NORTHQUEST LTD.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS UNLESS OTHERWISE NOTED)

Stern & Lovrics LLP
Chartered Professional Accountants

Samuel V. Stern, BA, CPA, CA
George G. Lovrics, BComm, CPA, CA
CPA (Illinois)

Nazli Dewji, CPA, CMA

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Northquest Ltd.

Opinion

We have audited the consolidated financial statements of Northquest Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of loss and comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $2,199,980 for the year ended December 31, 2018 and has incurred cumulative losses from inception in the amount of $35,146,667 at December 31, 2018. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Northquest Ltd.'s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is George G. Lovrics, CPA, CA.

Stern & Lovrics LLP

Toronto, Ontario
April 24, 2019

Chartered Professional Accountants
Licensed Public Accountants

NORTHQUEST LTD.

Statements of Financial Position

(Expressed in Canadian Dollars unless otherwise noted)

	As at December 31, 2018	As at December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 177,858	$ 731,304
Other receivables and prepaid expenses (note 6)	32,417	116,450
Total current assets	210,275	847,754
Property and equipment (note 7)	76,572	102,096
Total assets	$ 286,847	$ 949,850
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and other liabilities (notes 8 and 12(a)(i))	$ 904,446	$ 336,972
Due to Nordgold (note 12(a)(i))	8,480,272	7,510,769
Total liabilities	9,384,718	7,847,741
Shareholders' deficit (statements of changes in shareholders' deficit)	(9,097,871)	(6,897,891)
Total liabilities and shareholders' deficit	$ 286,847	$ 949,850

Nature of operations (note 1)
Going concern (note 2)

The notes to the financial statements are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

/s/ Igor Klimanov

Igor Klimanov
Director

/s/ Evgeny Tulubensky

Evgeny Tulubensky
Director

NORTHQUEST LTD.

Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars unless otherwise noted)

Year Ended December 31,	2018	2017
Operating expenses		
Exploration and evaluation expenditures (note 9)	$ 720,870	$ 5,150,570
General and administrative (note 13)	246,947	313,092
Interest expense (note 12(a)(i))	510,707	286,769
Exchange loss (gain)	721,999	(247,310)
Operating loss before the following items	(2,200,523)	(5,503,121)
Interest income	543	770
Loss and comprehensive loss	$ (2,199,980)	$ (5,502,351)
Basic and diluted loss per share (note 11)	$ (0.02)	$ (0.05)
Weighted average number of common shares	111,596,566	111,596,566

The notes to the financial statements are an integral part of these financial statements.

NORTHQUEST LTD.

Statements of Cash Flows

(Expressed in Canadian Dollars unless otherwise noted)

Year Ended December 31,	2018	2017
Cash and cash equivalents (used in) provided by		
OPERATING ACTIVITIES		
Loss	**$ (2,199,980)**	$ (5,502,351)
Items not involving cash:		
Depreciation (note 7)	**25,524**	21,519
Interest expense (note 12(a)(i))	**510,707**	286,769
Foreign exchange	**158,796**	-
Non-cash working capital items:		
Other receivables and prepaid expenses	**84,033**	1,911
Accounts payable and other liabilities	**567,474**	(32,470)
	(853,446)	(5,224,622)
INVESTING ACTIVITY		
Acquisition of property and equipment (note 7)	**-**	(75,080)
	-	(75,080)
FINANCING ACTIVITY		
Due to Nordgold (note 12(a)(i))	**300,000**	5,260,769
	300,000	5,260,769
Change in cash and cash equivalents	**(553,446)**	(38,933)
Cash and cash equivalents, beginning of year	**731,304**	770,237
Cash and cash equivalents, end of year	**$ 177,858**	$ 731,304

The notes to the financial statements are an integral part of these financial statements.

NORTHQUEST LTD.

