issued (xv)	-	(7,385)
Warrant Broker Exercise (xviii)	77,000	7,700
Private placement (xix)	20,493,125	1,639,450
Warrants issued (xix)	-	(758,355)
Shares issued as a finder's fee(xix)	21,000	1,680
Share issue costs (xix)	-	(123,533)
Balance September 30, 2017	<b>83,787,480</b>	28,450,270
Private placement(xx)	14,411,890	1,152,951
Warrants issued(xx)	-	(510,616)
Shares issued as a finder's fee(xx)	73,985	5,919
Share issue costs(xx)	-	(73,158)
Balance October 6, 2017	<b>98,273,355</b>	29,025,366
Shares issued as Debt for Equity(xxi)	500,000	40,000
Balance December 31, 2017	<b>98,773,355</b>	29,065,366

- (i) On May 29, 2015, the Company completed the first tranche of a private placement financing which consisted of 2,980,507 units, issued at \$0.13 per unit. Each unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months. Gross proceeds from this financing were \$387,466, and a finder's fee of \$27,552 was paid as part of the transaction. As part of this private placement directors and officers of the Company subscribed for a total of 1,800,000 units for gross proceeds of \$234,000.

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

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**9. Capital stock (continued)**

The common share purchase warrants were valued at \$114,906, net of share issue costs. The fair value of the warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.62%
Expected life	18 months
Expected volatility	148%
Expected dividend yield	0%

- (ii) On June 29, 2015, the Company issued 4,000,000 common shares at a price of \$0.115 per share as part of the acquisition price of the Vohitsara property in Madagascar (refer to Note 5 (b)).

- (iii) On June 30, 2015, the Company completed the second tranche of a private placement financing which consisted of 3,135,000 units, issued at \$0.13 per unit. Each unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months. Gross proceeds from this financing were \$407,550. Finder's fees of \$10,946 and 84,200 units were paid and issued as part of the transaction. Each finder's unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months.

The common share purchase warrants were valued at \$108,616, net of share issue costs. The fair value of the warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.49%
Expected life	18 months
Expected volatility	125%
Expected dividend yield	0%

- (iv) On July 23, 2015, the Company completed the third tranche of a private placement financing which consisted of 200,000 units, issued at \$0.13 per unit. Each unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at an exercise price of \$0.20 for a period of 18 months. Gross proceeds from this financing were \$26,000.

The common share purchase warrants were valued at \$8,226, net of share issue costs. The fair value of the warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.45%
Expected life	18 months
Expected volatility	112%
Expected dividend yield	0%

- (v) On January 29, 2016, the Company completed the first tranche of a private placement financing which consisted of 2,000,000 units, issued at \$0.05 per unit. Each unit consists of one common share and one warrant, with each warrant entitling the holder to purchase one common share at an exercise price of \$0.10 for a period of 18 months. Gross proceeds from this financing were \$100,000. A finder's fee of \$8,000 and 160,000 common share purchase warrants entitling the holder to purchase one common share at an exercise price of \$0.10 for a period of 18 months

**9. Capital stock (continued)**

was paid as part of the transaction. As part of this private placement directors and officers of the Company subscribed for a total of 1,410,000 units for gross proceeds of \$70,500.

The common share purchase warrants were valued at \$34,491, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.41%
Expected life	18 months
Expected volatility	160%
Expected dividend yield	0%

- (vi) On March 30, 2016, a second tranche of this financing, totalling 1,601,000 units, was completed for total gross proceeds of \$80,050. Each unit consists of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$2,820 and 56,400 common share purchase warrants entitling the holder to purchase one common share at an exercise price of \$0.10 for a period of 18 months were paid as part of the transaction. As part of this private placement, a director and officer of the Company subscribed for a total of 360,000 units for gross proceeds of \$18,000. In addition, 300,000 units were issued as payment of \$15,000 interest on the advance from an officer of the Company (Note 11).

The common share purchase warrants were valued at \$27,693, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.53%
Expected life	18 months
Expected volatility	147%
Expected dividend yield	0%

- (vii) On April 14, 2016, a third tranche of this financing, totaling 4,224,000 units, was completed for total gross proceeds of \$211,200. Each unit consisted of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$3,507 and 191,840 common share purchase warrants entitling the holder to purchase one common share at an exercise price of \$0.10 for a period of 18 months were paid as part of the transaction. As part of this private placement, a director and officer of the Company subscribed for a total of 360,000 units for gross proceeds of \$18,000.

