



**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2017**

***(Expressed in Canadian Dollars)***

## **NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements have been prepared by management and approved by the Audit Committee. The Company's independent auditors have not performed a review of these condensed interim financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

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**COBALT POWER GROUP INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited)*  
(Expressed in Canadian Dollars)

|                                                   | As at<br>July 31, 2017 | As at<br>January 31, 2017 |
|---------------------------------------------------|------------------------|---------------------------|
| <b><u>ASSETS</u></b>                              |                        |                           |
| <b>Current Assets</b>                             |                        |                           |
| Cash                                              | \$ 651,636             | \$ 190,809                |
| GST receivable                                    | 51,427                 | 24,187                    |
| <b>Total Current Assets</b>                       | <b>703,063</b>         | 214,996                   |
| <b>Exploration and Evaluation Assets (Note 5)</b> | <b>924,982</b>         | 355,472                   |
| <b>Total Assets</b>                               | <b>\$ 1,628,045</b>    | <b>\$ 570,468</b>         |
| <b><u>LIABILITIES AND EQUITY</u></b>              |                        |                           |
| <b>Current Liabilities</b>                        |                        |                           |
| Accounts payable and accrued liabilities          | \$ 255,732             | \$ 26,967                 |
| Flow through premium liability                    | 16,304                 | -                         |
| <b>Total Liabilities</b>                          | <b>272,036</b>         | 26,967                    |
| <b>Equity</b>                                     |                        |                           |
| Share capital (Note 6)                            | 5,811,933              | 4,217,310                 |
| Share-based payment reserve                       | 531,397                | 360,570                   |
| Deficit                                           | (4,987,321)            | (4,034,379)               |
| <b>Total Equity</b>                               | <b>1,356,009</b>       | 543,501                   |
| <b>Total Liabilities and Equity</b>               | <b>\$ 1,628,045</b>    | <b>\$ 570,468</b>         |

Nature and Continuance of Operations (Note 1)  
Subsequent Events (Note 10)

These financial statements were approved and authorized for issue by behalf of the Board of Directors on September 29, 2017 by:

|                                                    |                                  |
|----------------------------------------------------|----------------------------------|
| <u>“Andreas Rompel”</u><br>Chief Executive Officer | <u>“Jeff Poloni”</u><br>Director |
|----------------------------------------------------|----------------------------------|

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

**COBALT POWER GROUP INC.**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
*(Unaudited)*  
(Expressed in Canadian Dollars)

|                                                      | Three Months Ended |                   | Six Months Ended  |                   |
|------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                      | July 31, 2017      | July 31, 2016     | July 31, 2017     | July 31, 2016     |
| <b><u>Operating Expenses</u></b>                     |                    |                   |                   |                   |
| Consulting                                           | \$ 166,632         | \$ 35,920         | \$ 633,544        | \$ 88,785         |
| Insurance                                            | 12,500             | 2,300             | 12,500            | 4,600             |
| Office                                               | 16,544             | 4,401             | 32,653            | 9,981             |
| Professional fees                                    | 30,173             | 5,627             | 30,312            | 7,538             |
| Promotion and entertainment                          | 28,911             | 4,489             | 65,260            | 8,128             |
| Rent                                                 | 6,250              | 3,750             | 10,000            | 7,500             |
| Salary                                               | 30,842             | 32,231            | 63,073            | 32,287            |
| Share-based compensation                             | -                  | -                 | 170,827           | -                 |
| Shareholder communications                           | 7,022              | 1,238             | 35,537            | 1,385             |
| Transfer agent, regulatory fees                      | 10,458             | 2,813             | 21,546            | 9,552             |
| Travel                                               | 12,448             | 16,663            | 21,796            | 22,917            |
| <b>Loss Before Non-Operating Expense</b>             | <b>321,780</b>     | <b>109,432</b>    | <b>1,097,048</b>  | <b>192,673</b>    |
| <b><u>Non-Operating Expenses/(Income)</u></b>        |                    |                   |                   |                   |
| Foreign exchange loss/(gain)                         | -                  | (912)             | 502               | (912)             |
| Flow through income                                  | (143,696)          | -                 | (143,696)         | -                 |
| Interest income                                      | (911)              | -                 | (912)             | -                 |
| <b>Net and Comprehensive Loss</b>                    | <b>\$ 177,173</b>  | <b>\$ 108,520</b> | <b>\$ 952,942</b> | <b>\$ 191,761</b> |
| <b>Basic and Fully Diluted Loss per Share</b>        |                    |                   |                   |                   |
|                                                      | <b>\$ 0.00</b>     | <b>\$ 0.01</b>    | <b>\$ 0.02</b>    | <b>\$ 0.01</b>    |
| <b>Weighted Average Number of Shares Outstanding</b> |                    |                   |                   |                   |
|                                                      | <b>44,754,740</b>  | <b>16,707,259</b> | <b>49,600,973</b> | <b>16,005,403</b> |

