Annual Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless otherwise stated)

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
NorZinc Ltd. (formerly Canadian Zinc Corporation):

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of NorZinc Ltd. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the financial performance and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has no operating revenue and is dependent on its ability to raise adequate financing to continue the development of the Prairie Creek Mine, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP (signed)

We have served as the Company's auditor since 2015.

Vancouver, Canada
March 15, 2019

NorZinc Ltd.
(formerly Canadian Zinc Corporation)
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars, unless otherwise stated)

	As at December 31, 2018	As at December 31, 2017
ASSETS		
Current		
Cash and cash equivalents (Note 3)	$ 9,253	$ 12,979
Short-term investments (Note 4)	32	31
Other receivables and prepaid expenses	438	428
Total Current Assets	9,723	13,438
Restricted cash (Note 6)	2,075	2,075
Property, plant and equipment (Note 7)	620	654
Exploration and evaluation assets (Note 8)	5,428	5,398
Total Assets	**$ 17,846**	**$ 21,565**
LIABILITIES		
Current		
Accounts payable	$ 635	$ 1,258
Accrued and other liabilities	761	389
Total Current Liabilities	1,396	1,647
Loan payable (Note 9)	-	12,417
Decommissioning provision (Note 10)	1,904	1,834
Total Liabilities	3,300	15,898
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	134,536	114,618
Reserves (Note 12)	17,295	16,715
Deficit	(137,285)	(125,666)
Total Shareholders' Equity	14,546	5,667
Total Liabilities and Shareholders' Equity	**$ 17,846**	**$ 21,565**

Nature of Operations and Going Concern (Note 1)

Approved by the Board of Directors:

"Robert J. MacDonald"	*"John M. Warwick"*
Director	Director

NorZinc Ltd.
(formerly Canadian Zinc Corporation)
Consolidated Statements of Comprehensive Loss
(Expressed in thousands of Canadian dollars, except for share and per share information)

	Years ended December 31,		
	2018	**2017**	**2016**
Income			
Investment income	$ 173	$ 68	$ 60
Expenses			
Depreciation	7	13	12
Exploration and evaluation (Note 13)	5,893	8,723	2,428
Listing and regulatory	131	86	70
Management and directors	1,783	868	650
Office and general	629	541	462
Professional	1,036	162	216
Shareholder and investor communications	361	257	223
Share-based compensation (Note 12)	677	842	1,104
	10,517	11,492	5,165
Other income (expense)			
Gain (loss) on foreign currency translation (Note 9)	(556)	148	-
Finance costs (Notes 9 and 10)	(719)	(68)	(36)
Gain on change in decommissioning provision (Note 10)	-	3	64
Tax deduction recovery (Note 14)	-	267	-
	(1,275)	350	28
Net loss and comprehensive loss for the year	**$ (11,619)**	**$ (11,074)**	**$ (5,077)**
Net loss per share - basic and diluted	**$ (0.04)**	**$ (0.04)**	**$ (0.02)**
Weighted average number of shares outstanding			
Basic and diluted	315,435,463	266,111,543	238,480,985

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

NorZinc Ltd.
(formerly Canadian Zinc Corporation)
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars, unless otherwise stated)

		Years ended December 31,	
	2018	**2017**	**2016**
Operating Activities			
Net loss for the year	$ (11,619)	$ (11,074)	$ (5,077)
Adjustments for items not involving cash:			
Depreciation expense	34	56	67
Foreign currency translation (Note 9)	556	(148)	-
Finance costs (Notes 9 and 10)	719	68	36
Gain on change in decommissioning provision (Note 10)	-	(3)	(64)
Share-based compensation (Note 12)	677	842	1,104
Tax deduction recovery (Note 14)	-	(267)	-
Change in non-cash working capital items:			
Other receivables and prepaid expenses	(10)	23	(176)
Accounts payable and accrued liabilities	(251)	1,114	85
	(9,894)	(9,389)	(4,025)
Financing Activities			
Loan proceeds (repayment), net of transaction costs (Note 9)	(13,107)	12,563	-
Loan interest (Note 9)	(546)	(25)	-
Capital stock issued, net of share issue costs (Note 11)	19,839	-	11,090
Small lot shareholder cancellation (Note 11)	(18)	-	-
Proceeds from exercise of warrants (Note 11)	-	-	142
	6,168	12,538	11,232
Investing Activities			
Redemption of short-term investments (Note 4)	-	13	-
Sale of marketable securities (Note 5)	-	-	936
	-	13	936
Net change in cash and cash equivalents	**$ (3,726)**	**$ 3,162**	**$ 8,143**
Cash and cash equivalents, beginning of year	$ 12,979	$ 9,817	$ 1,674
Net change in cash and cash equivalents	(3,726)	3,162	8,143
Cash and cash equivalents, end of year	**$ 9,253**	**$ 12,979**	**$ 9,817**

NorZinc Ltd.
(formerly Canadian Zinc Corporation)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars, except for share information)

	Share Capital				
	Number	**Amount**	**Reserves**	**Deficit**	**Total**
Balance, December 31, 2015	218,047,709	$ 104,028	$ 14,394	$ (109,515)	$ 8,907
Issue of shares at $0.25 per share (Note 11)	40,800,000	10,200	-	-	10,200
Issue of shares at $0.30 per share (Note 11)	6,666,664	1,733	-	-	1,733
Share issuance costs (Note 11)	-	(1,110)	-	-	(1,110)
Share purchase warrants	-	(440)	440	-	-
Exercise of deferred share units	190,970	24	(24)	-	-
Exercise of warrants at $0.35 per share	406,200	183	(41)	-	142
Share-based compensation	-	-	1,104	-	1,104
Net loss for the year	-	-	-	(5,077)	(5,077)
Balance, December 31, 2016	266,111,543	114,618	15,873	(114,592)	15,899
Share-based compensation (Notes 12(a) and (b))	-	-	842	-	842
Net loss for the year	-	-	-	(11,074)	(11,074)
Balance, December 31, 2017	266,111,543	114,618	16,715	(125,666)	5,667
Issue of shares at $0.20 per share (Note 11)	100,000,000	20,000	-	-	20,000
Share issuance costs (Note 11)	-	(161)	-	-	(161)
Share purchase warrants (Note 11)	-	(284)	284	-	-
Redemption of restricted share units (Note 11)	3,650,000	381	(381)	-	-
Small lot shareholder cancellation (Note 11)	(97,601)	(18)	-	-	(18)
Share-based compensation (Notes 12 (a) and (b))	-	-	677	-	677
Net loss for the year	-	-	-	(11,619)	(11,619)
Balance, December 31, 2018	**369,663,942**	**$ 134,536**	**$ 17,295**	**$ (137,285)**	**$ 14,546**