The common share purchase warrants were valued at \$74,773, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.53%
Expected life	18 months
Expected volatility	147%
Expected dividend yield	0%

- (viii) On April 18, 2016, a fourth tranche of this financing, totalling 700,000 units, was completed for total gross proceeds of \$35,000. Each unit consisted of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

---

**9. Capital stock (continued)**

at an exercise price of \$0.10 per share for a period of 18 months. No finder fees were paid as part of the transaction.

The common share purchase warrants were valued at \$13,006. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.62%
Expected life	18 months
Expected volatility	147%
Expected dividend yield	0%

- (ix) On May 18, 2016, a fifth tranche of this financing, totalling 1,475,000 units, was completed for total gross proceeds of \$73,750. Each unit consisted of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$3,200 and 38,000 units were paid as part of the transaction.

The common share purchase warrants were valued at \$25,376, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.63%
Expected life	18 months
Expected volatility	143%
Expected dividend yield	0%

- (x) On June 2, 2016, a debt settlement was concluded such that 300,000 common shares were issued in settlement of \$15,000.
- (xi) On March 1, 2017, a debt settlement was concluded such that 834,571 common shares were issued in settlement of \$43,815.
- (xii) On May 4, 2017, the first tranche of a financing, totalling 15,566,184 units, was completed for total gross proceeds of \$1,011,802. Each unit consisted of one share and one half of a common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$56,355 and 762,006 finder's warrants were paid as part of the transaction.

The common share purchase warrants were valued at \$270,803 net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.7%
Expected life	18 months
Expected volatility	191%
Expected dividend yield	0%

- (xiii) On May 30, 2017, a second tranche of this financing, totalling 3,673,990 units, was completed for total gross proceeds of \$238,809. Each unit consisted of one share and one half of a common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one

**9. Capital stock (continued)**

common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$17,150 and 242,846 finder's warrants were paid as part of the transaction.

The common share purchase warrants were valued at \$54,605, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.7%
Expected life	18 months
Expected volatility	180%
Expected dividend yield	0%

- (xiv) On June 9, 2017, a third tranche of this financing, totalling 3,024,599 units, was completed for total gross proceeds of \$196,599. Each unit consisted of one share and one half of a common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share for a period of 18 months. Finder's fees of \$2,370 and 144,607 units and 27,160 finder's warrants were paid as part of the transaction.

The common share purchase warrants were valued at \$41,865, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.7%
Expected life	18 months
Expected volatility	185%
Expected dividend yield	0%

- (xv) On August 28, 2017, 100,000 warrants were exercised at a price of \$0.10 per common share and 100,000 common shares were issued for gross proceeds of \$10,000 and 50,000 new warrants were issued as incentive to exercise early. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.15 per share for a period of 12 months. Each warrant will be callable at the company's discretion, upon the stock trading above \$0.25 for more than 30 consecutive days.

The common share purchase warrants were valued at \$7,407. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.25%
Expected life	12 months
Expected volatility	175%
Expected dividend yield	0%

- (xvi) On September 5, 2017, 28,200 broker warrants were exercised at a price of \$.10 per common share issued for gross proceeds of \$2,820.

- (xvii) On September 8, 2017, 100,000 warrants were exercised at a price of \$0.10 per common share issued and 100,000 common shares were issued, and 50,000 new warrants were issued as incentive to exercise early. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.15 per share for a period of 12 months. Each warrant

**9. Capital stock (continued)**

will be callable at the company's discretion, upon the stock trading above \$0.25 for more than 30 days.

The common share purchase warrants were valued at \$7,385, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.52%
Expected life	12 months
Expected volatility	176%
Expected dividend yield	0%

- (xviii) On September 08, 2017, 77,000 broker warrants were exercised at a price of \$.10 per common share issued for gross proceeds of \$7,700.
- (xix) On September 29, 2017, a first-tranche of a financing, totalling 20,493,125 units, was completed for total gross proceeds of \$1,639,450. Each unit consisted of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.16 per share for a period of 18 months. If the volume weighted average trading price of the Company's Common Shares on the Canadian Securities Exchange is \$0.24 or higher for at least 30 consecutive trading days, the Company may accelerate the expiry date of the Warrants upon 30 days' notice to the holders. Finder's fees of \$123,533 including 21,000 units and 507,920 finder's warrants and 810,970 broker options were paid as part of the transaction.