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

**COBALT POWER GROUP INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
*(Unaudited)*  
(Expressed in Canadian Dollars)

|                                      | Shares            | Amount              | Share-based payment<br>Reserves | Deficit               | Total Shareholders'<br>Equity |
|--------------------------------------|-------------------|---------------------|---------------------------------|-----------------------|-------------------------------|
| <u>Balance, January 31, 2016:</u>    | 15,279,889        | \$ 3,330,214        | \$ 175,498                      | \$ (3,069,634)        | \$ 436,078                    |
| Shares issued for cash               | 16,537,866        | 987,095             | -                               | -                     | 987,095                       |
| Flow-through premium liability       | -                 | (24,639)            | -                               | -                     | (24,639)                      |
| Shares issued for exploration assets | 1,250,000         | 91,250              | -                               | -                     | 91,250                        |
| Share issuance costs                 | -                 | (166,610)           | 7,056                           | -                     | (159,554)                     |
| Share-based compensation             | -                 | -                   | 178,016                         | -                     | 178,016                       |
| Net loss for the year                | -                 | -                   | -                               | (964,745)             | (964,745)                     |
| <b>Balance, January 31, 2017</b>     | <b>33,067,755</b> | <b>4,217,310</b>    | <b>360,570</b>                  | <b>(4,034,379)</b>    | <b>543,501</b>                |
| Shares issued for cash               | 20,877,500        | 1,826,938           | -                               | -                     | 1,826,938                     |
| Flow-through premium liability       | -                 | (160,000)           | -                               | -                     | (160,000)                     |
| Shares issued for exploration assets | 900,000           | 67,500              | -                               | -                     | 67,500                        |
| Shares issued for finders' fees      | 150,000           | 15,000              | -                               | -                     | 15,000                        |
| Share issuance costs                 | -                 | (154,815)           | -                               | -                     | (154,815)                     |
| Share-based compensation             | -                 | -                   | 170,827                         | -                     | 170,827                       |
| Net loss for the period              | -                 | -                   | -                               | (952,942)             | (952,942)                     |
| <b>Balance, July 31, 2017</b>        | <b>54,995,255</b> | <b>\$ 5,811,933</b> | <b>\$ 531,397</b>               | <b>\$ (4,987,321)</b> | <b>\$ 1,356,009</b>           |

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

**COBALT POWER GROUP INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
*(Unaudited)*  
(Expressed in Canadian Dollars)

|                                                     | Six Months Ended<br>July 31, 2017 | Six Months Ended<br>July 31, 2016 |
|-----------------------------------------------------|-----------------------------------|-----------------------------------|
| <b><u>Cash Used in Operating Activities</u></b>     |                                   |                                   |
| Net loss for the period                             | \$ (952,942)                      | \$ (191,761)                      |
| <i>Items not affecting cash:</i>                    |                                   |                                   |
| Flow through premium                                | 16,304                            | -                                 |
| Stock-based compensation                            | 170,827                           | -                                 |
|                                                     | <b>(765,811)</b>                  | <b>(191,761)</b>                  |
| <i>Changes in non-cash working capital items:</i>   |                                   |                                   |
| GST receivable                                      | (27,240)                          | 10,240                            |
| Prepaid expenses                                    | -                                 | 4,600                             |
| Accounts payable and accrued liabilities            | 228,767                           | 6,966                             |
| <b>Cash Outflows from Operating Activities</b>      | <b>(564,284)</b>                  | <b>(169,955)</b>                  |
| <b><u>Cash Used in Investing Activities</u></b>     |                                   |                                   |
| Exploration and evaluation assets                   | (569,512)                         | -                                 |
| <b>Cash Outflows from Investing Activities</b>      | <b>(569,512)</b>                  | <b>-</b>                          |
| <b><u>Cash Provided by Financing Activities</u></b> |                                   |                                   |
| Proceeds from share issuances, net                  | 1,594,623                         | 138,984                           |
| <b>Cash Inflows from Financing Activities</b>       | <b>1,594,623</b>                  | <b>138,984</b>                    |
| Increase/(decrease) in cash for the period          | 460,827                           | (30,971)                          |
| Cash, beginning of the year                         | 190,809                           | 140,693                           |
| <b>Cash, End of Period</b>                          | <b>\$ 651,636</b>                 | <b>\$ 109,722</b>                 |

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

# COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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## 1. NATURE AND CONTINUANCE OF OPERATIONS

### a) Nature of Operations

Cobalt Power Group Inc. (the “**Company**”) was incorporated under the BC Business Corporations Act on December 14, 2009 and is listed on the TSX Venture Exchange (“**TSX:V**”). In October 2016, the Company changed its name from Global Copper Group Inc. to Cobalt Power Group Inc.

The Company maintains its head office and registered records office at #142 – 1146 Pacific Blvd., Vancouver, British Columbia, Canada, V6Z 2X7.

The Company’s principal business activity is the acquisition and exploration of resource properties. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently, the Company considers itself to be an exploration stage company.

### b) Continuance of Operations

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

During the six months ended July 31, 2017, the Company incurred a net and comprehensive loss of \$952,942 (July 31, 2016 - \$191,761) and as at July 31, 2017 had an accumulated deficit of \$4,987,321 (January 31, 2017 - \$4,034,379). To date, the operations of the Company have solely been funded through the issuance of common shares. Continued operations are dependent on the Company’s ability to complete future equity financings. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustments would be required to both the carrying value and classification of assets and liabilities on the statement of financial position. Due to many external factors, including commodity prices and equity market conditions, it is not possible to predict whether future financing will be successful or available at all. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

## 2. BASIS OF PRESENTATION

### a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”). These interim unaudited financial statements were authorized for issue by the Board of Directors on September 29, 2017.

