

Consolidated Financial Statements
(Expressed in Canadian dollars)

ASIAN MINERAL RESOURCES LIMITED

Years ended December 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Asian Mineral Resources Limited

We have audited the accompanying consolidated financial statements of Asian Mineral Resources Limited, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that Asian Mineral Resources Limited's ability to continue as a going concern is dependent on obtaining sufficient additional funding to continue its operations and pursue the sale of the Ban Phuc mine. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about Asian Mineral Resources Limited's ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

April 30, 2018

Vancouver, Canada

ASIAN MINERAL RESOURCES LIMITED

Consolidated Balance Sheets
(Expressed in Canadian dollars)

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents		\$ 502,367	\$ 5,457,346
Accounts receivable and prepaid expenses	7	680,942	1,455,942
Inventories	8	314,234	332,758
		1,497,543	7,246,046
Non-current assets:			
Property, plant and equipment	9	-	41,296
Environmental bond	12	344,057	336,843
		344,057	378,139
Total assets		\$ 1,841,600	\$ 7,624,185
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade payables and accrued liabilities	10	\$ 9,307,230	\$ 7,765,056
Other current liabilities	11	890,930	1,203,326
		10,198,160	8,968,382
Non-current liabilities:			
Provision for closure and rehabilitation	12	406,904	436,549
Other non-current liabilities	13	1,244,183	1,119,722
		1,651,087	1,556,271
Total liabilities		11,849,247	10,524,653
Shareholders' equity (deficiency):			
Share capital	14	128,872,855	128,732,855
Share-based payments reserve		798,003	632,778
Currency translation reserve		17,467,350	17,048,414
Deficit		(151,520,927)	(144,354,584)
Equity (deficiency) attributable to shareholders of the Company		(4,382,719)	2,059,463
Non-controlling interest	25	(5,624,928)	(4,959,931)
Total shareholders' deficiency		(10,007,647)	(2,900,468)
Total liabilities and shareholders' equity		\$ 1,841,600	\$ 7,624,185

Going concern (note 1)
Contingencies (note 27)
Subsequent event (note 1)

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

ASIAN MINERAL RESOURCES LIMITED

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended December 31, 2017 and 2016

	Notes	2017	2016
Revenue	7, 15	\$ 536,927	\$ 39,219,494
Costs of sales:			
Production costs	16	-	(34,736,638)
Royalty		-	(3,497,810)
Concentrate transport and logistics		-	(5,252,327)
Write-down of consumables and supplies inventory	8	-	(1,698,853)
		536,927	(5,966,134)
Care and maintenance costs	17	(769,775)	-
General and administrative expenses	18	(5,620,609)	(6,500,589)
Exploration		(521,142)	(903,177)
Other expense		(79,063)	(337,866)
Operating loss		(6,453,662)	(13,707,766)
Finance income		7,724	134,695
Finance expense	19	(1,642,606)	(286,621)
		(1,634,882)	(151,926)
Net loss for the year		(8,088,544)	(13,859,692)
Other comprehensive loss:			
Foreign currency translation gain/(loss)		465,484	(617,521)
Comprehensive loss for the year		\$ (7,623,060)	\$ (14,477,213)
Net loss for the year attributable to:			
Shareholders of the Company		\$ (7,376,999)	\$ (12,707,486)
Non-controlling interest		(711,545)	(1,152,206)
		\$ (8,088,544)	\$ (13,859,692)
Comprehensive loss for the year attributable to:			
Shareholders of the Company		\$ (6,958,063)	\$ (13,263,258)
Non-controlling interest	25	(664,997)	(1,213,955)
Comprehensive loss for the year		\$ (7,623,060)	\$ (14,477,213)
Basic and diluted shareholders' loss per share	14(e)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding		789,189,335	786,589,700

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

ASIAN MINERAL RESOURCES LIMITED

Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars, except number of common shares)

Years ended December 31, 2017 and 2016

	Number of common shares (note 14)	Share capital (note 14)	Share- based payments reserve	Currency translation reserve	Deficit	Shareholders' equity	Non- controlling interest	Total
Balance, January 1, 2016	779,545,041	\$ 128,264,065	\$ 667,940	\$ 17,604,184	\$ (131,682,260)	\$ 14,853,929	\$ (3,745,974)	\$ 11,107,955
Issue of shares, net of costs	9,375,800	468,790	-	-	-	468,790	-	468,790
Share-based payments	-	-	-	-	-	-	-	-
Expiry of options	-	-	(35,162)	-	35,162	-	-	-
Currency translation gain	-	-	-	(555,770)	-	(555,770)	(61,751)	(617,521)
Net loss for the year	-	-	-	-	(12,707,486)	(12,707,486)	(1,152,206)	(13,859,692)
Balance, December 31, 2016	788,920,841	\$ 128,732,855	\$ 632,778	\$ 17,048,414	\$ (144,354,584)	\$ 2,059,463	\$ (4,959,931)	\$ (2,900,468)
Issue of shares, net of costs	7,000,000	140,000	-	-	-	140,000	-	140,000
Share-based payments	-	-	375,881	-	-	375,881	-	375,881
Expiry of options	-	-	(210,656)	-	210,656	-	-	-
Currency translation gain	-	-	-	418,936	-	418,936	46,548	465,484
Net loss for the year	-	-	-	-	(7,376,999)	(7,376,999)	(711,545)	(8,088,544)
Balance, December 31, 2017	795,920,841	\$ 128,872,855	\$ 798,003	\$ 17,467,350	\$ (151,520,927)	\$ (4,382,719)	\$ (5,624,928)	\$ (10,007,647)

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

ASIAN MINERAL RESOURCES LIMITED

Consolidated Statements of Cash flows
(Expressed in Canadian dollars)

Years ended December 31, 2017 and 2016

	Notes	2017	2016
Cash provided by (used in):			
Operating activities:			
Net loss for the year		\$ (8,088,544)	\$ (13,859,692)
Items not involving cash:			
Share-based payments	14(c)(ii)	515,881	-
Amortization and depreciation		39,903	10,442,475
Write-down of inventory	8	-	1,698,853
Changes in non-cash operating working capital:			
Accounts receivable and prepaid expenses		707,226	4,396,331
Inventories		(3,421)	4,673,797
Accounts payable and accrued liabilities		1,709,079	(7,180,424)
Other		203,647	-
Cash flow (used in)/provided by operating activities		(4,916,229)	171,340
Investing activities:			
Environmental bond		(30,315)	-
Purchase of property, plant and equipment		-	(279,490)
Cash flow used in investing activities		(30,315)	(279,490)
Net decrease in cash and cash equivalents		(4,946,544)	(831,792)
Effect of foreign exchange rate fluctuations on cash held in foreign jurisdictions		(8,435)	(172,509)
Cash and cash equivalents, beginning of year		5,457,346	5,738,005
Cash and cash equivalents, end of year		\$ 502,367	\$ 5,457,346

Supplemental cash flow information (note 22)

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

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

1. Nature of business and going concern:

Asian Mineral Resources Limited (the "Company" or "AMR") is incorporated under the laws of the Province of British Columbia by a certificate of continuance as of December 31, 2004, having previously been incorporated and registered under the New Zealand Companies Act 1993. On April 19, 2004, the Company became listed on the TSX-Venture Exchange (TSX-V). The Company's principal business activities are the exploration and development of mineral property interests and extraction and processing of nickel mineral deposits. Its principal mineral property interest, held through a joint venture, is in the Ban Phuc Project Area located 160 km west of Hanoi in Son La Province, in northwestern Vietnam. The Company's registered corporate office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario, Canada M5H 1T1.