The common share purchase warrants were valued at \$690,467, net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.51%
Expected life	18 months
Expected volatility	183%
Expected dividend yield	0%

The common share broker options were valued at \$29,143, net of share issue costs. Each common share purchase warrant entitles the holder to acquire one common share and a warrant at an exercise price of \$0.08 per share for a period of 18 months. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.51%
Expected life	18 months
Expected volatility	183%
Expected dividend yield	0%

- (xx) On October 6, 2017, a second tranche of this financing, totaling 14,485,875 units, was completed for total gross proceeds of \$1,152,951. Each unit consisted of one share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.16 per share for a period of 18 months. Finder's fees of \$73,158 including 73,985 units and 213,500 finder's warrants and 412,250 broker options were paid as part of the transaction.

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

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**9. Capital stock (continued)**

The common share purchase warrants were valued at \$495,864 net of share issue costs. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.54%
Expected life	18 months
Expected volatility	183%
Expected dividend yield	0%

The common share broker options were valued at \$14,812, net of share issue costs. Each common share purchase warrant entitles the holder to acquire one common share and a warrant at an exercise price of \$0.08 per share for a period of 18 months. The fair value of the warrants and broker warrants was estimated on the date of closing using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.54%
Expected life	18 months
Expected volatility	182%
Expected dividend yield	0%

- (xxi) On December 29, 2017, a debt settlement was concluded such that 500,000 common shares were issued in settlement of \$40,000.

**b) Options**

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. Under the plan, options to purchase an aggregate of up to 10% of the issued common shares may be granted. The exercise price of options approximates the market price of the Company's stock on the date of grant.

A summary of the status of the Company's option plan as at December 31, 2017, and the changes during the quarter is presented below:

	# of options	Weighted average exercise price \$
Outstanding, March 31, 2017	2,719,000	0.08
Expired	9,000	2.50
Outstanding, June 30, 2017	2,710,000	0.08
Expired	350,000	0.07
Issued	3,500,000	0.15
Outstanding, Sept 30 and Dec 31, 2017	5,860,000	0.12



**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**9. Capital stock (continued)**

At December 31, 2017, the Company had stock options outstanding as follows:

Date of grant	Stock options	Exercise price	Expiry date
		\$	
February 14, 2013	10,000	1.50	Feb 14, 2018
February 19, 2015	350,000	0.09	Feb 19, 2020
June 2, 2016	2,000,000	0.06	June 2, 2021
August 29, 2017	3,500,000	0.15	Aug 29, 2022
	5,860,000		

The weighted average remaining contractual life of options outstanding was 4.08 years at December 31, 2017 (December 31, 2016 – 2.97 years).

The Company issued 2,250,000 stock options in fiscal year March 31, 2017 (2016 – no options granted). The options vested immediately. Those options had an estimated grant date fair value of \$111,475 using the Black Scholes option pricing model. This model used an expected dividend yield of 0%, expected volatility of 180%, a risk-free interest yield of 0.60% and an expected life of 5 years.

The Company issued 3,500,000 stock options on August 29, 2017. The options vested fully immediately. Those options had an estimated grant date fair value of \$493,932 using the Black Scholes option pricing model. This model used an expected dividend yield of 0%, expected volatility of 175%, a risk-free interest yield of 1.22% and an expected life of 5 year

**c) Reserve for share-based compensation**

The balance at December 31, 2017 of \$631,020 (March 31, 2017 – \$175,295) represents the estimated grant date fair value of unexercised share purchase options, based on the Black Scholes option pricing model, as follows:

Expiry Date	Estimated grant date fair value
	\$
February 14, 2018	10,000
February 19, 2020	28,000
June 2, 2021	99,100
Aug 29, 2022	493,932
	631,032

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**9. Capital stock (continued)**

d) Warrant reserve

At December 31, 2017, the Company had warrants outstanding as follows:

Expiry Date	Warrants	Exercise price	Value
		\$	\$
November 4, 2018	8,545,098	0.10	270,803
November 30, 2018	2,079,841	0.10	54,605
December 8, 2018	1,539,460	0.10	41,865
August 28, 2018	50,000	0.15	7,407
September 8, 2018	50,000	0.15	7,385
March 29, 2019	21,022,045	0.16	691,237
March 29, 2019	810,970	0.08	29,143
April 5, 2019	14,699,375	0.16	495,804
April 5, 2019	412,250	0.08	14,812
Balance, December 31, 2017	49,209,039		1,613,061

The weighted average exercise price was \$0.14 (2016 – \$0.14) and the weighted average remaining contractual life of warrants outstanding was 1.10 years December 31, 2017.