1. Nature of Operations and Going Concern

NorZinc Ltd. (the "Company" or "NorZinc") is incorporated under the laws of the Province of British Columbia, Canada, and its principal business activity is the exploration and development of natural resource properties. The address of the Company's registered office is Suite 1710, 650 West Georgia Street, PO Box 11644, Vancouver, British Columbia, Canada, V6B 4N9. The Company currently exists under the *Business Corporations Act* (British Columbia) and its common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "NZC" and on the OTCQB under the symbol "NORZF".

A statutory Arrangement (the "Arrangement") to reorganize the Company structure, which was approved by the majority of the Company's shareholders at Canadian Zinc Corporation's Annual General and Special Meeting held on June 27, 2018, became effective September 6, 2018. The Arrangement reorganized the Company into a separate publicly-listed holding corporation, named NorZinc Ltd., and a directly held, wholly-owned, operating subsidiary retaining the name Canadian Zinc Corporation. The change was undertaken to facilitate future project financing of the Prairie Creek Project. The Arrangement leaves all the Prairie Creek property, assets, agreements and permits in place in the wholly-owned subsidiary. The shares of Canadian Zinc Corporation were exchanged for shares of NorZinc, on a one-for-one basis, with no impact on shareholder's ultimate economic interest.

As a result of the Arrangement, the Company is considered to have continued Canadian Zinc Corporation's mineral properties exploration and development business and has recorded the assets and liabilities of the Canadian Zinc Corporation operations at book value. The Company's financial statements reflect the operations of Canadian Zinc Corporation until September 6, 2018 and that of the Company thereafter. The consolidated statement of financial position presented herein as at December 31, 2017 is that of Canadian Zinc Corporation and its subsidiaries. Reference in these consolidated financial statements to "the Company" prior to September 6, 2018 refers to "Canadian Zinc Corporation".

The Company is primarily engaged in the exploration and development of its mineral properties. The Company is considered to be in the exploration and development stage given that its mineral properties are not yet in production and, to date, have not generated any significant revenues. The recoverability of amounts shown for exploration and evaluation assets is dependent on the existence of economically recoverable reserves, obtaining and maintaining the necessary permits to operate a mine, obtaining the financing to complete development and future profitable production.

These audited consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. There are however material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern which are discussed below.

The Company has a history of losses with no operating revenue other than interest income and has working capital of $8,327,000 as at December 31, 2018. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors. Additional financing will be required to continue the development of the Prairie Creek Project and to put the Prairie Creek Mine into production. There is no assurance that such financing will be available on a timely basis or on acceptable terms. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities. The Company is currently evaluating various opportunities and seeking additional sources of financing. These conditions indicate the existence of material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. These audited consolidated financial statements do not give effect to any adjustments, which could be material, and which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the audited consolidated financial statements.

2. Significant Accounting Policies

(a) Statement of Compliance

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and were approved and authorized for issue by the Board of Directors on March 13, 2019.

(b) Basis of Preparation and Consolidation

These audited consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss which are stated at their fair value. These audited consolidated financial statements are presented in Canadian dollars and have been prepared on the basis of IFRS standards that are effective on December 31, 2018. The accounting policies adopted by the Company have been applied consistently to all periods presented. These audited consolidated financial statements are presented in the Company's, and its subsidiaries, functional currency of Canadian dollars.

These audited consolidated financial statements include the accounts of NorZinc Ltd. and its wholly-owned subsidiaries Canadian Zinc Corporation, Paragon Minerals Corporation and Messina Minerals Inc., collectively the Group. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full upon consolidation.

(c) Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. Actual results may differ from these estimates.

i. The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for the development of the Prairie Creek mine and exploration of the Newfoundland properties and for working capital requirements. In concluding the Company is a going concern, management considers funds on hand at year end, planned expenditures for at least 12 months from the balance sheet date and strategic objectives in its assessment. Due to the nature of its business, management increases or decreases administrative and exploration expenditures based on available working capital. Judgments must also be made with regard to events or conditions which might give rise to significant uncertainty.

ii. Valuation of exploration and evaluation assets: Significant judgment is required when determining whether facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount. Significant judgment must be exercised in determining when a project of the Company moves from the exploration and evaluation phase and into the development phase. The existence and extent of proven or probable mineral reserves; retention of regulatory permits and licences; the availability of development financing; current and future metal prices; and market sentiment are all factors considered by the Company. Accordingly, the Company having not secured development financing has deemed all projects to be in the exploration and evaluation phase.

iii. Decommissioning provision: Decommissioning provisions are recognized in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require significant judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws, regulations and remediation practices and the expected timing of remediation work.

iv. Share-based compensation: The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value of share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 12.

2. Significant Accounting Policies (continued)

(d) Financial Instruments

Financial assets and financial liabilities, including derivative instruments, are initially recognized at fair value on the balance sheet when the Company becomes a party to the relevant contractual provisions. Measurement in subsequent periods depends on the financial instrument's classification.

The Company classifies financial instruments at initial recognition in one of the following three categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or at amortized cost.

Financial assets and liabilities classified as FVTPL are initially measured at fair value with unrealized gains and losses recognized through earnings. Transaction costs are expensed in the consolidated statement of income (loss). The Company has classified its cash and cash equivalents, short-term investments and restricted cash as FVTPL.