Following feasibility studies in 2005 and 2007, the Company received a mining license in late 2007. Due to market conditions, development was delayed until 2012. Full commercial production began November 1, 2013. Given the sustained low nickel price environment, a full review of the mining schedule and economic viability of mining was conducted during 2016 and it was determined it would not be economically viable to continue mining. Therefore the Ban Phuc mine was placed on care and maintenance in the fourth quarter of 2016. The Ban Phuc mine has remained on care and maintenance during the year ended December 31, 2017.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course as they come due. During the year ended December 31, 2017, the Company generated a net loss of \$8.1 million and incurred cash outflows from operations of \$4.9 million. As at December 31, 2017, the Company had cash and cash equivalents of \$0.5 million, negative working capital of \$8.7 million and an accumulated deficit of \$151.5 million. The Company has assessed current and forecasted nickel prices and has determined it remains not economically viable to restart the Ban Phuc mine, the Company's only operating asset. These factors indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

The Company has been exploring its strategic options with regard to the Ban Phuc mine. The focus remains on the sale of all the assets comprising the Ban Phuc mining operation held by the Company's 90% owned subsidiary, Ban Phuc Nickel Mines Limited Liability Company ("BPNM"). To the date of these financial statements there has been no success in finding a buyer. The Company is considering alternatives in the event BPNM or its assets are not sold, including the potential for additional funding. Subsequent to year end, the Company obtained loans of US \$180,000 and US \$380,000 from Pala Investments Limited ("Pala"), the majority shareholder of the Company, which will be used to pay employee termination payments and certain other costs to prepare BPNM for potential sale, restructuring or liquidation. As of the date of these financial statements the Company is considering its options and no definitive course of action has been decided. However the Company has determined it is in need of additional funding to continue its operations and to pursue the sale of BPNM. There can be no assurance that the Company will be able to complete the sale of BPNM, or that it can do so at terms favourable to the Company. Failure to obtain sufficient financing could result in a delay in the potential sale of BPNM or abandonment of the Ban Phuc mine and could force the Company into reorganization, bankruptcy or insolvency proceedings. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

1. Nature of business and going concern (continued):

Should the Company not be able to continue as a going concern, adjustments to the carrying values and classification of its assets and liabilities would be required, and these adjustments could be material.

2. Basis of preparation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The consolidated financial statements of the Company for the year ended December 31, 2017 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 30, 2018.

(c) Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements.

(a) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis, utilizing the accrual method of accounting unless otherwise described in the following notes.

(b) Revenue recognition:

Revenue from sales of nickel concentrate is sold under pricing arrangements whereby revenue is recognized at the time of shipment, at which time legal title and risk pass to the customer and provisional revenue is recorded at current month average price as per the London Metals Exchange. The quoted period established to finalize the sales price is the second month after the shipment month, within which the contract is required to be settled. Changes between the prices recorded upon recognition of provisional revenue and final price due to fluctuation in metal market prices result in the existence of an embedded derivative in the accounts receivable. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue and receivables. Changes in the estimate of concentrate nickel content resulting from the final independent analysis of the concentrate are recognized at the point at which such analysis is agreed upon between the Company and its customers.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(c) Currency translation:

The functional and presentation currency of the Company is the Canadian dollar. The functional currency of its subsidiary, Ban Phuc Nickel Mines Limited Liability Company ("BPNM"), is the United States dollar. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities are translated at the exchange rate in place on the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Foreign currency translation differences are recognized in profit or loss.

For consolidation purposes, BPNM is translated into the Company's presentation currency of Canadian dollars. Assets and liabilities are translated using the exchange rate prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rate for the relevant period. Translation differences are recognized in other comprehensive income (loss) and are accumulated within equity in the currency translation reserve.

(d) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. The Company determines whether it shall consolidate a subsidiary by assessing whether it has control over the subsidiary. Factors considered in such an assessment include whether the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Significant subsidiaries of the Company are as follows:

Name	Country of incorporation	Effective interest
Ban Phuc Nickel Mines Limited Liability Company	Vietnam	90%
Asian Mineral Resources Nickel Limited	Cook Islands	100%
Asian Nickel Exploration Limited	Cook Islands	100%

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less when acquired.

(f) Inventories:

Inventories include nickel concentrate in progress and produced, and consumable materials and supplies. The cost of nickel concentrate in progress and produced is determined principally by average production costs. Production inventories are stated at the lower of average production costs and net realizable value.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(f) Inventories (continued)

Costs of nickel concentrate inventories include all costs incurred up until production of a tonne of nickel concentrate such as mining costs, processing costs, maintenance costs, road transport costs and directly attributable general and administration costs but exclude royalties. Net realizable value is determined with reference to estimated contained nickel, copper and cobalt metal and current market prices at the reporting period end date.

Consumable materials and supplies inventory consists of consumables used in development activities, such as explosives, fuel and spare parts which are valued at the lower of cost and replacement cost (approximates net realizable value) and, where appropriate, less a provision for obsolescence.

(g) Prepayments:

Prepayments to suppliers and contractors are based on the contract progress, with payments made at specified stages of the contract. These payments are recognized in the balance sheet as prepaid expenses.

(h) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Plant and equipment includes capitalized development expenditures. Cost includes expenditures that are directly attributable to the acquisition or construction of an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided on plant and equipment, calculated on a unit-of-production basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual financial period with the effect of any changes recognized on a prospective basis.

Asset	Basis	Rate range
Building, machinery, motor vehicles, infrastructure	Straight-line	14% - 25%
Furniture and office equipment	Straight-line	11% - 33%
Licenses and franchises	Straight-line	11% - 33%
Plant and mine development	Unit of production based mineral reserves	

The expenditures related to construction are capitalized as construction-in-progress and are included within property, plant and equipment. Construction in progress represents the cost of remaining plant and mine development which is under construction. Costs directly attributable with ongoing construction related activities during the commissioning phase of new assets incurred in the period before they are operating in the way intended by management are capitalized, all other costs not directly attributable are expensed. No depreciation is provided for construction in progress during the period of construction.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(i) Mineral property interest:

Exploration expenses incurred prior to determination of the technical feasibility and commercial viability of mining operations and issuance of a mining license are expensed as incurred. Mineral property acquisition costs and exploration and development expenditures incurred subsequent to the determination of technical feasibility and commercial viability of mining operations and issuance of a mining license are deferred, less accumulated amortization and accumulated impairment losses, if any, until the property to which they relate commences commercial production, is sold, allowed to lapse or is abandoned. Technical feasibility and commercial viability generally coincide with the establishment of proven and probable reserves; however, this determination may be impacted by management's assessment of certain modifying factors. When commercial production in an area of interest has commenced, the associated costs are amortized over the estimated economic life of the mine on a units-of-production basis using proven and probable reserves (as defined by National Instrument 43-101).