Statements of Changes in Shareholders' Deficit

(Expressed in Canadian Dollars unless otherwise noted)

	Common shares (#)	Common shares ($)	Contributed surplus ($)	Deficit ($)	Shareholders' (deficit) ($)
Balance at December 31, 2016	**111,596,566**	**25,654,772**	**394,024**	**(27,444,336)**	**(1,395,540)**
Loss for the year	-	-	-	(5,502,351)	(5,502,351)
Balance at December 31, 2017	**111,596,566**	**25,654,772**	**394,024**	**(32,946,687)**	**(6,897,891)**
Loss for the year	-	-	-	(2,199,980)	(2,199,980)
Balance at December 31, 2018	**111,596,566**	**25,654,772**	**394,024**	**(35,146,667)**	**(9,097,871)**

The notes to the financial statements are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Northquest Ltd. ("Northquest" or the "Corporation") was incorporated under the laws of the Province of Ontario by articles of incorporation dated March 18, 2008. Northquest was formed to conduct exploration for gold and other metals and has not determined whether its property contains economically recoverable reserves. The primary office of the Corporation is located at 50 Richmond Street East, Suite 101, Toronto, Ontario (Canada), M5C 1N7.

As at December 31, 2018 and 2017, 100% of the Corporation's issued and outstanding shares are owned by Nord Gold S.E. ("Nordgold"), a private company. As such, the Corporation is a subsidiary of Nordgold.

2. GOING CONCERN

Northquest is at an early stage of development and as is common with many exploration companies, it has no revenues and is financed by Nordgold. The Corporation had working capital deficiency of $9,174,443 at December 31, 2018 (December 31, 2017 – working capital deficiency of $6,999,987) and reported a loss of $2,199,980 (year ended December 31, 2017 - $5,502,351) and use of cash in operating activities of $853,446 (year ended December 31, 2017 - $5,224,622) for the year ended December 31, 2018.

The ability of the Corporation to continue as a going concern is dependent on the successful completion of the actions taken or planned. In order to meet future expenditures and cover administrative costs, the Corporation will need to additional financing from Nordgold. Although the Corporation has been successful in receiving funds from Nordgold to date, there can be no assurance that adequate funding will be received in the future. These circumstances indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Corporation to meet its business plan and obligations as they come due, and accordingly, the appropriateness of the use of the accounting principles applied to a going concern.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used. These adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Corporation applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee.

The policies applied in these financial statements are based on IFRSs issued and outstanding as of April 24, 2019, the date the Board of Directors approved the statements. The accounting policies set out below have been applied consistently to all years presented.

(b) Basis of presentation

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 3(n).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currencies

The functional currency, as determined by management, of Northquest is the Canadian dollar. The financial statements, the results and financial position are expressed in Canadian dollars. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognised in the statement of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) Financial instruments

On July 24, 2014, the IASB issued the completed IFRS 9 - Financial Instruments ("IFRS 9") to come into effect on January 1, 2018 with early adoption permitted.

IFRS 9 includes finalized guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 largely retains the existing requirements in IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"), for the classification and measurement of financial liabilities.

The Company adopted IFRS 9 in its financial statements on January 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening accumulated deficit balance on January 1, 2018. The impact on the classification and measurement of its financial instruments is set out below.

All financial assets not classified at amortized cost or FVOCI are measured at FVTPL. On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss;
- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the statement of loss and comprehensive loss for the period. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method.

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

Classification	**IAS 39**	**IFRS 9**
Cash and cash equivalents	FVTPL	FVTPL
Other receivables	Loans and receivables (amortized cost)	Amortized cost
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Due to Nordgold	Other financial liabilities	Amortized cost

The original carrying value of the Company's financial instruments under IAS 39 has not changed under IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2018 and 2017, except for cash and cash equivalents – which are Level 1 financial instruments, none of the Company's financial instruments are recorded at fair value in the statements of financial position.

(e) Impairment of non-financial assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

(f) Exploration and evaluation expenditures

The Corporation expenses exploration and evaluation expenditures as incurred in mineral properties not commercially viable and financially feasible. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and evaluation activities.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Exploration and evaluation expenditures are capitalized if the Corporation can demonstrate that these expenditures meet the criteria of an identifiable intangible asset. To date, no such exploration and evaluation expenditures have been identified and capitalized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to 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 recognized based on the cost of an item of property and equipment, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Office equipment	25%	Declining balance method
Vehicles	25%	Declining balance method

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, and liquid short-term deposits in the form of high interest savings and money market accounts with original maturities of three months or less. The Corporation does not hold any asset backed commercial paper.

(i) Provisions

A provision is recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Corporation had no material provisions at December 31, 2018 and 2017.