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, the investments are measured at fair value, with gains and losses arising from changes from initial recognition recognized in other comprehensive income. The Company does not have financial instruments measured at FVTOCI.

Financial assets and liabilities at amortized cost are initially recognized at fair value net of transaction costs, and subsequently carried at amortized cost adjusted by any impairment. The Company has classified other receivables, accounts payable, accrued and other liabilities and loan payable as being measured at amortized cost.

(e) Impairment of Non-Financial Assets

The Company assesses at each reporting date the carrying amounts of non-financial assets to determine whether there is an indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of 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 risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. For the purpose of impairment testing, assets are grouped at lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge 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. A previously recognized impairment loss is reversed only if there has been a significant change in or reversal of the circumstances or events that gave rise to the previously recognize impairment loss.

2. Significant Accounting Policies (continued)

(f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid investments which are readily convertible into cash with maturities of three months or less from the date of purchase.

(g) Short-term Investments

Short-term investments, which consist primarily of investments in Bankers Acceptances and Guaranteed Investment Certificates, are investments with maturities of more than three months and less than one year from the date of purchase.

(h) Marketable Securities

Marketable securities are recorded at their fair market value on the date of acquisition and are classified as FVTPL. The carrying value of the marketable securities is adjusted at each subsequent reporting period to their estimated fair value (based upon the market bid price and the Bank of Canada quoted exchange rate, if applicable) with the resulting unrealized gains or losses recognized in comprehensive income or loss for the year. Transaction costs relating to the purchase of marketable securities are expensed directly to profit or loss.

(i) Foreign Currency Transactions

The Company's reporting currency and the functional currency of its subsidiaries is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at the financial statement date. Foreign exchange gains or losses arising from translation are recognized in profit and loss for the reporting year.

(j) Property, Plant and Equipment ("PPE")

Items of PPE are carried at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is provided on a declining-balance basis, less the estimated residual value, at the following annual rates:

Mining equipment	30%
Office equipment	20%

Buildings and leasehold improvements are recorded at cost, net of accumulated depreciation. Depreciation on buildings and leasehold improvements are provided on a straight-line basis over the life of the asset.

Depreciation methods, material residual value estimates and estimates of useful lives are reviewed at each reporting date and updated as required. Gains or losses arising on the disposal of PPE are determined as the difference between the proceeds on disposition and the carrying value of the assets and are recognized in profit or loss at the time of the disposal. Amortization of the Prairie Creek plant and mill will be based on the unit-of-production method using estimated proven and probable reserves.

2. Significant Accounting Policies (continued)

(k) Exploration and Evaluation Assets

Exploration and evaluation assets include acquired mineral use rights for mineral properties held by the Company. The amount of consideration paid (in cash or share value) for mineral use rights is capitalized. The amounts shown for exploration and evaluation assets represent costs of acquisition incurred to date, less recoveries and impairments, if any, and do not necessarily reflect present or future values. Amounts received for the sale of mineral properties and for option payments are treated as reductions of the cost of the property, with payments in excess of capitalized costs recognized in income.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, 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. Subsequent recovery of the resulting carrying value depends on successful development or sale of the mineral property. If a mineral property does not prove viable, all unrecoverable costs associated with the project net of any impairment provisions are written off.

Exploration and evaluation assets will be amortized to profit or loss once commercial production has been achieved or written off if the exploration and evaluation assets are abandoned or sold. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

Included in the cost of exploration and evaluation assets is the cost of the estimated decommissioning provision.

Ownership in exploration and evaluation assets involves certain inherent risks, including geological, fluctuation in metal prices, operating costs, and permitting risks. Many of these risks are outside the Company’s control. The ultimate recoverability of the amounts capitalized for the exploration and evaluation assets is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining and retaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Estimates of the recoverability of the Company’s investment in exploration and evaluation assets have been based on current and expected conditions. However, it is possible that changes could occur which may adversely affect management’s estimates and may result in future write downs of exploration and evaluation assets carrying values.

Title to mineral properties involves inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyance history characteristics of many mineral properties.

(l) Decommissioning, Restoration and Other Provisions

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a decommissioning provision is recognized at its present value in the period in which it is incurred, which is generally when an environmental disturbance occurs or a constructive obligation is determined. Upon initial recognition of the provision, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit-of-production method. Subsequent to initial recognition the carrying value of the provision is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. This accretion expense is recognized in profit or loss as finance costs. Changes to estimated future decommissioning costs are recognized in the consolidated statement of financial position by either increasing or decreasing the decommissioning provision and the related asset.

2. Significant Accounting Policies (continued)

(m) __Flow-Through Shares__

Current Canadian tax legislation permits mining entities to issue flow-through shares to investors. Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by investors instead of the entity. The issue of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. At the time the Company issues flow-through shares, the sale of tax deductions is deferred and presented as other liabilities in the consolidated statement of financial position to recognize the obligation to incur and renounce eligible resource exploration and evaluation expenditures. The tax deduction is measured as the difference between the current market price of the Company’s common shares and the issue price of the flow-through share. Upon incurring and renouncing eligible resource exploration and evaluation expenditures, the Company recognizes the sale of tax deductions as a tax deduction recovery on the consolidated statement of comprehensive income or loss and accordingly reduces the liability for flow-through shares premium.

(n) __Investment Income__

Investment income on cash and cash equivalents and short-term investments is recognized as it is earned.

(o) __Exploration and Evaluation Expenditures__

Exploration and evaluation expenditures, other than those described in Note 2(k), are recognized in profit and loss. Expenditures incurred before the company has obtained legal rights to explore areas of interest are also recognized in profit and loss. Expenditures incurred by the Company in connection with the development of mineral resources after such time as mineral reserves are proven or probable; permits to operate the mineral resource property are received; financing to complete development has been obtained; and approval of the Board of Directors to commence mining development and operations has been given, are capitalized as deferred development expenditures within the exploration and evaluation asset (see Note 2(k)).