## **COBALT POWER GROUP INC.**

Notes to the financial statements for the three and six months ended July 31, 2017

**(Expressed in Canadian Dollars)**

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### **2. BASIS OF PRESENTATION (Continued)**

#### **b) Basis of Measurement**

These unaudited interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value.

In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is the Canadian dollar, being the currency of the economic environment of the Company's operations. The functional currency is also the presentation currency.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. See Note 4 for Critical Accounting Estimates and Judgments made by management in the application of IFRS.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements set out below have been applied consistently in all material respects.

#### **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes. As of July 31, 2017, the Company had no cash equivalents.

#### **Short Term Investments**

Short term investments include investments that are convertible to known amounts of cash and have a maturity of one year or less. As at July 31, 2017, the Company had no short term investments.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basic and Diluted Loss per Share

Basic earnings per share are computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if the dilutive securities were exercised or converted to common shares. The dilutive effect of the options and warrants are computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

#### Exploration and Evaluation Assets

##### Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

##### Exploration and evaluation costs for mineral properties

Once the legal right to explore a property has been acquired, exploration and evaluation expenditures are recognized and capitalized. Mineral exploration costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Once the technical feasibility and commercial viability of extraction of the mineral resources has been determined, the property is considered to be a property under development and is classified as such. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for the prospects abandoned are written off through impairment.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an impairment loss is recognized.

Facts and circumstances that indicate a test for impairment as defined in *IFRS 6 Exploration and Evaluation Assets* include the following:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and that the entity has decided to discontinue such activities in the specific area;
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from a successful development or by a sale.

The recoverability of the amounts capitalized for the undeveloped mineral property is dependent upon the determination of economically recoverable mineral resources, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, the title to its properties are in good standing.

Management's capitalization of exploration and evaluation costs and assumptions regarding the future recoverability of such costs are subject to significant estimation uncertainties. Management's assessment of recoverability is based on, among other things, the probability of future economic benefits including: geological and metallurgical information, history of conversion of mineral deposits to proven and probable reserves, estimated commodity prices and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future, which has the potential to materially affect the carrying value and the ultimate recoverability of the amounts recorded for said mineral properties.

#### Mining Tax Credits

Mining tax credits are recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These mining tax credits are earned by incurring allowable exploration expenditures set forth by the B.C. government and are recorded as a reduction of the related exploration and evaluation assets.

#### **Equipment**

Field equipment is recorded at cost and amortized over its estimated useful life on a 30% declining balance method.

The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

## **COBALT POWER GROUP INC.**

Notes to the financial statements for the three and six months ended July 31, 2017

**(Expressed in Canadian Dollars)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

During the year ended January 31, 2016, the Company fully depreciated its field equipment, which had an original cost of \$26,220.

#### **Share-Based Payments**

Equity-settled share based payments for directors, officers, employees and consultants are measured at fair value using the Black-Scholes option valuation model at the stock option grant date and recorded as an expense in the financial. The fair value determined at the grant date of the equity-settled share based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of the amount of shares that will eventually vest. Consideration paid by optionees on exercise of stock options together with their fair values is credited to share capital.

Compensation expense on stock options granted to consultants is measured at the earlier of the completion of performance and the date the options are vested at the fair value of the goods and services received and are recorded as an expense in the same period as if the Company had paid cash for the goods or services received. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by the use of the Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### **Income Taxes**

Income tax expense comprises of current and deferred tax. Current and deferred taxes are recognized in the statement of operations except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is to be settled. At the end of each reporting year end the Company reassesses unrecognized deferred tax assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to do so and when the deferred tax balances relate to the same taxation authority.

## **COBALT POWER GROUP INC.**

Notes to the financial statements for the three and six months ended July 31, 2017

**(Expressed in Canadian Dollars)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Impairment of Long-lived Assets**

The Company's assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated and an impairment adjustment is made.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of operations for the period in which the impairment occurs.

The recoverable amount is the greater of the asset's fair value less costs to sell and its 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 current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill, which the Company has none recorded, is never reversed.

#### **Financial Instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired.

Financial assets are classified into one of four categories: Financial assets at fair value through profit or loss ("FVTPL"), Held-to-maturity investments, available for sale ("AFS") financial assets and loans and receivable.

The Company has classified cash as FVTPL.

## **COBALT POWER GROUP INC.**

Notes to the financial statements for the three and six months ended July 31, 2017

**(Expressed in Canadian Dollars)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been negatively and measurably impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows of the asset, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. The Company has no trade receivables as of July 31, 2017.

Impairment losses on loans and receivables carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's other financial liabilities include accounts payables and accrued liabilities. Subsequent to initial recognition, accounts payable and accrued financial liabilities are measured at amortized cost using the effective interest method.