Changes in factors such as estimates of proven and probable reserves that affect units-of-production calculations are accounted for on a prospective basis.

(j) Impairment of long-lived assets:

At the end of each year or at each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

The recoverable amount of a CGU is the higher of the CGU'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 assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses are recognized in profit and loss in the period the impairment indicator is identified.

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. The carrying amount of the asset or CGU is increased to its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. The reversal of an impairment loss is recognized immediately in profit and loss.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(k) Reserve estimates:

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects* ("NI 43-101"). Reserves are used when performing impairment assessments on the Company's mineral property, for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs, and in determining the depletion of mineral properties.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in changes to reserve estimates. Any adjustments are accounted for prospectively.

(l) Provision for closure and rehabilitation:

A provision for closure and rehabilitation is recognized when there is a legal or constructive obligation to remediate as a result of exploration, development and production activities undertaken, if the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling, and removal of facilities and restoration. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. The environmental rehabilitation obligation is capitalized as part of the carrying amount of the associated long-lived asset and a liability is recorded. The environmental rehabilitation cost capitalized is amortized on the same basis as the related asset. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the reporting date.

(m) Mining rights grant fee:

In late 2010, the Vietnamese Government passed a new law, the Mineral Law 2010. Decree 15 of the law included a new statutory fee titled "mining rights grant fee". The Mineral Law 2010 provided the fee to be determined based on price, reserve, quality and type of the relevant mineral; however, until late 2013, both the Mineral Law 2010 and the Decree 15 did not specify the formula for calculation and thus there was no basis to estimate the fee payable. In November 2013, the Vietnamese Government issued Decree 203 which outlined the formula to calculate the mining rights grant fee and on that basis the Company estimated the cost of the fee and recognized a provision of \$4.6 million in the 2013 consolidated financial statements. On February 6, 2015, the Company received Decision No. 288/QD-BTNMT issued by the Ministry of Natural Resources and Environment ("MONRE") to amend the contents specified in the Mineral Mining License. Refer to note 11 for further details of the amendment.

(n) Share capital:

Common shares are classified as equity. The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued at the quoted market price on the date the shares are issued.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(o) Share-based payments:

The Company has a share option plan, under which the fair value of all share-based awards is estimated using the Black-Scholes Option Pricing Model at the grant date and amortized over the vesting periods. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Share-based payments to non-employees are measured at the fair value of the goods or services received, or the fair value of the equity instruments issued if it is determined the fair value of the goods or services received cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset is credited to share-based payment reserve.

Upon the exercise of the share purchase options, consideration paid together with the amount previously recognized in the share-based payment reserve is recorded as an increase to share capital. Charges for share purchase options that are forfeited before vesting are reversed from the share-based payments reserves. For those share purchase options that expire or are forfeited after vesting, the amount previously recorded in share-based payments reserve is transferred to deficit.

(p) Interest expense:

Interest is recognized using the effectiveness interest method, taking into account the principal outstanding and the effective rate over the period to maturity.

(q) Royalties and export tariffs:

A royalty is payable to the Vietnamese Government calculated at 10% of the value of nickel concentrate sale price less export tax, processing costs, bagging costs, freight costs, custom charges and warehouse costs. Royalty expense is recorded when revenue from the sale of nickel concentrate is recognized.

Export tariff is payable to the Vietnamese Government and calculated at 20% of the value of nickel concentrate sale price less sea freight costs.

(r) Income taxes:

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

ASIAN MINERAL RESOURCES LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise stated)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(r) Income taxes (continued):

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be in effect when temporary differences reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

(s) Financial instruments:

Non-derivative financial assets and liabilities:

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its financial assets and liabilities in the following categories:

- (A) Fair value through profit or loss ("FVTPL");
- (B) Held-to-maturity;
- (C) Available-for-sale financial assets ("AFS"); or
- (D) Loans and receivables.

The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition.

Financial assets at FVTPL

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

ASIAN MINERAL RESOURCES LIMITED

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3. Significant accounting policies (continued):

(s) Financial instruments (continued):

Held-to-maturity investments

Investments are measured at amortized cost using the effective interest rate method. Transaction costs are added and amortized to the statement of operations over the life of the financial instrument on an effective yield basis. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Short-term investments are classified as available-for-sale and are carried at fair value (where determinable based on market prices of actively traded securities) with unrealized gains and losses recognized in other comprehensive income (loss). Management assesses the carrying value of AFS financial assets each period and any impairment charges are recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income (loss) are included in profit and loss. The Company does not have any assets classified as available-for-sale financial assets.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, derivative financial liabilities are measured at fair value and other financial liabilities at amortized cost using the effective interest method.

The Company has the following non-derivative financial liabilities: trade payables and accrued liabilities, other current liabilities and non-current liabilities which are classified as other financial liabilities.

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3. Significant accounting policies (continued):

(t) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For all periods presented, income (loss) available to common shareholders equals the reported income (loss) attributable to the shareholders of the Company.

Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares issued and outstanding used for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the year.

4. Changes in accounting standards:

There were no new standards effective January 1, 2017 that had a material impact on the Company's consolidated financial statements. The Company has not early adopted any other standard, interpretation or amendment in the consolidated financial statements that have been issued, but not yet effective.

A number of new standards, amendments to standards and interpretations, that were effective for the year ended December 31, 2017, and had been assessed to apply in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in the year ended December 31, 2017 and periods in future.

IFRS 9, Financial Instruments ("IFRS 9")

The International Accounting Standards Board has issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments, which is intended to reduce the complexity in the measurement and classification of financial instruments. The current version of IFRS 9 has a mandatory effective date of January 1, 2018 and is available for early adoption. The Company does not expect IFRS 9 to have a material impact on the consolidated financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted. The Company assessment is that the adoption of IFRS 15 will not have a significant impact on the recognition or treatment of revenue in the Company's consolidated financial statements.

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4. Changes in accounting standards (continued):

IFRS 16, *Leases* (“IFRS 16”)

In January of 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard, IAS 17 Leases. The new standard effectively eliminates the distinction between operating and finance leases for lessees, while lessor accounting remains largely unchanged with the distinction between operating and finance leases retained. IFRS 16 takes effect on January 1, 2019, with earlier application permitted. The Company has not yet evaluated the impact of adopting this standard and does not intend to early adopt.