(p) __Share-based Compensation__

The Company follows the fair value method of accounting for the stock option awards granted to employees, directors and consultants. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company’s common shares and the expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of direct awards of stock is determined by the quoted market price of the Company’s stock. Share-based compensation is amortized to earnings over the vesting period of the related option. The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company’s stock options.

Share-based compensation for deferred share units granted to directors is determined based on estimated fair values of the units at the time of grant using quoted market prices and recognized immediately. Share-based compensation for restricted share units granted to employees and consultants is determined based on estimated fair values of the units at the time of grant using quoted market prices and recognized over the vesting period of the respective units.

2. Significant Accounting Policies (continued)

(q) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the potential benefit of income tax losses and other deductions carried forward to future years.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in the year that includes the substantive enactment date. The value of deferred income tax assets is reviewed annually and adjusted, if necessary, to reflect the amount probable of being realized.

(r) Earnings (Loss) Per Common Share

Earnings (loss) per share calculations are based on the net income (loss) attributable to common shareholders for the year divided by the weighted average number of common shares issued and outstanding during the year.

Diluted earnings per share calculations are based on the net income attributable to common shareholders for the year divided by the weighted average number of common shares outstanding during the year plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year. The incremental number of common shares that would be issued is included in the calculation of diluted earnings (loss) per share.

Diluted loss per share calculations are based on the net loss attributable to common shareholders for the year divided by the weighted average number of common shares issued and outstanding during the year. Stock options and share purchase warrants are not included in the computation of loss per share as such inclusion would be anti-dilutive.

(s) Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the Company has complied with all conditions necessary to receive the grants and collectability is reasonably assured. Government grants relating to costs are accrued as receivable and recognized in the consolidated statement of comprehensive income or loss as a reduction of the related expense. Government grants relating to property, plant and equipment are accrued as receivable and recognized in the consolidated statement of financial position as a reduction of the carrying value of the related asset.

(t) IFRS Standards Adopted

As of January 1, 2018, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards. The adoption of these standards did not have a material impact on the consolidated results and financial position of the Company.

IFRS 9, *Financial Instruments* ("IFRS 9") addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39").

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. For financial liabilities, the standard retains most of the IAS 39 requirements.

2. Significant Accounting Policies (continued)

(t) IFRS Standards Adopted (continued)

The Company has classified cash and cash equivalents; short-term investments; and restricted cash as fair value through profit and loss. Other receivables; accounts payable; accrued and other liabilities; and loan payable have been classified as being measured at amortized cost. The Company does not have financial instruments measured at fair value through other comprehensive income.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), the new revenue standard, introduces a single principles-based, five-step model for the recognition of revenue when control of goods is transferred to, or a service is performed for, the customer. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

(u) IFRS Standards Issued But Not Yet Effective

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these audited consolidated financial statements. The Company considers the following standard the most significant and is not a complete list of new pronouncements that may impact the financial statements.

IFRS 16, *Leases* ("IFRS 16")

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. There are optional exemptions for short-term leases and leases of low value items. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases—Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 may be applied retrospectively to each prior period presented (full retrospective approach), or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The Company has elected to apply the modified retrospective approach upon adoption at January 1, 2019, measuring the right-of-use asset at its carrying amount had the standard been applied at commencement of the lease. The Company intends to use the optional exemption for short-term leases and leases for which the underlying asset is of low value and to use the cumulative catch-up approach upon transition.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The classification between cash flow from operating activities and cash flow from financing activities will also change as a result of implementing IFRS 16.

Based on lease data as at December 31, 2018, a new right-of-use asset, recognizing the Company's office facility and equipment leases, will be recognized at approximately $207,000 (increase in assets); the corresponding lease liability will be recorded at approximately $180,000 (increase in liabilities); and the difference of $27,000 (decrease in equity) will be recognized as an adjustment to retained earnings with all adjustments effective as at January 1, 2019. The full quantification of the new standard will be disclosed in the condensed consolidated interim financial statements for the first quarter of 2019.

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

3. Cash and Cash Equivalents

The Company's cash and cash equivalents at December 31, 2018 consisted of cash of $739,000 and cash equivalents of $8,514,000 (December 31, 2017 - cash of $1,620,000 and cash equivalents of $11,359,000).

4. Short-term Investments

Short-term investments, which consist primarily of investments in Banker's Acceptances and Guaranteed Investment Certificates, are investments with maturities of more than three months and less than one year from the date of purchase. At December 31, 2018, short-term investments had a carrying value of $32,000, earning income at a rate of 1.35% (December 31, 2017 - $31,000, earning income at a rate of 0.60%). The carrying values of short-term investments approximate their fair values due to the relatively short period to maturity.

5. Marketable Securities

In January 2016, the Company liquidated its marketable securities and sold 12,573,380 shares of Vatukoula Gold Mines pcl ("Vatukoula") to Zhongrun International Mining Co. Ltd., the major shareholder of Vatukoula, for cash of $936,000.

6. Restricted Cash

As at December 31, 2018, restricted cash comprised reclamation security deposits totaling $2,075,000 (December 31, 2017 - $2,075,000) held by government agencies as financial assurance in respect of certain reclamation obligations at the Prairie Creek Property.