#### **Decommissioning Provision**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized to the amount of the related asset along with a corresponding increase in the decommissioning provision in the period incurred. Provisions are determined by discounting the risk-adjusted expected future cash flows to take into consideration risks and uncertainties involving the transaction. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The decommissioning cost is depreciated on the same basis as the related asset. The liability is progressively increased each period as the effect of discounting unwinds, creating an expense recognition in the statement of operations.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements 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 rehabilitation provision. Currently, the Company has no decommission provision obligations.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's estimates are reviewed at each reporting date for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of operations for the period in which they are incurred.

#### Translation of Foreign Currencies

The financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate as of the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate as of the date when the fair values were determined and are not subsequently re-translated.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized as profit or loss in the statement of operations in the period which they arise.

#### Share Capital

##### Share issue costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issue costs related to uncompleted share subscriptions are charged to operations.

##### Fair value of warrants

Proceeds from unit placements are allocated between shares and warrants using the residual method whereby the shares are recorded at fair value and any residual is allocated to the warrant. The value of compensatory warrants issued to brokers is determined by using the Black-Scholes model.

##### Flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. Any premium, being the excess of the proceeds over the market value of the common shares, is recorded as a liability. At the later of the renouncing and the incurrence of the expenditure, the Company de-recognizes the liability, and the premium amount is recognized as income in the statement of operations. The Company may be subject to a Part XII.6 tax on flow-through proceeds, renounced

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

#### Accounting Standards Issued But Not Yet Applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

#### Recently Adopted Accounting Pronouncements

There have been no new accounting policies adopted by the Company that have had a significant impact on these financial statements.

### 4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The preparation of the financial statements also requires management to exercise judgment in the process of applying the accounting policies.

On an on-going basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its judgments and estimates. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

#### Critical Accounting Estimates

The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 4. USE OF ESTIMATES AND JUDGEMENTS (Continued)

#### *Impairment*

Assets, especially exploration and evaluation assets, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the recoverable amount requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

#### *Share-Based Payment Transactions*

The Company measures the cost of equity-settled transactions with employees and consultants by referencing the calculated fair value of the equity instruments as of the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and the dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

#### *Title to Mineral Property Interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title to said properties. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

#### *Rehabilitation Provisions*

Management's best estimates regarding the rehabilitation provisions are based on the current economic environment and future cash flows. Changes in estimates of contamination, restoration standards and restoration activities result in changes to provisions from period to period. Actual rehabilitation provisions will ultimately depend on future market prices of rehabilitation obligations.

#### Critical Judgments Used in Applying Accounting Policies:

##### *Exploration and Evaluation Expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which is based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is impaired in the statement of operations during the period the new information becomes available.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

### 4. USE OF ESTIMATES AND JUDGEMENTS (Continued)

#### *Income taxes*

Significant judgment is required in determining the provision for future income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. Utilization of the tax losses depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

### 5. EXPLORATION AND EVALUATION ASSETS

| Description                    | Balance,<br>January 31, 2017 | Additions<br>for the Period | Write offs<br>for the Period | Balance<br>July 31, 2017 |
|--------------------------------|------------------------------|-----------------------------|------------------------------|--------------------------|
| <b><u>Acquisition Cost</u></b> |                              |                             |                              |                          |
| Brownell Lake (A)              | \$ 1                         | \$ -                        | \$ -                         | \$ 1                     |
| Laurier Graphite (B)           | 1                            | -                           | -                            | 1                        |
| Smith-Cobalt (C)               | 141,250                      | 137,302                     | -                            | 278,552                  |
| <b>Sub-Total</b>               | <b>141,252</b>               | <b>137,302</b>              | -                            | <b>278,554</b>           |
| <b><u>Expenditures</u></b>     |                              |                             |                              |                          |
| Brownell Lake (A)              | -                            | -                           | -                            | -                        |
| Laurier Graphite (B)           | -                            | -                           | -                            | -                        |
| Smith-Cobalt (C)               | 214,220                      | 432,208                     | -                            | 646,428                  |
| <b>Sub-Total</b>               | <b>214,220</b>               | <b>432,208</b>              | -                            | <b>646,428</b>           |
| <b>Total</b>                   | <b>\$ 355,472</b>            | <b>\$ 569,510</b>           | <b>\$ -</b>                  | <b>\$ 924,982</b>        |

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

### 5. EXPLORATION AND EVALUATION ASSETS (Continued)

| Description                    | Balance,<br>January 31, 2016 | Additions<br>for the Year | Write offs<br>for the Year | Balance<br>January 31, 2017 |
|--------------------------------|------------------------------|---------------------------|----------------------------|-----------------------------|
| <b><u>Acquisition Cost</u></b> |                              |                           |                            |                             |
| Brownell Lake (A)              | \$ 1                         | \$ -                      | \$ -                       | \$ 1                        |
| Laurier Graphite (B)           | 245,000                      | -                         | (244,999)                  | 1                           |
| Smith-Cobalt (C)               | -                            | 141,250                   | -                          | 141,250                     |
| <b>Sub-Total</b>               | <b>245,001</b>               | <b>141,250</b>            | <b>(244,999)</b>           | <b>141,252</b>              |
| <b><u>Expenditures</u></b>     |                              |                           |                            |                             |
| Brownell Lake (A)              | -                            | -                         | -                          | -                           |
| Laurier Graphite (B)           | 47,732                       | -                         | (47,732)                   | -                           |
| Smith-Cobalt (C)               | -                            | 214,220                   | -                          | 214,220                     |
| <b>Sub-Total</b>               | <b>47,732</b>                | <b>214,220</b>            | <b>(47,732)</b>            | <b>214,220</b>              |
| <b>Total</b>                   | <b>\$ 292,733</b>            | <b>\$ 335,470</b>         | <b>\$ (292,731)</b>        | <b>\$ 355,472</b>           |