5. Critical judgments in applying accounting policies:

The critical judgments that the Company’s management has made in the process of applying the Company’s accounting policies, apart from those involving estimations (note 6), that have the most significant effect on the amounts recognized in the Company’s consolidated financial statements are as follows:

- (a) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs:

Management has determined that exploration drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefits including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

- (b) Functional currency:

The functional currency for each of the Company’s subsidiaries is the currency of the primary economic environment in which the entity operates. It has been determined that the functional currency of BPNM is the United States dollar, while the functional currency for the Company and its other subsidiaries is the Canadian dollar. Assessment of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in the events and conditions, which determine the primary economic environment.

- (c) Going concern:

The assessment of the Company’s ability to continue as a going concern (note 1) involves judgment regarding future funding available for its development of the Ban Phuc mine and for working capital requirements. Judgments must also be made with regard to events or conditions, which might give rise to significant uncertainty.

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6. Key sources of estimation uncertainty:

The preparation of the consolidated financial statements requires management to make estimates and assumptions of the effect of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Differences between the actual results and present estimates and assumptions have the potential to materially affect the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effect on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that may result in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

(a) Impairment of mineral properties, plant and equipment:

The Company considers both external and internal sources of information in assessing whether there are any indications that mineral properties, plant and equipment are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral properties, plant and equipment. Internal sources include the manner in which mineral properties, plant and equipment are being used or are expected to be used, and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, the Company's management makes estimates of the discounted future after-tax cash flows expected to be derived from its mineral properties using an appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources and exploration potential and/or adverse current economics can result in a write down of the carrying amounts of the Company's mineral properties, plant and equipment.

(b) Operating expenses and costing of work-in-progress inventory:

In determining operating expenses recognized in the consolidated statement of comprehensive income (loss), the Company's management makes estimates of quantities of ore on stockpiles and in process and the recoverable nickel in this material to determine the cost of finished goods sold during the year. Changes in these estimates can result in a change in operating expenses in future periods and carrying amounts of inventories.

(c) Estimated recoverable nickel tonnes and ore reserve tonnes:

The carrying amounts of the Company's mineral properties, plant and equipment are depleted based on recoverable nickel tonnes and ore reserve tonnes. Changes to estimates of recoverable nickel tonnes, ore reserve tonnes and depletable costs, including changes resulting from revisions to the Company's mine plans and changes in metals prices forecasts, can result in a change to future depletion rates and impairment analysis.

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6. Key sources of estimation uncertainty (continued):

(d) Estimated mine closure and rehabilitation costs:

The Company's provision for mine closure and reclamation cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumption of risks associated with the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to the mine closure and rehabilitation cost obligations are recorded with a corresponding change to the carrying amounts of the related mineral properties, plant and equipment in the year identified. Adjustments to the carrying amounts of the related mineral properties, plant and equipment can result in a change to the future depletion expense.

(e) Income taxes and tax-related liabilities:

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates for future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. Weight is attached to tax planning opportunities that are within the Company's control, feasible and can be implemented without significant obstacles. In assessing tax-related liabilities (note 10), the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates could occur, which may materially affect the amounts of tax-related liabilities recognized.

(f) Share-based compensation:

The Company includes an estimate of forfeitures, share price volatility, expected life of awards and risk-free interest rates in the calculation of the expense related to certain long-term employee incentive plans. These estimates are based on previous experience and may change throughout the life of an incentive plan. Such changes could impact the share-based compensation expense and share-based payments reserve.

(g) Provisional pricing contracts:

Nickel concentrate is invoiced when shipped and amounts recognized as revenue are based on the Company's assessment of the mineral content and grade, based on internal assays, of the concentrate shipments. Final assays determine the final payable ounces by the Company's customers. Therefore, there is significant estimation uncertainty surrounding the recognition of revenues based on preliminary assays. Any adjustments to revenue recognized based on final assays are accounted for prospectively.

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7. Accounts receivable and prepaid expenses:

	December 31, 2017	December 31, 2016
Trade receivables	\$ -	\$ 587,794
GST refundable	44,966	53,193
Export tax receivable	584,365	625,399
Other receivables	163,040	308,809
Allowance for doubtful accounts	(111,429)	(119,253)
	<u>\$ 680,942</u>	<u>\$ 1,455,942</u>

The trade receivables at December 31, 2016 consisted of receivables from provisional nickel concentrate sales from the Ban Phuc mine which were settled in 2017. The fair value of trade receivables arising from concentrate sales that contain provisional pricing is determined using the appropriate quoted closing price per the London Metal Exchange for the particular metal. As such, these trade receivables, which meet the definition of an embedded derivative, were classified within Level 2 of the fair value hierarchy (see note 23).

The Company is in discussion with Vietnam customs departments with regard to a refund request in respect of export taxes. The customs value to determine the export tariff is the selling price of goods at the exporting checkpoint exclusive of international insurance costs and international freight costs. A provisional price is determined by customs at the time of export/import subject to adjustment once the final price of the goods is determined. An export tax receivable arises when the amount per the final invoice is less than the provisional invoice. Under the Company's off-take agreement for nickel concentrates, the price of nickel is determined based on the LME ("London Metal Bulletin") Cash Settlement Price as published in LME and the delivery terms are FOB ("free on board") load port in accordance with FOB Incoterms 2000. Ocean freight charges are the seller's obligation but are paid by the buyer and deducted from the amount payable in the provisional invoice for each shipment. In practice, the Company received the net amount for goods sold which is equal to the LME price less the ocean freight charges. Therefore, in the Company's view, the LME price comprised the ocean freight charges, which should be deducted to determine the price for export tax. It is the customs departments' view that the ocean freight charges should not be deducted in determining the applicable LME price.

The Company continues to work with relevant authorities on the related matter. Management strongly believes that the Company is capable of providing sufficient documents to support its position, however, if it fails to do so, the export tax receivables of \$584,365 as at December 31, 2017 would not be refunded. Moreover, there may be a possibility that the customs branch and department would request the Company to adjust the price for determining export tax with respect to all of the shipments of goods that were made by the Company. In such case, the additional export tax that could be payable is estimated at \$922,539.

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8. Inventories:

	December 31, 2017	December 31, 2016
Consumable materials and supplies	\$ 314,234	\$ 332,758
	\$ 314,234	\$ 332,758

During the year ended December 31, 2016, the Company recognized a write-down of consumable materials and supplies inventory to net realizable value of \$1.7 million. There was no further write-down in the current year.