7. Property, Plant and Equipment

	Prairie Creek Plant & Mill	Mining Equipment	Office Equipment	Buildings and Leasehold Improvements	Total
Cost					
December 31, 2016	$ 500	$ 1,742	$ 187	$ 120	$ 2,549
Additions during the year	-	-	-	-	-
December 31, 2017	500	1,742	187	120	2,549
Additions during the year	-	-	-	-	-
December 31, 2018	$ 500	$ 1,742	$ 187	$ 120	$ 2,549
Accumulated Depreciation					
December 31, 2016	$ -	$ 1,608	$ 164	$ 67	$ 1,839
Depreciation for the year	-	43	11	2	56
December 31, 2017	-	1,651	175	69	1,895
Depreciation for the year	-	27	5	2	34
December 31, 2018	$ -	$ 1,678	$ 180	$ 71	$ 1,929
Net Book Value					
December 31, 2016	$ 500	$ 134	$ 23	$ 53	$ 710
December 31, 2017	500	91	12	51	654
December 31, 2018	500	64	7	49	620

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

8. Exploration and Evaluation Assets

The Company holds a 100% interest in the Prairie Creek Mine property located in the Northwest Territories, Canada. The Prairie Creek Property is subject to a 1.2% net smelter return royalty. It also holds, through the Company's wholly-owned subsidiaries Paragon and Messina, a 100% interest in the South Tally Pond, Tulks South and Long Lake properties, subject to various royalties, in Newfoundland and Labrador.

	December 31, 2018	December 31, 2017
Prairie Creek Mine	$ 30	$ -
Newfoundland properties	5,398	5,398
	$ 5,428	$ 5,398

The Company has incurred historical exploration and evaluation costs of $89,868,000 on the Prairie Creek Mine asset and $7,406,000 on exploration properties in central Newfoundland (see Note 13) and has expensed these costs pursuant to its accounting policy.

9. Loan Payable

On December 22, 2017, the Company entered into a financing agreement ("Project Bridge Loan") with Resource Capital Funds ("RCF") pursuant to which RCF provided an interim non-convertible project loan in the amount of US$10 million. The Project Bridge Loan bore an interest rate of 8%, payable quarterly and was due to mature on January 31, 2019. Net loan proceeds were $12,563,000 consisting of gross proceeds of $12,695,000 offset by transaction costs of $132,000.

On July 10, 2018, the US$10 million Project Bridge Loan, as well as accrued interest, was repaid in full using the funds raised from the RCF equity financing (see Note 11). For the year ended December 31, 2018, the Company accrued interest of $679,000 (December 31, 2017 - $28,000) and paid interest of $546,000 (December 31, 2017 - $25,000). For the year ended December 31, 2018, a loss of $556,000 was recorded to revalue the US dollar loan to Canadian dollars upon repayment compared to a gain on revaluation of $148,000 for the year ended December 31, 2017.

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

10. Decommissioning Provision

Reclamation and closure costs for the Prairie Creek Property have been estimated based on an Abandonment and Restoration Plan agreed to by the Mackenzie Valley Land and Water Board and the Company based upon current obligations under existing surface leases, land use permits and a class “B” Water Licence for reclamation and closure of the Prairie Creek Mine site as it now exists with the current infrastructure and assuming a mine life of 15 years. These reclamation and closure costs have been measured based on the net present value of the best estimate of future cash expenditures. These reclamation and closure costs and any subsequent changes in estimates are capitalized into exploration and evaluation assets and amortized over the life of the related asset (see Note 8). The accretion expense is included in finance costs in the consolidated statement of comprehensive income or loss.

The Company’s undiscounted decommissioning provision for the Prairie Creek site, as it currently exists, is $2,838,000 (December 31, 2017 - $2,782,000), being the estimated future net cash outflows of the reclamation and closure costs, including a 25% contingency and inflation rate of 2% per annum, required to satisfy the obligations, settlement of which will occur subsequent to closure of the mine assumed to be in 2037. The decommissioning provision is discounted using a risk free rate of 2.13% (December 31, 2017 – 2.22%).

Reclamation and closure costs are capitalized into exploration and evaluation assets and amortized over the life of the Prairie Creek Mine asset. Changes in the reclamation and closure costs resulting from changes in the timing, estimated cost or discount rate requires an offsetting change in the carrying value of the corresponding exploration and evaluation asset. Decreases in the decommissioning provision result in a corresponding decrease to the asset until the corresponding asset is reduced to nil, after which a decrease in the decommissioning provision is recognized as a gain in the consolidated statement of comprehensive loss.

	December 31, 2018	December 31, 2017
Balance – beginning of year	$ 1,834	$ 1,797
Accretion expense	40	40
Change in estimates	30	(3)
Balance – end of year	$ 1,904	$ 1,834

11. Share Capital

Issued and outstanding: 369,663,942 common shares (December 31, 2017 – 266,111,543).

Authorized: Unlimited common shares with no par value (2017 – unlimited).

(a) <u>During the year ended December 31, 2018</u>

i. On July 10, 2018, the Company completed a $20 million equity financing. Pursuant to the financing, the Company issued 100 million units to RCF VI CAD LLC (“RCF VI CAD”), a subsidiary of Resource Capital Fund VI L.P., at a price of C$0.20 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant, which expired unexercised, entitled RCF VI CAD to purchase one common share at an exercise price of C$0.25 per share until December 31, 2018. The proceeds from the financing were used to repay the US$10 million bridge loan advanced by Resource Capital Fund VI L.P. in December 2017 with the balance allocated for ongoing development of the Prairie Creek Project and general working capital requirements. Net cash proceeds from the issuance were $19,839,000 after issuance costs of $161,000. As a result of the financing, RCF VI CAD holds approximately 41% of the issued shares of the Company on a non-diluted basis. The Company also recognized non-cash costs for the fair value of the warrants granted of $284,000. The fair value of the warrants was determined under the Black-Scholes option pricing model (See Note 12 (c)).

ii. In August 2018, the Company issued 3,650,000 shares to senior management in exchange for vested RSUs (see Note 12 (b)).

iii. On September 6, 2018, pursuant to the Arrangement (See Note 1), the Company cancelled 97,601 common shares held by small lot shareholders (defined as a holder of fewer than 500 common share) in consideration for payment of $18,000.

(b) <u>During the year ended December 31, 2017</u>

There were no changes to the Company’s share capital in the year ended December 31, 2017.