#### A) Brownell Lake Property

The Company held an option to acquire a 100% interest in eight contiguous mining claims located southeast of La Ronge, Saskatchewan. On October 18, 2013, the agreement was amended such that the consideration to be paid was to be incurred over a four and a half year period. As consideration for the amendment, the Company paid the optionor \$10,000.

The option consisted of three separate options in which the Company could acquire on an incremental basis up to a 100% interest in the property by making staged payments and incurring exploration expenditures as detailed below:

##### i) Cash Consideration

\$25,000 upon entering into the agreement **(paid)**;  
\$50,000 on or before December 2, 2012 **(paid)**;  
\$250,000 on or before June 2, 2015 **(not paid)**;  
\$500,000 on or before June 2, 2016 **(not paid)**.

##### ii) Issuance of Common Shares

250,000 upon receiving final TSX.V exchange approval **(issued)**;  
500,000 on or before December 2, 2012 **(issued)**;  
250,000 on or before June 2, 2015 **(not issued)**;  
250,000 on or before June 2, 2016 **(not issued)**.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 5. EXPLORATION AND EVALUATION ASSETS (Continued)

#### *iii) Exploration Expenditures*

\$250,000 on or before December 2, 2012 (**completed**);

\$750,000 on or before June 2, 2015 (**not completed**);

\$1,250,000 on or before June 2, 2016 (**not completed**).

The agreement was subject to a 2% net smelter royalty (“**NSR**”) on commercial production. The Company has the right to purchase 1/2 of the NSR within a period of two years from commencement of production for \$1,500,000.

The Company acquired a 30% interest in the property as a result of paying \$75,000, issuing 750,000 common shares and incurring exploration expenditures of \$250,000. However, the second and third options to acquire a further interest in the property lapsed due to missing the June 2, 2015 and 2016 deadline requirements. At fiscal year ended 2016, the Brownell property was impaired down to \$1 due to the above obligations not being fully executed.

#### **B) Laurier Graphite Property**

On May 16, 2012, the Company entered into a property option agreement to acquire an undivided 100% interest in mineral claims located in the Laurier Township, south east of North Bay, Ontario. The optionor has a 2% NSR reservation on the property.

Consideration for the acquisition comprised staged payments aggregating \$100,000 and the issuance of 375,000 common shares were paid and issued.

Due to the lack of exploration activity on the property, the Company has impaired the property down to \$1 at the fiscal year ended 2017.

#### **C) Smith-Cobalt Property**

On September 2, 2016, the Company entered into a property option agreement to acquire nine patented mining claims, located near Cobalt, Ontario. Consideration for the acquisition comprised of staggered payments aggregating \$25,000 and the issuance of 1,500,000 common shares as follows:

##### *i) Cash Consideration*

\$5,000 upon entering into the agreement (**paid**);

\$20,000 upon receipt of regulatory approval (**paid**).

##### *ii) Issuance of Common Shares*

750,000 upon receipt of regulatory approval (**issued**);

750,000 upon the first anniversary of the signing (September 2, 2017) (**issued**);

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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The agreement is subject to a 2% NSR. The Company has the right to purchase 1/2 of the NSR (1%) for \$1,000,000. In addition, the Company also agreed to continue payment on the remaining mortgage owed on the property, up to the amount of \$16,000 **(paid)**.

On September 12, 2016 the Company acquired an additional 3 mineral claims contiguous to the 9 patented Smith-Cobalt Mining claims. Consideration for the acquisition comprised of staged payments aggregating \$25,000 and the issuance of 500,000 common shares as follows:

*i) Cash Consideration*

\$10,000 upon entering into the agreement **(paid)**;

\$15,000 30 days after entering into the agreement **(paid)**.

*ii) Issuance of Common Shares*

500,000 five days after receipt of the regulatory approval **(issued)**.

## 6. SHARE CAPITAL

*a) Authorized*

An unlimited number of common shares without par value.

*b) Issued and Outstanding*

- i) On February 28, 2017 the Company closed the first non-brokered private placement for gross proceeds of \$1,040,000. The non-brokered private placement consisted of 13,000,000 units at a price of \$0.08 per unit. Each unit consisted of one common share of the Company and one-half transferable share purchase warrant with one full warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.16 for a period of eighteen months following the date of closing.

As compensation for the placement of the units, the Company paid cash finders' fees of \$29,496, calculated at 6% of the amount placed by four finders. In addition, the Company issued 399,000 broker warrants.

Each brokers' warrant is exercisable at price of \$0.16 with the right to purchase one additional common share of the Company for a period of eighteen months from the date of closing.