9. Property, plant and equipment:

	Building, infrastructure mine, machinery, plant, motor, vehicles	Furniture, office equipment and intangible assets	Total
Cost			
Balance at January 1, 2016	\$ 95,365,610	\$ 3,850,134	\$ 99,215,744
Additions	279,490	-	279,490
Translation adjustment	(422,763)	(22,247)	(445,010)
Balance at December 31, 2016	95,222,337	3,827,887	99,050,224
Translation adjustment	(1,019)	(374)	(1,393)
Balance at December 31, 2017	\$ 95,221,318	\$ 3,827,513	\$ 99,048,831
Accumulated Depreciation			
Balance at January 1, 2016	\$ (85,535,017)	\$ (3,329,834)	\$ (88,864,851)
Depreciation expense	(9,657,122)	(486,955)	(10,144,077)
Balance at December 31, 2016	(95,192,139)	(3,816,789)	(99,008,928)
Depreciation expense	(29,179)	(10,724)	(39,903)
Balance at December 31, 2017	\$ (95,221,318)	\$ (3,827,513)	\$ (99,048,831)
Net Book Value			
Balance, December 31, 2016	\$ 30,198	\$ 11,098	\$ 41,296
Balance, December 31, 2017	\$ -	\$ -	\$ -

All property, plant and equipment were fully depreciated as of December 31, 2017.

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10. Trade payables and accrued liabilities:

	December 31, 2017	December 31, 2016
Trade and other payables	\$ 188,416	\$ 1,746,503
Royalty tax	2,280,997	2,441,169
Environmental protection fee	529,788	918,982
Value-added tax	353,252	-
Personal income tax	3,236,920	159,671
Foreign contractor tax	1,610,107	1,485,036
Due to related parties (note 20)	1,107,750	1,013,695
	<u>\$ 9,307,230</u>	<u>\$ 7,765,056</u>

In March 2017, the General Department of Taxation (“GDT”) conducted a tax audit at BPNM with regards to various types of taxes including value added tax, personal income tax, royalty tax, environmental protection fee, foreign contractor tax and corporate income tax for the period from 2010 to 2016. The Company had previously been audited for the period from 2010 to 2014 by the Son La Department of Taxation who had finalized its tax audit at the provincial level. Although the GDT has not issued any draft or official tax audit minutes, based on discussions with the GDT, the Company’s management were notified of a number of matters, detailed as follows.

Royalty tax:

The royalty tax liabilities that remain outstanding as of December 31, 2017 were historically accrued based on the prescribed methodology as stipulated by the Son La People’s Committee (“Son La”). In 2014 the Son La Department of Natural Resources determined the ratio applicable to the Company for converting the quantity of finished concentrate into gross ore mined upon which the royalty taxes are based should be 7:1. This ratio was based on early plant commissioning and operation during which low grade ore was processed resulting in an unreasonably high ratio. The Company has determined that the 7:1 ratio resulted in significantly higher estimates of ore mined compared with actual ore production and therefore significantly higher royalties. The Company estimates the excess royalties paid and/or accrued to be approximately \$4.4 million higher than if they had been based on the actual ore production. On January 31, 2018 the Company received an official letter from Son La which acknowledges the total quantity of gross ore mined and concentrate produced by the Company for the period from July 2013 to September 2016 reflecting an actual ratio of ore mined to concentrate of closer to 4:1. The Company strongly believes that such official letter serves as the key evidence to support the Company’s method used in determining the actual quantity of ore which would ultimately result in a refund of a portion of royalties previously paid.

Both GDT and the Company share the view that the quantity of natural resource actually exploited (the “input” method”) should be used for the royalty tax calculation. However, GDT and the Company do not agree on the definition of actually exploited resources. The GDT is of the view that exploited resources includes waste rock and soil in addition to processed ore which would increase the volumes subject to royalties. The Company has estimated that using the input method based on the GDT methodology the potential liability would be reduced from the amount currently accrued by approximately \$0.4 million. Given the ongoing discussions with the GDT and uncertainty in the final royalty determination, no reduction of the historical accrual has been recorded.

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10. Trade payables and accrued liabilities (continued):

Environmental protection fee:

The environmental protection fee ('EPF') is applied at a rate based on either (1) actual exploited resources, or (2) for minerals which must be screened, sorted or enriched before sale, based on an estimated quantity of gross ore mined using a ratio for converting the quantity of finished mineral production. The Company historically accrued the EPF based on the first method as agreed with Son La using total exploited resources, including both ore mined and waste rock and soil, multiplied by the applicable EPF fee rate. The GDT is of the view that the Company should have used the second method since the mined ore is subject to further processing into concentrate. Using the GDT method based on the ratio of 7:1 determined by the Son La Department of Natural Resources, the Company estimates the additional potential liability could be as much as \$1.2 million higher. However based on the actual ratio of closer to 4:1 as noted above, the Company estimates a potential reduction in the liability of \$0.3 million. Given the ongoing discussions with the GDT and uncertainty in the final EPF determination, no adjustment to the historical accrual has been recorded.

Value-added tax:

The Company, through its Vietnam subsidiary pays value added tax (VAT) on the purchase and sale of goods and services at a rate of 5% and 10%. The Company's concentrate is a processed natural resource/mineral which is subject to VAT at an applicable tax rate of 0% VAT when exported. The net amount paid or payable is recoverable, but such recovery is subject to review and assessment by local tax authorities. During the year ended December 31, 2016, the Vietnamese Ministry of Finance amended the value-added tax law whereby an entity operating in the mineral industry would be entitled to a VAT refund if the ratio of its mining costs, (including power and other energy costs) to total production costs is under 51% based on 2015 audited figures. The Company determined that its ratio of mining costs to total production costs for 2015 was higher than the 51% threshold, therefore the Company did not recognize VAT receivables in respect of costs incurred subsequent to July 1, 2016.

The GDT had determined that the Company owes an amount of \$240,144 relating to refunds received during 2016 that it was not entitled to. The Company has therefore accrued this payable as at December 31, 2017 along with penalties and interest, estimated at \$48,029 and \$65,079 respectively.

Personal income tax:

Historically the Company applied remote area allowances for Hanoi-based employees and for staff employed for a period greater than five years who are not eligible for concessional personal income tax ("PIT") allowances in the declaration and payment of PIT. On the assumption that the expatriates who worked full time in Hanoi and travelled back and forth to the mine site were not subject to non-taxable remote area allowance, the GDT has determined that additional PIT estimated at \$1,996,603 is owing. Therefore the Company has accrued this amount at December 31, 2017. The associated potential penalties and interest are estimated at \$305,718 and \$836,767 respectively which have also been accrued. The Company is proposing the tax authority consider applying the remote allowance for the periods the expatriates actually worked at the mine site, however the GDT has not responded to this position.

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11. Other current liabilities:

Other current liabilities include final installments of the mining rights grant fees and afforestation which were payable in 2017, and installments of environment rehabilitation which are due and payable in 2018.

The Company had recorded a mining rights grant fee for the right to exploit minerals at Ban Phuc, based on reserve tonnes, as outlined in Mineral Law 2010, Decree 15 and 203 issued by the Vietnamese government and Decision 288 issued by MONRE. On February 6, 2015, the Company received Decision No. 288/QD-BTNMT issued by the MONRE to amend the contents specified in the Mineral Mining License (the "Decision"). In the Decision, the mining rights grant fee was revised to \$2.9 million and payable in annual installments. As at December 31, 2017 an amount of \$801,120 was due and payable.