(c) <u>During the year ended December 31, 2016</u>

i. On July 7, 2016, the Company completed an underwritten public offering of common shares and flow-through shares (the “Offering”) through a syndicate of underwriters co-led by Paradigm Capital Inc. and Canaccord Genuity Corp. and included Dundee Securities Ltd. (together, the ("Underwriters")). The Company issued 34,135,000 common shares at a price of $0.25 per common share for gross proceeds of $8,533,750, and 6,665,000 common shares, which qualify as “flow-through” shares (the "FT Shares”) at a price of $0.25 per FT Share for gross proceeds of $1,666,250. In total, the gross proceeds of the Offering amounted to $10,200,000. The Underwriters were paid a commission of 6% of the gross proceeds from the offering and received compensation warrants to acquire 2,448,000 non-flow-through shares at any time until July 7, 2018 at a price of $0.25 per share. Net proceeds from the issuance were $9,249,000 after issuance costs comprised of the advisor’s commission of $612,000 and other issuance costs of $339,000. The Company also recognized non-cash costs for the fair value of the warrants granted of $440,000 and did not recognize a sale of tax deductions as the issue price of the of the flow-through shares was greater than the market price of the Company’s shares at the date of issue.

ii. On December 14, 2016, the Company completed a non-brokered private placement of flow-through shares. The Company issued 6,666,664 common shares at a price of $0.30 per common share for gross proceeds of $2,000,000. A finder’s fee equal to 6% of the gross proceeds raised was paid to the advisors. Net proceeds from the issuance were $1,841,000 after issuance costs comprised of the advisor’s fee of $120,000 and other issuance costs of $39,000. The sale of tax deductions of $267,000, being the difference between the market price of the Company’s shares at the date of issue and the issue price of the flow-through shares, was initially deferred and recorded as a current liability and subsequently as a tax deduction recovery upon renunciation of the exploration and evaluation expenditures (See Note 14).

iii. 406,200 common shares were issued upon the exercise of warrants at a price of $0.35 per common share for proceeds of $142,000.

iv. 190,970 common shares were issued upon the conversion of Deferred Share Units following the retirement of a director.

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

12. Reserves

(a) Stock Options

At the Annual General and Special Meeting held on June 27, 2018, shareholders approved the amendment of the Company's Stock Option Plan to increase the number of Common Shares reserved for issuance under the Stock Option Plan by 10,800,000 common shares to 18,300,000 common shares. The Stock Option Plan is a fixed share stock option plan pursuant to which options on common shares may be issued to directors, officers, employees and service providers of the Company. Each option granted shall be for a term not exceeding five years from the date of grant and the vesting period is determined at the discretion of the Board. The option exercise price is set at the date of grant and cannot be less than the closing market price of the Company's common shares on the TSX on the day of grant.

In May 2018, the Company issued 2,500,000 incentive stock options outside of the Company's stock option plan and in accordance with the rules of the Toronto Stock Exchange to a senior officer as an employment inducement. The incentive stock options vest in equal eighths over a two year period, carry an exercise price of $0.20 per common share and had a per-option fair value at the date of granting of $0.06. The fair value of the options was determined under the Black-Scholes option pricing model using a risk-free interest rate of 2.16%, an expected life of options of 2.6 to 3.5 years, an expected volatility of 87% to 91%, no expected dividends and a forfeiture rate of 0%.

In December 2018, the Company issued 1,860,000 incentive stock options to the Company's directors. The incentive stock options vest in equal eighths over a two year period, carry an exercise price of $0.10 per common share and have a per-option fair value at the date of granting of $0.04. The fair value of the options was determined under the Black-Scholes option pricing model using a risk-free interest rate of 1.86%, an expected life of options of 2.6 to 3.5 years, an expected volatility of 73% to 88%, no expected dividends and a forfeiture rate of 0%.

At December 31, 2018, there were 9,460,000 incentive stock options issued and outstanding. Each stock option is exercisable for one ordinary share of the Company. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

	December 31, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,200,000	$ 0.35	5,850,000	$ 0.36
Expired	-	-	(650,000)	0.46
Forfeited	(100,000)	0.35	-	-
Granted	4,360,000	0.16	-	-
Outstanding, end of year	9,460,000	$ 0.26	5,200,000	$ 0.35

For the year ended December 31, 2018, the Company recorded share-based compensation expense for stock options granted to directors, officers and employees of $154,000 (2017 - $361,000 and 2016 - $492,000).

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

12. Reserves (continued)

(a) Stock Options (continued)

As at December 31, 2018, the Company had outstanding and exercisable stock options, with a weighted average remaining contractual life of 3.5 years, to purchase an aggregate 9,460,000 common shares as follows:

	Options Outstanding		Options Exercisable	
Expiry Date			Number of Options	Weighted Average Exercise Price
August 10, 2021	5,100,000	$ 0.35	5,100,000	$ 0.35
May 16, 2023	2,500,000	0.20	937,500	0.20
December 5, 2023	1,860,000	0.10	-	-
	9,460,000	$ 0.26	6,037,500	$ 0.33

Subsequent to year-end, the Company issued 5,150,000 incentive stock option to officers, employees and service providers. The incentive stock options vest in equal eighths over a two year period and carry an exercise price of $0.10 per common share.

(b) Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs")

The Deferred Share Unit Plan and the Restricted Share Unit Plan provide for the issuance of shares to eligible employees, directors and consultants, subject to certain vesting and deferral provisions, to a maximum number, equal to 2% and 3% respectively, of the issued and outstanding common shares of the Company.

During the year ended December 31, 2018, the Company issued 1,912,803 DSUs to directors and 2,300,000 RSUs to senior management. During the year ended December 31, 2017, the Company issued 662,440 DSUs to directors.

At December 31, 2018, there were 3,036,647 DSUs and 4,200,000 RSUs outstanding (December 31, 2017 – 1,123,844 DSUs and 5,550,000 RSUs).