- ii) On March 8, 2017, the Company closed the second non-brokered private placement for gross flow-through proceeds of \$480,000. The non-brokered flow-through placement consisted of 4,000,000 flow-through shares at a price of \$0.12 per flow-through share.

As compensation for the placement of the units, the Company paid cash finder's fees of \$20,599 calculated at 6% of the amount placed by three finders. In addition, the Company issued 171,660 broker warrants.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 6. SHARE CAPITAL (Continued)

Each brokers' warrant is exercisable at price of \$0.16 to purchase one additional common share of the Company for a period of eighteen months from the date of closing.

- iii) On March 23, 2017, the Company signed an offer to purchase a patented land claim in the Lorrain Township of Ontario, Canada. The land claim is contiguous to the Company's Smith Cobalt Project. The offer requires payment of 300,000 common shares **(issued)** for a 100% interest in the patented land claim.
- iv) On March 29, 2017, the Company signed an option to purchase a 100% interest in the Bende and Kingston patented mining claims in the Coleman and Bucke Townships of Ontario. The option requires a payment of \$20,000 **(paid)** and an allotment of 400,000 **(issued)** of the Company's common shares on the date the agreement is accepted for filing by the TSX:V, followed by an additional payment of \$20,000 **(paid)** and allotment of 400,000 **(issued)** shares six months following the acceptance date of the TSX:V.
- v) On May 1, 2017 the Company issued 3,877,500 shares on the exercise of 3,877,500 warrants, for total proceeds of \$291,938. On May 3, 2017 the Company signed an option to purchase a mining claim, located in the Larder Lake mining division in the Lorrain Township, Ontario. The property is contiguous with the southwest section of the Company's Smith Cobalt project. The option requires a payment of \$1,000 **(paid)** and an allotment of 200,000 fully paid, non-assessable common shares of Cobalt **(issued)**, to be issued at a deemed price of \$0.12 per common share.
- vi) On May 23, 2017, 700,000 shares were issued to Perry Werner Wuest and Polymet in order to finalize the earlier Smith-Cobalt land acquisitions.
- vii) On May 23, 2017, 200,000 shares were issued to Jean Marc Gaudreau and Don Thomas Fudge in exchange for the Kirk Lake land option.

#### c) Warrants

A summary of the changes in the share purchase warrants for the six months ended July 31, 2017 compared to the year ended January 31, 2017 are as follows:

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

### 6. SHARE CAPITAL (Continued)

|                                    | Six months Ended<br>July 31, 2017 |                                          | Year Ended<br>January 31, 2017 |                                          |
|------------------------------------|-----------------------------------|------------------------------------------|--------------------------------|------------------------------------------|
|                                    | Amount                            | Weighted<br>Average<br>Exercise<br>Price | Amount                         | Weighted<br>Average<br>Exercise<br>Price |
| <i>Balance, Beginning of Year:</i> | 12,121,433                        | \$ 0.090                                 | 3,852,500                      | \$ 0.075                                 |
| Issued                             | 7,070,660                         | 0.160                                    | 8,268,933                      | 0.112                                    |
| Exercised                          | (4,245,500)                       | 0.075                                    | -                              | -                                        |
| Expired                            | (100,000)                         | 0.075                                    | -                              | -                                        |
| <b>Balance, End of Period:</b>     | <b>14,847,093</b>                 | <b>\$ 0.136</b>                          | <b>12,121,433</b>              | <b>\$ 0.100</b>                          |

As at July 31, 2017, the breakdown of the share purchase warrants outstanding is as follows:

| Amount of<br>Warrants | Price Per<br>Warrant | Amount<br>Exercisable On<br>July 31, 2017 | Expiry<br>Date    |
|-----------------------|----------------------|-------------------------------------------|-------------------|
| 1,392,250             | 0.075                | 1,392,250                                 | December 17, 2017 |
| 6,601,683             | 0.120                | 6,601,683                                 | April 6, 2018     |
| 6,899,000             | 0.160                | 6,899,000                                 | August 28, 2018   |
| 171,660               | 0.160                | 171,660                                   | September 8, 2018 |
| <b>15,064,593*</b>    |                      | <b>15,064,593*</b>                        |                   |

\*Each warrant contains an early trigger provision, in which the mandatory exercise clause for the warrants will be invoked if the Company's shares trade on the TSX:V for a period of 20 consecutive business days at a price range greater than \$0.15 - \$0.30 per share, depending on the warrant. In the event that an early warrant provision is triggered, the option holder has 21 total days after the trigger event to exercise the warrants before they expire.

#### d) Stock Options

The Company has a fixed stock option plan which follows the policies of the TSX:V regarding stock option awards granted to directors, officers, employees and consultants. The stock option plan allows a maximum of 10% of the issued shares to be reserved for issuance under the plan. The options can be granted for a maximum of 5 years and vest as determined by the Board of Directors.