**10. General and administrative expenses**

The major components of general and administrative expenses are as follows:

	Nine months ended December 31	
	2017	2016
	\$	\$
Professional fees and salaries	270,770	132,287
Consulting Fees	67,892	-
Regulatory costs	12,704	14,094
Legal, audit and accounting	298,855	32,524
Investor relations	172,289	22,612
Travel and accommodations	66,987	23,361
Office rent	18,958	18,000
Communications	7,543	1,495
Office supplies	5,056	1,035
Other expenses	97,573	14,536
	1,018,627	259,944

**DNI Metals Inc.**  
**Notes to Interim Unaudited Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**Nine months ended December 31, 2017 and 2016**

**11. Related party transactions**

The principal transactions concluded with directors and officers of the Company or companies controlled by them are as follows:

	Nine Months ended December 31	
	2017	2016
	\$	\$
Professional fees	270,770	123,000
Administrative expenses	14,000	18,000
	284,770	141,000

Amounts payable at December 31, 2017 was as follows:

	Dec 31, 2017	Sept 30, 2017	June 30, 2017	March 31, 2017
	\$	\$	\$	\$
Professional fees	72,369	34,000	26,777	193,861
Reimbursable expenses	58,505	-	2,409	2,409
	130,874	34,000	29,186	196,270

Accounts payable amounts are unsecured, non-interest bearing, and have no fixed terms of repayment.

***Compensation of key management personnel of the Company***

The remuneration of directors and other members of key management personnel during the Nine months were as follows:

	Nine months ended December 31	
	2017	2016
	\$	\$
Short-term benefits	270,770	123,000
Share based compensation	366,920	74,316
	637,690	197,316

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the board having regard to the performance of individuals and market trends.

## **12. Commitments and contingencies**

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company has a five-year fixed price contract to supply graphite to a customer in North America. Terms of the purchase price will be reviewed annually in relation to the current market and adjusted accordingly.

## **13. Financial instruments**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes to the risks, objectives, policies and procedures from the previous year.

### ***Fair value***

IFRS require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the statement of financial position date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company has designated its cash and other receivables as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities, which are measured at amortized cost. The carrying amounts for other receivables and accounts payable and accrued liabilities on the statement of financial position approximate fair value because of the limited terms of these instruments. The carrying value of the loan payable on the statement of financial position approximates fair value due to the short period of time since its inception.

In accordance with IFRS, the Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level

1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At December 31, 2017 and March 31, 2017, the Company had no financial instruments that were not carried at fair value.

### ***Credit risk***

The Company's credit risk is primarily attributable to cash and other receivables. The Company has no significant concentration of credit risk arising from operations. Cash consist of bank deposits that have been invested with reputable financial institutions. Other receivables consist primarily of receivables from related and unrelated parties. Management believes the risk of loss to be remote.

### ***Liquidity risk***

The Company's approach to managing liquidity risk is to ensure there is sufficient liquidity to meet liabilities when due. As at December 31, 2017, the Company had cash resources of \$95,472 (March 31, 2017 - \$NIL) to settle current liabilities of \$545,327 (March 31, 2017 - \$1,152,267). These liabilities generally have contractual maturities of 30 days and are subject to normal trade terms. Management continues to seek investment to fully develop its business plans.

**13. Financial instruments (continued)**

***Market risk***

(a) Interest rate risk

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes that interest rate risk is remote as there were no such investments outstanding at December 31, 2017 and 2016. The loans from officers and directors, included in accounts payable and accrued liabilities bore a fixed rate of interest and the loan payable is non-interest bearing. The loans payable were non-interest bearing and only an imputed interest rate was used to calculate fair value.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in US dollars and Madagascar Ariary. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold other significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly with respect to the gold royalty asset. Management does not have clarity on future cash flows from this asset and cannot predict how changes in commodity prices will affect this asset. Changes in commodity prices will impact the economics of development of the Company's mineral properties, and the profitability of the Company's graphite sales. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

**14. Capital disclosures**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and evaluation of mineral properties. The capital of the Company consists of capital stock, reserve for warrants and reserve for share-based compensation. 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.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new 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's capital management objectives, policies and processes have remained unchanged during the nine months ended December 31, 2017 and 2016. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.