	Number of DSUs	Weighted average grant date fair value	Number of RSUs	Weighted average grant date fair value
Outstanding, December 31, 2016	461,404	$ 0.20	5,550,000	$ 0.19
Granted	662,440	0.19	-	-
Outstanding, December 31, 2017	1,123,844	0.19	5,550,000	0.19
Granted	1,912,803	0.10	2,300,000	0.15
Redeemed	-	-	(3,650,000)	0.11
Outstanding, December 31, 2018	3,036,647	$ 0.13	4,200,000	$ 0.23

The RSUs granted were subject to a ten to eleven month vesting period; a pay-out date of 2 to 2.5 years; an expiry date of 5 years; and are assigned a fair value based on the share price at time of issuance. Upon issuance, the DSUs are fully vested and are assigned a fair value based on the share price at time of issuance. Subject to the terms and conditions of the DSU Plan, DSUs are settled upon retirement.

For the year ended December 31, 2018, the Company recognized share-based compensation expense for DSUs granted of $195,000 (2017 - $125,000 and 2016 - $90,000) and RSUs granted of $328,000 (2017 - $356,000 and 2016 - $522,000).

Subsequent to year-end, the Company issued 2,689,000 RSUs to senior management with immediate vesting, a pay-out date of January 1, 2020 and a 5 year expiry.

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

12. Reserves (continued)

(c) Share Purchase Warrants

As at December 31, 2018, the Company did not have any outstanding exercisable warrants.

	December 31, 2018		December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,448,000	$ 0.25	16,734,000	$ 0.46
Issued	50,000,000	0.25	-	-
Expired	(52,448,000)	0.25	(14,286,000)	0.50
Outstanding, end of year	-	-	2,448,000	$ 0.25

The fair value of the warrants issued during 2018 was determined under the Black-Scholes option pricing model using a risk-free interest rate of 1.93%, an expected life of 0.5 years, an expected volatility of 72%, no expected dividends and a forfeiture rate of 0%.

(d) Summary

A summary of the changes to the reserves is summarized below as follows:

	Share Options and Units	Warrants	Unexercised Share Options, Units and Warrants	Normal Course Issuer Bid	Total
Balance, December 31, 2016	$ 1,200	$ 1,895	$ 12,174	$ 604	$ 15,873
Share-based compensation	842	-	-	-	842
Stock options expired	(143)	-	143	-	-
Warrants expired	-	(1,456)	1,456	-	-
Balance, December 31, 2017	1,899	439	13,773	604	16,715
RSUs redeemed	(381)	-	-	-	(381)
Share-based compensation	677	-	-	-	677
Stock options expired	(17)	-	17	-	-
Warrants issued	-	284	-	-	284
Warrants expired	-	(723)	723	-	-
Balance, December 31, 2018	$ 2,178	-	$ 14,513	$ 604	$ 17,295

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

13. Exploration and Evaluation Expenditures

	Years ended December 31,		
Prairie Creek Mine	**2018**	**2017**	**2016**
Camp operation and project development	$ 1,592	$ 916	$ 470
Mine planning and feasibility studies	1,195	3,162	331
Permitting and environmental	3,021	1,421	1,001
	5,808	5,499	1,802
Depreciation – mining plant and equipment	27	43	55
Total exploration and evaluation expenditures	$ 5,835	$ 5,542	$ 1,857
Exploration and evaluation expenditures (inception to date), beginning of year	$ 84,050	$ 78,508	$ 76,651
Total exploration and evaluation expenditures	5,835	5,542	1,857
Exploration and evaluation expenditures (inception to date), end of year	$ 89,885	$ 84,050	$ 78,508

	Years ended December 31,		
Newfoundland Properties	**2018**	**2017**	**2016**
Geology	$ 121	$ 741	$ 370
Diamond drilling (1)	(63)	2,440	201
Total exploration and evaluation expenditures	$ 58	$ 3,181	$ 571
Exploration and evaluation expenditures (inception to date), beginning of year	$ 7,348	$ 4,167	$ 3,596
Total exploration and evaluation expenditures	58	3,181	571
Exploration and evaluation expenditures (inception to date), end of year	$ 7,406	$ 7,348	$ 4,167

(1) The Company received additional government grants in 2018 relating to drill programs carried out in the previous year.

For the year ended December 31, 2018, employee wages and benefits of $812,000 were included in exploration and evaluation expenditures (2017 - $1,041,000 and 2016 - $472,000).

14. Tax Deduction Recovery

During the year ended December 31, 2017, the Company recognized a tax deduction recovery in the amount of $267,000, with no comparable amounts in the previous or subsequent years, in respect of flow-through shares previously issued (see Note 11).

15. Government Grants

During the year ended December 31, 2018, the Company received government grants in the amount of $70,000 (2017 - $250,000 and 2016 - $241,000).

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

16. Income Taxes

The Company did not record current or deferred income tax expense for the years ended December 31, 2018, 2017 and 2016. A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

	2018	2017	2016
Statutory tax rate	26.89%	27.16%	26.54%
Income taxes/(recovery) computed at statutory rates	$ (3,117)	$ (3,010)	$ (1,347)
Expired losses	-	-	239
Temporary differences	617	-	-
Income tax rate changes	328	(400)	126
Loss on marketable securities subject to capital gains tax rate	-	-	-
Non-refundable investment tax credits	-	-	-
Other	1,203	670	9
Permanent differences	243	240	299
Renunciation of resource expenditures	-	830	104
Tax benefits not yet recognized	726	1,670	570
	-	-	-

The approximate tax effect of each type of temporary difference that gives rise to the Company's deferred income tax assets and liabilities are as follows:

	2018	2017	2016
Non-capital loss carry forwards	$ 13,953	$ 12,169	$ 11,392
Capital losses	52	631	1,260
Investment tax credits	1,205	1,651	1,651
Marketable securities	-	-	-
Plant and equipment	477	469	448
Resource interests	12,263	12,222	10,599
Other	674	756	871
Net unrecognized deferred income tax asset	$ 28,624	$ 27,898	$ 26,221

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

16. Income Taxes (continued)

At December 31, 2018, the Company has approximately $51,677,000 (2017 - $45,149,000 and 2016 - $43,076,000) of non-capital losses for tax purposes available to be carried forward to various dates until 2038 and applied against future income for tax purposes and approximately $49,874,000 (2017 - $45,623,000 and 2016 - $44,659,000) of unused cumulative Canadian exploration and development expenses for tax purposes available to be carried forward indefinitely and applied against future income for tax purposes. The non-capital losses expire as follows:

Year	Total
2026	$ 1,116
2027	3,511
2028	5,500
2029	3,547
2030	3,605
2031	3,915
2032	6,741
2033	2,271
2034	6,554
2035	3,634
2036	2,682
2037	2,340
2038	6,261
	$ 51,677

The non-refundable investment tax credits of $1.6 million expire between 2025 and 2032.