On March 21, 2017, the Company issued 1,600,000 options exercisable at \$0.13 per share. The options, which all vested immediately, are valid for a period of 5 years from the grant date. For these options, the Company recorded \$170,827 in share-based compensation. The Black Scholes assumptions used for the share-based expense was a risk free rate of 1.18%, an expected volatility rate of 130%, an annual dividend rate of 0% and an expected life of 5 years. The weighted average fair value per option is \$0.13.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

### 6. SHARE CAPITAL (Continued)

A summary of stock options for the six months ended July 31, 2017 and the year ended January 31, 2017 is presented below:

|                                    | Six Months Ended<br>July 31, 2017 |                                          | Year Ended<br>January 31, 2017 |                                          |
|------------------------------------|-----------------------------------|------------------------------------------|--------------------------------|------------------------------------------|
|                                    | Amount of<br>Options              | Weighted<br>Average<br>Exercise<br>Price | Amount                         | Weighted<br>Average<br>Exercise<br>Price |
| <i>Balance, Beginning of Year:</i> | 2,970,000                         | \$ 0.094                                 | 1,330,000                      | \$ 0.075                                 |
| Granted                            | 1,600,000                         | 0.130                                    | 1,640,000                      | 0.110                                    |
| <b>Balance, End of Period</b>      | <b>4,700,000</b>                  | <b>\$ 0.107</b>                          | <b>2,970,000</b>               | <b>\$ 0.094</b>                          |

Compensation costs attributable to the granting and vesting of share options are measured at fair value and expensed with a corresponding increase to share-based payment reserve. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in share-based payment reserve is recorded as an increase to share capital.

#### *Options Issued to Directors, Employees and Consultants*

The fair value measured at the grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, expected forfeitures, the term of the option, the share price at the grant date, expected volatility of the underlying shares, the dividend yield and the risk free interest rate of the option.

### 7. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing and controlling of the Company's activities, and include both executive and non-executive directors and officers, as well as entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

At July 31, 2017, included in accounts payable and accrued liabilities is \$26,560 (January 31, 2017 – \$788) owing to companies controlled by either a director or an officer.

For the six month period ended July 31, 2017, \$Nil (July 31, 2016 - \$7,500) was paid in rent to a company controlled by an officer of Cobalt. In addition, \$81,934 (January 31, 2017 - \$Nil) was capitalized towards the Smith Cobalt project for services rendered by companies controlled by directors. These amounts payable are non-interest bearing, unsecured and have neither specific terms nor a date of repayment.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

### 7. RELATED PARTY TRANSACTIONS (Continued)

As at July 31, 2017 and January 31, 2017, coupled with the six months ended July 31, 2017 and July 31, 2016, the Company incurred the following capitalizations and expenditures for key management personnel and the companies directly controlled by them.

|                                         | As At<br>July 31, 2017            | As At<br>January 31, 2017         |
|-----------------------------------------|-----------------------------------|-----------------------------------|
| <i>Related Party Balance Sheet</i>      |                                   |                                   |
| Exploration and evaluation              | \$ 81,934                         | \$ -                              |
| <b>Total</b>                            | <b>\$ 81,934</b>                  | <b>\$ -</b>                       |
|                                         |                                   |                                   |
|                                         | Six months Ended<br>July 31, 2017 | Six months Ended<br>July 31, 2016 |
| <i>Related Party Operating Expenses</i> |                                   |                                   |
| Consulting                              | \$ 166,684                        | \$ 78,965                         |
| Rent                                    | -                                 | 7,500                             |
| Salary                                  | 63,012                            | 20,250                            |
| Share-based compensation                | 170,827                           | -                                 |
| <b>Total</b>                            | <b>\$ 400,522</b>                 | <b>\$ 106,715</b>                 |

### 8. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of share capital, share options and warrants. 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 development of mineral properties. The Board does not establish quantitative returns on capital criteria for management.

The mineral properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; equity, debt or property level joint ventures; and sale of interests in existing assets. In order to carry out the planned exploration and development and pay for operating expenses, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six months ended July 31, 2017. The Company is not subject to externally imposed capital requirements. The Company's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments; all held within major Canadian financial institutions.

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 9. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT DISCLOSURES

#### Fair Value

The carrying value of accounts payable and accrued liabilities approximate their fair value due to the immediate or short period to maturity. Cash is measured at fair value using level 1 inputs.

The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

*Level 1* - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets;

*Level 2* - Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

*Level 3* - Significant unobservable (no market data available) inputs which are supported by little or no market activity.

#### **Risk Management**

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

##### a) Credit Risk

The Company does not currently generate any revenues from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfil a contractual obligation. The Company does not have any asset-backed commercial instruments. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places cash with the high credit quality financial institutions. The Company considers its exposure to credit risk to be insignificant.

##### b) Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its financial obligations. The Company manages liquidity risk and requirements by maintaining sufficient cash balances and or through additional financings to ensure that there is sufficient capital in order to meet short term obligations. As at July 31, 2017, the Company has cash of \$651,636, (January 31, 2017 - \$190,809) and financial liabilities of \$272,036 (January 31, 2017 - \$26,967) which have contractual maturities of 30 days or less, aside from the flow through premium liability. The Company will require additional sources of equity, joint venture partnership or debt financing to fund ongoing operations and the exploration and development of its mineral properties.

