(A Development-Stage Company)

Consolidated Financial Statements
As of and for the years ended December 31, 2018 and 2017
(in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alderon Iron Ore Corp.

Opinion

We have audited the consolidated financial statements of Alderon Iron Ore Corp. ("the Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- notes to the consolidated statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

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 "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that The Company is seeking to arrange the necessary funds in order to satisfy its obligations and commitments. Specifically, the Company continues to advance all of the elements of its financing plan, including debt and equity. There can be no assurance that completion of the financing plan will be successful.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the consolidated 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 consolidated 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 auditors' report to the related disclosures in the consolidated 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 auditors' 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- 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.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP (signed)

Chartered Professional Accountants

The engagement partner on the audit resulting in this independent auditors' report is D. Philippa Wilshaw, CPA, CA.

Vancouver, Canada
March 29, 2019

Alderon Iron Ore Corp.

Consolidated Statements of Financial Position

(in Canadian dollars)

	As of December 31, 2018	As of December 31, 2017
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (note 23)	6,033,848	14,840,135
Short-term investments (note 23)	1,001,249	990,551
Receivables (note 5)	25,151	37,403
Prepaid expenses	46,959	51,767
Total current assets	7,107,207	15,919,856
Non-current assets		
Mineral properties (note 6)	99,053,952	98,878,856
Property, plant and equipment (note 7)	16,164,434	16,121,144
Total non-current assets	115,218,386	115,000,000
Total assets	122,325,593	130,919,856
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 10)	9,415,382	9,502,931
Due to related parties (note 13)	402,661	311,859
Convertible debt (note 11)	-	22,489,293
Loan facility (note 12)	17,594,412	-
	27,412,455	32,304,083
EQUITY		
Share capital, warrants and conversion option (notes 11, 15 and 16)	266,251,666	264,486,581
Other capital (notes 14, 17 and 18)	27,228,541	26,125,059
Deficit	(209,922,260)	(204,859,976)
Equity attributable to owners of the parent	83,557,947	85,751,664
Non-controlling interest (note 20)	11,355,191	12,864,109
Total equity	94,913,138	98,615,773
Total liabilities and equity	122,325,593	130,919,856

Basis of preparation, nature of operations and going concern (note 1)
Commitments and contingencies (note 26)
Subsequent events (note 27)

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

Approved by the Board of Directors

"Adrian Loader"
Adrian Loader
Director

"David Porter"
David Porter
Director

Alderon Iron Ore Corp.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(in Canadian dollars, except share data)

	Attributable to owners of the parent					
	Common shares	Share capital, warrants, and conversion option	Other capital	Deficit	Non-controlling interest	Total
	(number)	$	$	$	$	$
Balance – January 1, 2017	132,134,061	264,346,796	25,044,099	(107,753,906)	43,381,320	225,018,309
Issuance of common shares – deferred share units (notes 14 and 15)	504,456	139,785	-	-	-	139,785
Modification of deferred share unit plan (note 14)	-	-	793,556	-	-	793,556
Share-based compensation – stock options (note 17)	-	-	247,030	-	-	247,030
Share-based compensation – deferred share units (note 14)	-	-	40,374	-	-	40,374
Net loss and comprehensive loss	-	-	-	(97,106,070)	(30,517,211)	(127,623,281)
Total contributions by and distributions to owners	504,456	139,785	1,080,960	(97,106,070)	(30,517,211)	(126,402,536)
Balance – December 31, 2017	132,638,517	264,486,581	26,125,059	(204,859,976)	12,864,109	98,615,773
Issuance of common shares – executive compensation (note 15)	833,333	241,666	-	-	-	241,666
Issuance of common shares – establishment fee on loan facility (notes 12 and 15)	4,811,030	1,539,530	-	(384,882)	384,882	1,539,530
Share issue costs (note 15)	-	(16,111)	-	-	-	(16,111)
Share-based compensation – compensation options (notes 12 and 18)	-	-	208,765	(52,191)	52,191	208,765
Share-based compensation – stock options (note 17)	-	-	800,245	-	-	800,245
Share-based compensation – deferred share units (note 14)	-	-	94,472	-	-	94,472
Net loss and comprehensive loss	-	-	-	(4,625,211)	(1,945,991)	(6,571,202)
Total contributions by and distributions to owners	5,644,363	1,765,085	1,103,482	(5,062,284)	(1,508,918)	(3,702,635)
Balance – December 31, 2018	138,282,880	266,251,666	27,228,541	(209,922,260)	11,355,191	94,913,138

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

Alderon Iron Ore Corp.

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2018 and 2017
(in Canadian dollars, except share and per share data)

	2018	2017
	$	$
Operating expenses		
General and administrative expenses (note 19)	3,321,386	2,987,245
Project maintenance expenses (note 19)	1,106,315	1,095,689
Foreign exchange loss (gain)	1,005,673	(337,651)
Government and community relations expenses	259,578	-
Impairment of Kami Project (note 9)	-	111,666,355
Newfoundland and Labrador Hydro settlement	-	9,500,000
	5,692,952	124,911,638
Loss from operations	(5,692,952)	(124,911,638)
Finance income	125,470	261,970
Finance costs (notes 11 and 12)	(2,933,463)	(2,973,613)
Gain on modification of convertible debt (note 11)	1,929,743	-
Net finance costs	(878,250)	(2,711,643)
Net loss and comprehensive loss	(6,571,202)	(127,623,281)
Attributable to:		
Owners of the parent	(4,625,211)	(97,106,070)
Non-controlling interest (note 20)	(1,945,991)	(30,517,211)
	(6,571,202)	(127,623,281)
Net loss per share		
Basic and diluted	(0.03)	(0.73)
Weighted average number of shares outstanding		
Basic and diluted	135,660,305	132,266,740