(j) Share-based payment transactions

The fair value of share options granted to employees and non-employees is recognized as an expense over the vesting period with a corresponding increase in equity. 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 Corporation.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Deferred taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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 following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(l) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Corporation has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

(m) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Significant accounting judgments and estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of other receivables that is included in the statements of financial position;
- the recoverability of exploration and evaluation expenditures incurred on the Corporation's property interests. The Corporation expenses the exploration and evaluation expenditures in the statements of loss and comprehensive loss;
- the estimated useful lives and residual value of property and equipment which are included in the financial statements and the related depreciation included in the statements of loss and comprehensive loss;
- management's judgment in determining the functional currency of the Corporation as Canadian dollars;
- management's assumption of no material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the period; and
- management's position that there is no income tax considerations required within these financial statements.

Critical accounting judgments

- The categorization of financial assets and liabilities is an accounting policy that requires management to make judgments or assessments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recent accounting pronouncements

On June 7, 2017, the IASB issued IFRIC - 23 Uncertainty Over Income Tax Treatments ("IFRIC 23"). IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect IFRIC 23 to have a material impact on the financial statements.

On January 13, 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 - Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the period beginning on January 1, 2019. The Company is evaluating the impact of adoption and expects to report more detailed information in its financial statements as the effective date approaches.

4. CAPITAL MANAGEMENT

The Corporation manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return.

The Corporation monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Corporation may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Corporation considers its capital to be equity, comprising common shares, warrants, contributed surplus and deficit which at December 31, 2018 totaled a deficit of $9,097,871 (December 31, 2017 - $6,897,891). The Corporation manages capital through its financial and operational forecasting processes. The Corporation reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on its exploration and development activities. Selected information is provided to the Board of Directors.

The Corporation's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2018. The Corporation is not subject to any capital requirements imposed by a lending institution or regulatory body.

5. FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign exchange rate risks) as explained below.

Risk management is carried out by the Corporation's management team with guidance from the Audit Committee and the Board of Directors.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Corporation's credit risk is primarily attributable to cash and cash equivalents and other receivables. The bulk of the Corporation's cash and cash equivalents are held in Canada with select Canadian chartered banks, where management believes the risk of loss to be low.

Financial instruments included in other receivables consist of sales tax receivable from government authorities in Canada. All receivables are in good standing as of December 31, 2018. Management believes that the credit risk concentration with respect to financial instruments included in other receivables is low.

Liquidity risk

Liquidity risk is the risk that the Corporation will not have sufficient cash resources to meet its financial obligations as they come due. The Corporation's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in general stock market conditions or conditions specific to the Corporation. As at December 31, 2018, the Corporation had a cash and cash equivalents balance of $177,858 (December 31, 2017 - $731,304) to settle current liabilities of $9,384,718 (December 31, 2017 - $7,847,741). All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms except for the amount due to Nordgold which bears interest at 6.5% and is due on September 28, 2020.

On September 28, 2016, Nordgold and the Corporation signed a loan agreement in which Nordgold agreed to lend Northquest an amount of up to US$10,000,000. During the year ended December 31, 2018, the Corporation received $300,000 (US$228,319) (year ended December 31, 2017 - $5,260,769 (US$4,272,530)) from Nordgold. The loan bears interest at 6.5%. The principal and unpaid interest shall be paid in full on September 28, 2020.

It is expected the Corporation will be financed by Nordgold.

Market risk

Interest rate risk
The Corporation has cash balances, cash equivalents and interest-bearing debt. The Corporation's current policy is to invest surplus cash in certificates of deposit at select Canadian chartered banks. The Corporation periodically monitors the investments it makes and is satisfied with their creditworthiness. The Corporation's loan payable is at fixed interest rate. Accordingly, the Corporation has no material interest rate risk.

Foreign currency risk
The Corporation's functional and presentation currency is the Canadian dollar and major purchases are transacted in Canadian dollars. However, the loan agreement with Nordgold is in US$. As a result, the Corporation is subject to gains and losses due to fluctuation in US$ against the functional currency.