12. Provision for closure and rehabilitation:

Based on the Environmental Impact Assessment ("EIA"), and Environment Resettlement and Rehabilitation Program ("ERRP"), as previously submitted to the authorities for the Ban Phuc project, the MONRE provides confirmation of the estimate for closure and rehabilitation. On this basis these consolidated financial statements reflect a provision for site closure and rehabilitation as at December 31, 2017 in the amount of \$406,904 (December 31, 2016 - \$436,549). As of December 31, 2017, the Company has deposited with MONRE \$344,057 (2015 - \$336,843) as an advance deposit for future closure and rehabilitation expenditures.

13. Other non-current liabilities:

	December 31, 2017	December 31, 2016
Other	\$ 688,544	\$ 525,066
Coxama loan	555,639	594,656
	<u>\$ 1,244,183</u>	<u>\$ 1,119,722</u>

Other non-current liabilities include statutory redundant allowances for currently retained national employees of the Ban Phuc project which will become payable should the Ban Phuc project be permanently closed and a long-term liability to Son La Mechanical Engineering Joint Stock Company ("Coxama"), the minority interest in BPNM, for initial capital contributed to the BPNM project.

14. Share capital:

(a) Authorized:

The Company's share capital consists of an unlimited number of common shares without par value.

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14. Share capital (continued):

(b) Issued and outstanding:

	Number of shares	Amount
Balance, January 1, 2016	779,545,041	\$ 128,264,065
Issued during the year:		
Shares issued in lieu of directors fees (note 14(c)(i))	9,375,800	468,790
Balance, December 31, 2016	788,920,841	128,732,855
Issued during the year:		
Shares issued in lieu of bonuses (note 14(c)(i))	7,000,000	140,000
Balance, December 31, 2017	795,920,841	\$ 128,872,855

(c) Share-based compensation:

(i) Common shares:

A total of 7,000,000 common shares of the Corporation were issued in the fourth quarter of 2017 to a senior executive as part of his employment contract. Executive compensation in the amount of \$140,000 has been recorded representing the value of the shares issued. During 2016, the Company issued 9,375,800 common shares in payment of \$468,790 in bonuses that had been accrued during 2015.

(ii) Common share options:

The Company grants share purchase options pursuant to the policies of the TSX-Venture Exchange with respect to eligible persons, exercise price, maximum term, vesting, maximum options per person and termination of eligible person status. The purpose of the share purchase options is to retain and motivate management, staff, consultants and other qualified individuals by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and benefit from its growth.

The Company granted options during the 2017 second quarter to one of its senior employees as follows: i) fifteen million options exercisable at \$0.05 per share; ii) fifteen million options exercisable at \$0.075 per share; and iii) fifteen million options exercisable at \$0.10 per share. The share options have a five-year term and shall vest in equal instalments of five million options for each tranche ((i), (ii) and (iii) above) on September 22, 2017, March 22, 2018 and September 22, 2018. Any shares issued on exercise of these options shall be subject to a hold period of twelve months from the date of issuance.

The fair value of options granted totaling \$570,500 was estimated using the Black-Scholes Option Pricing model assuming a range of risk-free interest rates averaging 0.91% and expected volatilities of 242%, an expected dividend rate of nil and an expected life of five years.

During the year ended December 31, 2017, \$375,881 vesting of share options to directors and employees was recorded as share-based compensation expense (December 31, 2016: Nil).

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14. Share capital (continued):

The continuity of outstanding share purchase options for the year ended December 31, 2017 is as follows:

Expiry dates	Exercise prices	Balance December 31, 2016	Granted	Exercised	Expired/cancelled/forfeited	Balance December 31, 2017
July 17, 2017	\$0.10	4,007,517	-	-	(4,007,517)	-
November 16, 2017	\$0.10	900,000	-	-	(900,000)	-
August 23, 2018	\$0.05	400,000	-	-	-	400,000
October 23, 2018	\$0.05	2,713,308	-	-	-	2,713,308
February 1, 2019	\$0.08	2,536,682	-	-	-	2,536,682
August 22, 2019	\$0.05	2,000,000	-	-	-	2,000,000
November 5, 2019	\$0.05	1,740,777	-	-	-	1,740,777
October 2, 2020	\$0.05	7,000,000	-	-	-	7,000,000
April 5, 2022	\$0.05	-	15,000,000	-	-	15,000,000
April 5, 2022	\$0.08	-	15,000,000	-	-	15,000,000
April 5, 2022	\$0.10	-	15,000,000	-	-	15,000,000
		21,298,284	45,000,000	-	(4,907,517)	61,390,767
Weighted average exercise price		\$ 0.07	\$ 0.08	-	\$ 0.10	\$ 0.07
Weighted average remaining life (years)		2.36	4.25	-	-	3.63

The continuity of outstanding share purchase options for the year ended December 31, 2016 is as follows:

Expiry dates	Exercise prices	Balance December 31, 2015	Granted	Exercised	Expired/cancelled/forfeited	Balance December 31, 2016
July 17, 2017	\$0.10	4,007,517	-	-	-	4,007,517
November 16, 2017	\$0.10	1,600,000	-	-	(700,000)	900,000
August 23, 2018	\$0.05	1,100,000	-	-	(700,000)	400,000
October 23, 2018	\$0.05	2,713,308	-	-	-	2,713,308
February 1, 2019	\$0.08	2,536,682	-	-	-	2,536,682
August 22, 2019	\$0.05	2,000,000	-	-	-	2,000,000
November 5, 2019	\$0.05	1,740,777	-	-	-	1,740,777
October 2, 2020	\$0.05	7,000,000	-	-	-	7,000,000
		22,698,284	-	-	(1,400,000)	21,298,284
Weighted average exercise price		\$ 0.07	-	-	\$ 0.08	\$ 0.07
Weighted average remaining life (years)		3.30	-	-	-	2.36

As at December 31, 2017, 31,390,767 share purchase options were exercisable (2016: 21,298,284 options). These options have a weighted average exercise price of \$0.07 (2016: \$0.07).