In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustments would be required to both the carrying value and classification of assets and liabilities on the statement of financial position. It is not possible to

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT DISCLOSURES (Continued)

predict, due to many external factors including commodity prices and equity market conditions, as to whether future financing will be successful or available at all.

c) Market Risk

i) *Interest Rate Risk*

The Company manages its interest rate risk by obtaining commercial deposit interest rates available in the market by the major Canadian financial institutions on its cash and short term investments.

ii) *Foreign Exchange Risk*

The Company's functional currency and the reporting currency is the Canadian dollar. Periodically the Company incurs charges on its operations for settlement in currencies other than its functional currency and any gain or loss arising on such transactions is recorded in operations for the year.

The Company does not participate in any hedging activities to mitigate any gains or losses which may arise as a result of exchange rate changes.

As at July 31, 2017, the Company held US \$4,636 in cash, but had no liabilities which were denominated in currencies other than the Canadian dollar.

iii) *Commodity Price Risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. To mitigate price risk, the Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### 10. SUBSEQUENT EVENTS

- On August 21, 2017, Cobalt entered into an agreement with Hochschild Mining Holdings Limited ("Hochschild"), in which Hochschild invested \$500,000 US dollars ("USD") by way of a private placement ("PP"). The terms of the PP granted Hochschild the right to have one director on CPO's Board; the right to option and joint venture ("JV") one of CPO's properties, which has to be determined by Hochschild, at their sole discretion, within two years of the PP closing date; and a right to top-up and maintain its ownership percentage interest in CPO with regard to future financings (determined by the 20 day volume weighted average market price of CPO's common shares as traded on the TSX:V). Hochschild subscribed for 4,886,538 units of CPO at a price of

## COBALT POWER GROUP INC.

Notes to the financial statements for the three and six months ended July 31, 2017

(Expressed in Canadian Dollars)

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### 10. SUBSEQUENT EVENTS (Continued)

\$0.13 Canadian ("CDN") per unit. The USD \$500,000 PP amount was converted into CDN funds at a spot conversion rate of USD \$1.00 = CDN \$1.2705 (CDN \$635,250). Each unit consists of one common share and one half non-transferrable share purchase warrant, with each full warrant being exercisable at CDN \$0.30 for one CPO share over a period of two years from the closing date. In addition, CPO agreed that if Hochschild maintains 5% minimum ownership of the non-diluted issued and outstanding shares of CPO, they will be entitled to have one Board of Directors placement. If a project is selected by Hochschild, they will reimburse CPO 20% of the exploration and development expenditures and credit CPO the remaining 80% of expenditures costs, which will then be applied towards

the JV. If Hochschild decides to enact on the above mentioned terms, they will be entitled to a 60% interest in the project, incumbent on the provision that they spend CDN \$6,000,000 towards the project over a four year period. After the 60% commitment has been fulfilled and the interest earn in is established, Hochschild and CPO will jointly and equally contribute to the JV expenditures. Full terms will be set out in a JV agreement, subsequently negotiated if necessary. The common shares and warrants issued are subject to a four month statutory hold period.

- On September 13, 2017 Cobalt announced its Phase 2 drill program for the Smith Cobalt property is underway. Drilling services are provided by G4 Drilling of Val d'Or, Quebec. The Phase 2 drilling program highlights are as follows:
  - An initial drill program of 2,000 meters, at a minimum, will be comprised of 10 to 15 drill holes, with the primary focus being on the evaluation of the newly discovered mineralization zones (an outcrop comprised of five exposed individual vein swarms, which display three different orientations, will be the primary focus).
  - Continuation of drilling along the historical Smith Cobalt shaft trend, following up on the Phase 1 drill program results, with the intention of extending and expanding the known mineralized veins.
- On September 15, 2017, Cobalt issued 750,000 shares for the final payment on the Smith-Cobalt property acquisition.
- On September 18, 2017, Cobalt announced that it had completed its due diligence review of Canadian Cobalt Projects Inc. ("**Canadian Cobalt**") and the four separate blocks of mineral claims owned or leased by Canadian Cobalt, located within the South Lorrain and Lorrain Townships of Ontario, which encompass approximately 7,400 hectares ("**ha**") of prospective mineral lands. Canadian Cobalt is an Ontario corporation which was specifically incorporated for the purpose of acquiring the four (4) blocks of property lands at issue. The Company, which has a strategic investment by Hochschild (see news release dated August 30, 2017), initiated an acquisition where it would give consideration of 29,950,000 of CPO's shares, including a 1.5% net smelter returns royalty ("**NSR**") in exchange for the entirety of the issued and outstanding shares of Canadian Cobalt, of which 75% of the NSR may be purchased at any time for a payment of CDN \$1,000,000 (terms of the proposed acquisition were initially announced by the Company on July

## **COBALT POWER GROUP INC.**

Notes to the financial statements for the three and six months ended July 31, 2017

**(Expressed in Canadian Dollars)**

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### **10. SUBSEQUENT EVENTS (Continued)**

27, 2017). Following completion of the transaction, Canadian Cobalt will become a wholly owned subsidiary of Cobalt Power Group. The terms of acquisition are subject to TSX:V approval.

- On September 26, 2017, Cobalt announced the appointment of Mr. Isac Burstein to the Company's Board of Directors, bringing the total number of Board members to seven.