17. Capital Management

The Company manages its cash and cash equivalents, short-term investments, common shares, stock options and share purchase warrants as capital. As the Company is in the exploration and evaluation stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore its Canadian properties and develop the Prairie Creek project for the benefit of its shareholders.

18. Related Party Transactions

During the year ended December 31, 2018, the Company incurred due diligence costs with RCF VI CAD in the amount of $172,000 with no comparable amount in the year ended December 31, 2017.

During the year ended December 31, 2018, the Company incurred rent expense in the amount of $24,000 (2017 - $24,000 and 2016 - $24,000) with Buchans Minerals Corporation, a corporation in which the Chairman of the Company, John F. Kearney, serves as a director and with which the Company has an office sharing arrangement. These transactions were within the normal course of business and have been recorded at amounts agreed to by the transacting parties.

During the year ended December 31, 2018, the Company incurred short-term employee remuneration and benefits to officers and directors in the amount of $1,569,000 (2017 - $868,000 and 2016 - $650,000) and recognized share-based compensation for officers and directors in the amount of $668,000 (2017 - $775,000 and 2016 - $986,000).

There was no amount owing to related parties or included in accounts payable and accrued and other liabilities at December 31, 2018 nor was there an amount recorded at the end of the previous year.

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

19. Financial Instruments

(a) Categories of financial instruments

		December 31, 2018	December 31, 2017
Cash and cash equivalents	FVTPL	$ 9,253	$ 12,979
Short-term investments	FVTPL	32	31
Other receivables	Amortized cost	221	379
Restricted cash	FVTPL	2,075	2,075
Accounts payable	Amortized cost	(635)	(1,258)
Accrued and other liabilities	Amortized cost	(761)	(389)
Loan payable	Amortized cost	-	(12,417)

All financial instruments classified as FVTPL are classified under the Level 1 fair value hierarchy. The carrying value of the Company's financial assets and liabilities reasonably approximate their fair values.

(b) Interest rate risk

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash equivalents in order to maintain liquidity. Fluctuations in interest rates impact the value of cash equivalents. Included in net loss for the year ended December 31, 2018, is investment income on the Company's cash and cash equivalents and short-term investments. As at December 31, 2018, with other variables unchanged, a 1% increase or decrease in the Prime rate would have resulted in a decrease or increase, respectively, to net loss of approximately $60,000. The Company does not have any debt obligations which expose it to interest rate risk.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. 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 resulting in credit risk. The Company seeks to hold its cash and cash equivalents, short-term investments and restricted cash with reputable financial institutions. The Company considers the following financial assets to be exposed to credit risk: cash and cash equivalents, short-term investments, and restricted cash. The carrying value of these financial assets at December 31, 2018 is $11,360,000 (December 31, 2017 - $15,085,000). At December 31, 2018, the Company's cash and cash equivalents, short-term investments and restricted cash were invested with two Canadian financial institutions.

(d) Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements. The Company's policy is to invest cash at floating rates of interest, while cash reserves are maintained in cash equivalents in order to maintain liquidity after taking into account the Company's holdings of cash equivalents, money market investments, and receivables. As at December 31, 2018, the Company had positive working capital of $8,327,000 (December 31, 2017 - $11,791,000).

(Tabular amounts expressed in thousands of Canadian dollars, except for shares, price per share and per share amounts)

20. Commitments and Contingencies

The Company has entered into certain operating lease agreements for office space and equipment. These agreements require the Company to make the following lease payments:

Year ending December 31,	Total
2019	$ 153
2020	152
2021	149
	$ 454

During the year ended December 31, 2018, the Company recognized lease expense of $201,000 (2017 - $181,000 and 2016 - $211,000).

During 2017, Canada Revenue Agency ("CRA") performed an audit of the tax filings of the Company for fiscal years, including 2013, 2014 and 2015. In Flow-Through Share Subscription Agreements dated August 20, 2013 (the "Subscription Agreements"), the Company agreed to incur and to renounce to each subscriber qualifying exploration expenditures in an aggregate amount of $4,005,200. Following the audit, CRA denied certain expenditures which the CRA determined did not qualify for flow-through treatment and issued reassessments to the Company disallowing $1,138,896 of flow-through exploration expenditures, representing approximately 28% percent of the $4,005,200 expenditures renounced. The Company strongly disagrees with the determination and reassessments and has filed objections disputing the reassessments and is awaiting CRA's reply. In the relevant periods, the Company incurred exploration expenditures in the total amount of $5,605,681.

In the Subscription Agreements, the Company agreed with each subscriber that in the event CRA reduces the amount renounced to the subscriber the Company will indemnify and hold harmless the subscriber, and each of the partners thereof if the subscriber is a partnership, and pay the amount of any tax payable by the subscriber as a consequence of such reduction. The Company has not recognized the potential indemnity claim as a liability as it does not consider it probable that there will be an amount payable relating to this matter. The full amount of the potential indemnity is estimated at approximately $700,000.

21. Subsequent Events

The Company issued 334,388 common shares to a retired director in exchange for vested DSUs and issued 900,000 common shares to senior management upon settlement of vested RSUs.

In January 2019, the Company amalgamated Paragon Minerals Corporation and Messina Minerals Inc. into one entity, renamed the entity NorZinc-Newfoundland Ltd., and transferred ownership from Canadian Zinc Corporation to NorZinc.