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14. Share capital (continued):

(d) Share purchase warrants:

The continuity of outstanding share purchase warrants for the year ended December 31, 2017 is as follows:

Expiry dates	Exercise prices	Balance December 31, 2016	Granted	Exercised	Expired cancelled	Balance December 31, 2017
May 25, 2017	\$0.10	54,166,667	-	-	(54,166,667)	-
Weighted average exercise price		\$0.10	-	-	-	-
Weighted average remaining life (years)		1.40	-	-	-	-

The continuity of outstanding share purchase warrants for the year ended December 31, 2016 is as follows:

Expiry dates	Exercise prices	Balance December 31, 2015	Granted	Exercised	Expired cancelled	Balance December 31, 2016
May 25, 2017	\$0.10	54,166,667	-	-	-	54,166,667
Weighted average exercise price		\$0.10	-	-	-	\$ 0.10
Weighted average remaining life (years)		1.40	-	-	-	0.40

(e) Earnings per share ("EPS"):

The earnings and weighted average number of outstanding shares used in the calculation of basic and diluted earnings per share are as follows:

	December 31 2017	December 31 2016
Net loss used in the calculation of basic EPS	\$ (7,376,999)	\$ (12,707,486)
Weighted average number of outstanding shares for the purpose of basic EPS	789,189,335	786,589,700
Weighted average number of outstanding shares used in the calculation of diluted EPS	789,189,335	786,589,700
Basic earnings (loss) per share	\$ (0.01)	\$ (0.02)
Diluted earnings (loss) per share	\$ (0.01)	\$ (0.02)

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15. Revenue:

	2017	2016
Nickel concentrate sales	\$ 671,159	\$ 48,294,006
Export tax	(134,232)	(9,074,512)
	\$ 536,927	\$ 39,219,494

16. Production costs:

	2017	2016
Mine production costs	\$ -	\$ 13,657,075
Processing costs	-	3,884,108
Maintenance, health, safety and environmental	-	3,544,009
Changes in inventories of finished goods and work in process	-	3,618,590
Production costs	-	24,703,782
Depreciation and amortization	-	10,032,856
	\$ -	\$ 34,736,638

17. Care and maintenance costs:

	2017	2016
Site, camp administrative costs	\$ 626,905	\$ -
Plant costs	89,932	-
Other costs	52,938	-
	\$ 769,775	\$ -

18. General and administrative expenses:

	2017	2016
Salaries, wages and benefits	\$ 1,729,557	\$ 2,121,331
Taxes and fees	2,238,779	1,026,813
Professional and regulatory	596,610	2,330,628
Insurance	102,275	285,561
Travel	105,541	205,372
Office, administrative and share-based compensation	847,847	530,884
	\$ 5,620,609	\$ 6,500,589

Included in taxes and fees is \$2,236,747 relating to re-assessment of taxes on VAT and personal income tax. Refer to note 10 for further detail.

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19. Finance expense:

	2017	2016
Foreign contractor tax on interest expense	\$ 238,214	\$ 202,305
Other finance expense	1,404,392	84,316
	<u>\$ 1,642,606</u>	<u>\$ 286,621</u>

Included in other finance expense is interest and penalties of \$1,255,593 relating to additional taxes on VAT and personal income tax. Refer to note 10 for further detail.

20. Related party transactions:

(a) Balances payable:

The amounts due to related parties and included in accounts payable, are non-interest bearing, unsecured and due on demand, and comprise the following:

	2017	2016
Due to directors	\$ 364,690	\$ 398,765
Due to executive officers	7,119	-
Due to Pala Investments Limited	735,941	614,930
	<u>\$ 1,107,750</u>	<u>\$ 1,013,695</u>

(b) Shares issued as compensation:

A total of 7,000,000 common shares of the Corporation were issued in the fourth quarter of 2017 to a senior executive as part of his employment contract. Executive compensation in the amount of \$140,000 has been recorded representing the value of the shares issued. During the year ended December 31, 2015, in lieu of a cash bonus, the Company issued certain executive officers a share bonus. The total compensation expense portion recognized in general and administrative expenses was \$468,790, recognized in 2015 and paid in April 2016 by way of common shares of the Company in lieu of cash.

(c) Key management personnel:

Key management personnel includes the salaries and consulting fees paid and accrued to the Company's senior officers and directors as follows:

	2017	2016
Salary and consulting fees	\$ 577,406	\$ 876,727
Directors' fees	157,468	398,765
Share-based payments, directors and senior officers	515,881	-
	<u>\$ 1,250,755</u>	<u>\$ 1,275,492</u>

Share-based payments comprise the grant of share options to directors and employees, and the issuance of common shares to certain directors, in lieu of cash payment for director fees.

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20. Related party transactions (continued):

(d) Pala Investments Limited:

During 2012, as a result of a series of equity transactions, Pala Investments Limited ("Pala") became a controlling shareholder of the Company. On March 28, 2013, Pala purchased 158,845,081 common shares of the Company pursuant to the exercise of its basic subscription privilege in full under the Company's rights offering. In addition, Pala purchased 88,762,232 common shares of the Company pursuant to a standby commitment provided as part of the rights offering. As a result of these transaction, Pala owns and controls, directly or indirectly, 569,813,827 common shares of the Company.

During the 2017 year Pala provided advisory services for \$202,711. As at December 31, 2017, the Company had accrued \$0.7 million payable (2016 - \$0.6 million) to Pala for advisory fees, secondment of personnel and traveling costs reimbursements during the 2015, 2016 and 2017 years.

21. Segment information:

The Company conducts its business as a single reportable operating segment, being the exploration and development of mineral properties in Vietnam. Geographical information is as follows:

December 31, 2017	Canada	Vietnam	Other	Total
Revenue	\$ -	\$ 536,927	\$ -	\$ 536,927
Interest income	7,714	10	-	7,724
Net loss for the year	(1,351,860)	(6,641,918)	(94,766)	(8,088,544)
Non-current assets	-	344,057	-	344,057
Total assets	704,470	1,129,613	7,517	1,841,600

December 31, 2016	Canada	Vietnam	Other	Total
Revenue	\$ -	\$ 39,219,494	\$ -	\$ 39,219,494
Interest income	3,902	130,793	-	134,695
Net loss for the year	(2,094,622)	(11,460,160)	(304,910)	(13,859,692)
Non-current assets	-	378,139	-	378,139
Total assets	2,460,011	2,202,005	2,962,169	7,624,185

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22. Supplemental cash flow information:

	2017	2016
Supplemental information:		
Interest received	\$ 7,724	\$ 134,695
Non-cash operating, financing and investing transactions:		
Shares issued in lieu of cash in payment of bonus	-	468,790
Movement from share-based payments reserve to deficit for forfeited options	210,656	35,162

23. Financial risk management:

(a) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term guaranteed investment certificates, accounts receivable and environmental bond. The majority of the Company's cash balances are held with major Canadian banks and in the view of the Board are considered creditworthy. A portion of funds are held with the Vietnam International Bank which is 20% owned by the Commonwealth Bank of Australia which is a creditworthy bank. The Company only deals with reputable financial institutions and regularly assesses international exposure and market risk. The Company has a small investment in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. As at December 31, 2017, the Company had no trade receivables and other prepaid and receivables of \$1.0 million are not considered past due. At December 31, 2017 the Company had a \$0.3 million deposited environment rehabilitation bond to Vietnam Government; \$0.6 export tariff receivable; and \$0.1 million rental deposits, advances, prepaid to suppliers.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to aid in determining the funds required to support normal operating requirements on an ongoing basis, including its capital development and exploration expenditures. As at December 31, 2017, the Company had cash and cash equivalents of \$0.5 million (December 31, 2016 - \$5.5 million) and accounts payable and accrued liabilities and other current liabilities of \$10.2 million (December 31, 2016 - \$7.8 million). See also note 1.