(Expressed in Canadian Dollars unless otherwise noted)

5. FINANCIAL RISK FACTORS (Continued)

Sensitivity analysis

As of December 31, 2018, both the carrying and estimated fair value amounts of the Corporation's financial instruments are approximately equivalent. The sensitivity analysis shown in the notes below may differ materially from actual results.

Based on management's knowledge and experience of the financial markets, the following movements are reasonable over the year ended December 31, 2018:

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in interest rates would not have a material impact on the reported loss and comprehensive loss.

(ii) The Corporation holds balances in foreign currencies (US$ loan agreement with Nordgold) which could give rise to exposure to foreign exchange risk. As at December 31, 2018, had the US$ weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Corporation's reported loss and comprehensive loss for the year ended December 31, 2018 would have been approximately $935,000 higher/lower as a result of foreign exchange losses/gains on translation of US$ denominated loan. Similarly, as at December 31, 2018, shareholders' deficit would have been approximately $935,000 higher/lower had the US$ weakened/strengthened by 10% against the Canadian dollar as a result of foreign exchange losses/gains on translation of US$ loan.

6. OTHER RECEIVABLES AND PREPAID EXPENSES

	As at December 31, 2018	As at December 31, 2017
Sales tax receivable	$ **6,544**	$ 86,705
Prepaid expenses	**25,873**	29,745
	$ **32,417**	$ 116,450

7. PROPERTY AND EQUIPMENT

Cost	**Office Equipment**	**Vehicles**	**Total**
Balance, December 31, 2016	$ 26,361	$ 100,194	$ 126,555
Additions	-	75,080	75,080
Balance, December 31, 2017 and December 31, 2018	$ **26,361**	$ **175,274**	$ **201,635**

Accumulated Depreciation	**Office Equipment**	**Vehicles**	**Total**
Balance, December 31, 2016	$ 17,838	$ 60,182	$ 78,020
Depreciation	2,131	19,388	21,519
Balance, December 31, 2017	19,969	79,570	99,539
Depreciation	1,598	23,926	25,524
Balance, December 31, 2018	$ **21,567**	$ **103,496**	$ **125,063**

Carrying Value	**Office Equipment**	**Vehicles**	**Total**
Balance, December 31, 2017	$ 6,392	$ 95,704	$ 102,096
Balance, December 31, 2018	$ **4,794**	$ **71,778**	$ **76,572**

(Expressed in Canadian Dollars unless otherwise noted)

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2018	As at December 31, 2017
Accounts payable and acrued liabilities	$ **35,094**	$ 31,971
Accrued interests (note 12(a)(i))	**869,352**	305,001
	$ **904,446**	$ 336,972

The following is an aged analysis of the accounts payable and other liabilities:

	As at December 31, 2018	As at December 31, 2017
Less than one year	$ **599,445**	$ 310,660
Greater than one year	**305,001**	26,312
	$ **904,446**	$ 336,972

9. EXPLORATION AND EVALUATION EXPENDITURES

Year Ended December 31,	**2018**	**2017**
Pistol Bay, Nunavut	$ **720,870**	$ 5,150,570

All of the claims that make up the Pistol Bay claim group are owned 100% by Northquest., the claims previously held by Phil Burt and William Brereton having been transferred to Northquest during 2018.

In late 2018 an assessment report covering all exploration activities completed in 2016 and 2017 was submitted to the Mining Recorder's Office, and on February 20, 2019, the final edits of this report were approved. Assessment credits relating to this report have been assigned to the claims, and all of the claims now have anniversary dates of August 2019 or later.

As at December 31, 2018, cumulative exploration and evaluation expenditures on the Pistol Bay Project are $26,240,930 (December 31, 2017 - $25,520,060).

10. SHARE CAPITAL

(a) Authorized common shares

The Corporation is authorized to issue an unlimited number of common shares with no par value.

(b) Share purchase option plan

As at December 31, 2017 and December 31, 2018, the Corporation had no stock options outstanding:

(c) Warrants

As at December 31, 2017 and December 31, 2018, the Corporation had no warrants outstanding:

(Expressed in Canadian Dollars unless otherwise noted)

11. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of $2,199,980 (year ended December 31, 2017 - $5,502,351) and the weighted average number of common shares outstanding of 111,596,566 (year ended December 31, 2017 - 111,596,566).

12. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The below noted transactions are in the normal course of business and are measured at fair value, the amount as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

(a) Northquest entered into the following transactions with related parties:

(i) As of December 31, 2018, 111,596,566 (December 31, 2017 - 111,596,566) common shares are held by Nordgold (100% of shares outstanding (December 31, 2017 - 100%)). On September 28, 2016, Nordgold and the Corporation signed a loan agreement in which Nordgold agreed to lend Northquest an amount of up to US$10,000,000. During the year ended December 31, 2018, the Corporation received $300,000 (US$228,319) (year ended December 31, 2017 - $5,500,000 (US$4,272,530)) from Nordgold for a total loan of $8,480,272 (US$6,216,297) as at December 31, 2018 (December 31, 2017 - $7,510,769 (US$5,986,833)). The loan bears interest at 6.5%. The principal and unpaid interest shall be paid in full on September 28, 2020. For the year ended December 31, 2018, interest of $510,707 (year ended December 31, 2017 - $286,769) has been accrued and is included as interest expense in the statement of loss and comprehensive loss. As at December 31, 2018, total accrued interest of $869,352 (December 31, 2017 - $305,002) is included in accounts payable and other liabilities in the statement of financial position.

(b) Remuneration of directors and key management personnel, other than consulting fees, of the Corporation was as follows:

Year Ended December 31,	**2018**	**2017**
Salaries and benefits - cash remuneration		
Marc-Andre Boudreau, director	$ -	$ 6,250
Karl Glackmeyer, director	-	7,500
	$ -	$ 13,750

The Board of Directors and certain officers do not have employment or service contracts with the Corporation. Directors are entitled to director fees and stock options for their services and officers are entitled to stock options and cash remuneration for their services.

13. GENERAL AND ADMINISTRATIVE

Year Ended December 31,	**2018**	**2017**
Audit and related fees	$ **13,050**	$ 17,000
General and office - Canada	**208,373**	274,573
Depreciation	**25,524**	21,519
	$ **246,947**	$ 313,092

(Expressed in Canadian Dollars unless otherwise noted)

14. INCOME TAXES

The Corporation's effective income tax rate differs from the amount that would be computed by applying the Canadian federal and provincial statutory rate of 26.5% (year ended December 31, 2017 – 26.5%) to the loss for the year ended December 31, 2018. The reasons for the difference are as follows:

Year Ended December 31,	2018	2017
Expected income tax recovery	$ **(582,995)**	$ (1,458,123)
Depreciation	**6,764**	5,703
Share issue costs	**(9,160)**	(11,326)
Non deductible expenses and other	**530**	530
Unrecorded tax benefit of losses	**393,830**	98,315
Exploration and evaluation expenditures	**191,031**	1,364,901
	$ **-**	$ -

Significant components of the Corporation's Canadian unrecognized deferred income tax assets are as follows:

	As at December 31, 2018	As at December 31, 2017
Deferred income tax assets:		
Non-capital loss carry forwards	$ **2,604,352**	$ 2,210,521
Share issue costs and other	**50,367**	52,763
Resource deductions	**4,369,584**	4,178,553
	$ **7,024,303**	$ 6,441,837

The timing of the utilization of the deferred tax assets is undeterminable. Consequently, a full valuation allowance has been provided against the future value of these assets. The Corporation has Canadian non-capital losses available for deduction against future taxable income of $9,827,743 (December 31, 2017 - $8,341,590). These losses, if not utilized, will expire as follows:

2029	$ 72,289
2030	342,389
2031	736,191
2032	877,306
2033	1,101,752
2034	85,050
2035	1,011,733
2036	3,743,878
2037	371,002
2038	1,486,153
	$ 9,827,743

The Corporation's Canadian operations have generated cumulative exploration and development expenditures of $16,488,996 (December 31, 2017 - $15,672,021) available to reduce deferred income taxes in future years.

15. SEGMENTED INFORMATION

The chief operating decision-maker has been identified as the Corporation's directors. The Corporation's principal activity is acquisition, exploration and evaluation of mineral properties. The directors regard it as the single business segment and no segment information is presented. The Corporation did not derive any revenue from its principal activity during the periods.

The geographical locations of all of the Corporation's assets are based on the physical locations of these assets. All of the Corporation's assets are located in Canada (domicile) and no geographical segment information is presented.