(c) Market risk:

The Company's primary market risks include changes in foreign exchange and interest rates on financial instruments in other than Canadian dollars. At December 31, 2017, the Company had no hedging agreements in place with respect to metal prices or exchange rates.

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23. Financial risk management (continued):

(c) Market risk (continued):

(i) Currency risk:

The Company is exposed to the financial risks related to the fluctuation of foreign exchange rates. The Company has offices in Canada and Vietnam and holds cash in Canadian, United States, Vietnamese and Australian currencies in line with forecasted expenditures. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar, Vietnamese dong and Australian dollar could have an effect on the Company's results of operations, financial position or cash flows.

At December 31, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	2017		2016	
Cash and cash equivalents	US\$	174,567	US\$	4,026,702
Accounts receivable		493,580		1,029,954
Environmental bond		274,248		250,881
Accounts payable and accrued liabilities		(7,749,035)		(5,890,205)
Other non-current liabilities		(991,738)		(833,969)
	US\$	(7,798,378)	US\$	(1,416,637)
Canadian dollar equivalent (year-end)	\$	(9,783,437)	\$	(1,902,037)

A 10% appreciation of the Canadian dollar against the US dollar at December 31, 2017 would decrease net loss by \$889,403 for the year-ended December 31, 2017 (2016 –\$172,912).

At December 31, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in Vietnamese Dong:

	2017		2016	
Cash and cash equivalents	VND	583,411,962	VND	757,120,070
	VND	583,411,962	VND	757,120,070
Canadian dollar equivalent (year-end)	\$	32,087	\$	44,670

A 10% appreciation of the Canadian dollar against the Vietnamese Dong at December 31, 2017 would result in an increase to net loss of \$3,209 for the year-ended December 31, 2016 (2016 – increase net income by \$4,467).

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23. Financial risk management (continued):

(c) Market risk (continued):

(i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents attract interest at floating rates and have maturities of 90 days or less. The interest is typical of Canadian banking rates, which are at present historically low; however, the Company's conservative investment strategy mitigates the risk of deterioration to capital invested. A change of 100 basis points in the interest rate would not be material to the consolidated financial statements.

(ii) Commodity price risk:

Nickel, copper and cobalt prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative hedging activities and certain other factors. The Company has not engaged in any hedging activities to reduce its exposure to commodity price risk. Revenue from the sale of concentrates is based on prevailing market prices which is subject to adjustment upon final settlement. For each reporting period until final settlement, estimates of metal prices are used to record sales.

(d) Financial assets and liabilities:

As at December 31, 2017, the carrying and fair values of our financial instruments by category are as follows:

	Loans and receivables	Financial liabilities	Fair value	Less than 1 year	1 to 3 years
Financial assets					
Cash and cash equivalents	502,367	-	502,367	502,367	-
Accounts receivable and prepaid expenses	680,942	-	680,942	680,942	-
Environmental bond	344,057	-	344,057	-	344,057
Total financial assets	1,527,366	-	1,527,366	1,183,309	344,057
Financial liabilities					
Trade payables and accrued liabilities	-	10,198,160	10,198,160	10,198,160	-
Other non-current liabilities	-	1,244,183	1,244,183	-	1,244,183
Total financial liabilities	-	11,442,343	11,442,343	10,198,160	1,244,183

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23. Financial risk management (continued):

(e) Fair value:

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2 - Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full contractual term of the asset or liability.

The Company determines the fair value of provisional sales and the embedded derivative related to its trade receivables based on the quoted forward commodity price obtained from the London Metals Exchange. The embedded derivative related to trade receivables is therefore classified as a Level 2 financial asset.

- Level 3 - Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, other current liabilities approximate their respective fair values due to the short-term nature of these instruments.

The Company has no financial assets or liabilities included in Level 1 or 3 of the fair value hierarchy.

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24. Income tax:

The Company's income tax recovery differs from the amounts computed by applying the Vietnam statutory rate of 20% (2016 – 20%) as follows:

	2017	2016
Net loss for the year before income tax	\$ (8,088,544)	\$ (13,859,692)
Expected tax recovery	\$ 1,617,709	\$ 2,771,938
Different in tax rates between jurisdictions	566,198	685,499
Permanent differences	(837,756)	-
Other	-	(69,548)
Change in unrecognized deferred tax assets	(1,346,151)	(3,387,889)
Deferred income tax recovery	\$ -	\$ -
Unrecognized deferred tax assets:		
Deferred financing costs	\$ 24,476	\$ 32,743
Mineral property interest and plant and equipment	10,589,124	11,224,828
Provisions deductible when paid	404,578	432,988
Inventory	319,018	341,419
Other	335,627	359,195
Net operating losses:		
Vietnam	11,422,220	13,052,970
Canada	5,709,782	4,715,652
	\$ 28,804,825	\$ 30,159,795

As at December 31, 2017, the Company had tax losses of:

Tax loss		Expire between
Canada	\$ 21,147,341	2018 and 2037
Vietnam	\$ 56,845,694	2018 and 2021

At December 31, 2017, the Company had deductible temporary differences other than tax losses of \$58,364,117 (2016 -\$61,915,718) for which deferred tax assets have not been recognized because it is not probable that future taxable profits will be available against which the Company can utilize the benefits.

There is no taxable temporary difference with respect to investments in subsidiaries that has not been recognized as at December 31, 2017.

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25. Non-controlling interest:

BPNM was originally owned 70% by the Company, with the remaining 30% owned by the Vietnamese Government, 20% through Mineral Development Company ("Mideco"), an agency of the Ministry of Heavy Industry of Vietnam and 10% through Son La Mechanical Engineering Company, a company owned by the People's Committee of the Province of Son La, which was privatized and renamed Son La Mechanical Engineering Joint Stock Company ("Coxama"). On July 12, 2006, the Company acquired a 20% interest in BPNM from Mideco by paying US\$2,500,000, thereby increasing its ownership interest to 90%. All funding for BPNM to continue exploration, development and construction of the Ban Phuc project were fully funded by the Company through intercompany loan agreements and a bank term loan. The 10% non-controlling interest of Coxama is presented separately in the Company's balance sheet and statement of operations and comprehensive income (loss).

26. Capital management:

The Company manages its capital structure and makes adjustment to it, in order to have the funds available to support its exploration, development and other activities. The adequacy of the capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, the metals markets, the mining industry, economic conditions and the associated risks. The Company utilized a combination of equity and debt financing for the final development funding of the Ban Phuc mine. The Company's capital management approach is reviewed on an ongoing basis. The Company is not subject to externally imposed capital requirements.

27. Contingencies:

The Company is disputing the right of a former director and a company controlled by the director, to a 0.25% gross royalty on the Company's share of smelter proceeds or other sale of product (less royalties), derived from the BPNM joint venture. The matter is currently being defended by the Company in the courts of Auckland, New Zealand and the timing of any judgment is unknown. The probability of successful defense is undeterminable and no provision has been made in the consolidated financial statements.

For contingencies in respect of tax-related items, please refer to detail disclosure as part of notes 7 and 10.