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

Alderon Iron Ore Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(in Canadian dollars)

	2018	2017
	$	$
Cash flows from operating activities		
Net loss	(6,571,202)	(127,623,281)
Adjustments for:		
Gain on modification of convertible debt (note 11)	(1,929,743)	-
Unrealized foreign exchange loss (note 12)	664,887	-
Impairment of Kami Project (note 9)	-	111,666,355
Share-based compensation (notes 14 and 17)	894,717	287,404
Revised fair value of common shares issued (note 15)	41,666	-
Depreciation of equipment (note 7)	839	-
Recovery of deferred share unit compensation (note 14)	-	(117,482)
Finance income	(125,470)	(261,970)
Finance costs	2,933,463	2,973,613
Changes in operating assets and liabilities (note 22)	538,811	(375,430)
Interest received	123,199	465,991
Net cash used in operating activities	(3,428,833)	(12,984,800)
Cash flows from investing activities		
Additions to mineral properties (note 6)	(175,096)	(175,095)
Deposit on equipment (note 7)	(357,337)	(221,239)
Purchase of equipment (note 7)	(3,019)	-
Decrease (increase) in short-term investments	(10,698)	262,814
Decrease in restricted investments	-	21,000,000
Net cash provided by (used in) investing activities	(546,150)	20,866,480
Cash flows from financing activities		
Loan facility proceeds received (note 12)	18,375,000	-
Interest paid on loan facility (note 12)	(890,845)	-
Transaction costs on loan facility (note 12)	(299,348)	-
Principal paid on convertible debt (note 11)	(21,082,970)	-
Interest paid on convertible debt (note 11)	(887,030)	(1,896,191)
Transaction costs on convertible debt (note 11)	(30,000)	-
Share issue costs (note 15)	(16,111)	-
Net cash used in financing activities	(4,831,304)	(1,896,191)
Net change in cash and cash equivalents	(8,806,287)	5,985,489
Cash and cash equivalents at the beginning of the year	14,840,135	8,854,646
Cash and cash equivalents at the end of the year	6,033,848	14,840,135

Supplemental disclosure with respect to cash flow information (note 22)

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

1 Summary of business, reporting entity, basis of preparation, nature of operations and going concern

Summary of business

Alderon Iron Ore Corp. ("Alderon" or the "Company") is a development-stage company conducting iron ore evaluation activities related entirely to its Canadian properties located in western Labrador in the province of Newfoundland and Labrador. Those properties are collectively referred to as the Kamistiatusset, or "Kami", Property. All activities associated with the Kami Property are referred to as the Kami Project.

Reporting entity

The accompanying consolidated financial statements include the accounts of Alderon Iron Ore Corp., an entity incorporated under the laws of the Province of British Columbia, and its subsidiaries: 0964896 BC Ltd., an entity incorporated under the laws of the Province of British Columbia, and Kami General Partner Limited ("Kami GP"), an entity incorporated under the laws of the Province of Ontario. The consolidated financial statements also include the accounts of an affiliate, The Kami Mine Limited Partnership ("The Kami LP"), an entity established under the laws of the Province of Ontario. Kami GP and The Kami LP are each owned 75%, directly or indirectly, by the Company. The Company transferred the Kami Property into The Kami LP during the year ended December 31, 2013.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "IRON".

Basis of preparation, nature of operations and going concern

Basis of preparation

The accompanying consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2018. These consolidated financial statements were approved by the Company's Board of Directors on March 29, 2019.

Nature of operations and going concern

The accompanying consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable resources, the achievement of profitable operations and the ability of the Company to raise additional financing. Changes in future conditions or anticipated future conditions could require further material write-downs to the carrying values of the Company's assets.

1 Summary of business, reporting entity, basis of preparation, nature of operations and going concern (continued)

To date, the Company has not recorded any revenues from operations, has no source of operating cash flow and no assurance that additional funding will be available to it for further development of the Kami Project. The Company does not have financial resources sufficient to cover all of its commitments for the coming year, which include net amounts payable as at December 31, 2018, necessary general and administrative costs through the next twelve months, interest payments on outstanding debt, and contractual obligations as at December 31, 2018 (in relation to anticipated equipment payments).

During the year ended December 31, 2018, the Company executed (i) a forbearance agreement with Liberty Metals & Mining Holdings, LLC ("Liberty") which provided for the settlement of the convertible debt (note 11), and (ii) a credit agreement with Sprott Private Resource Lending (Collector), LP ("Sprott") to provide a loan facility (the "Loan Facility") to settle the convertible debt payable to Liberty (note 12). The principal balance of the Loan Facility in the amount of US$14,000,000 becomes due on December 31, 2019. Any failure to meet any of the payment obligations under the Loan Facility, or otherwise adhere to the covenants therein or fulfill the other obligations thereunder, may trigger an event of default and a demand for full immediate repayment of all amounts outstanding under the Loan Facility. In particular, if the Company is unable to meet the consolidated working capital covenant it will be in default of the terms of the Loan Facility and it is possible this could occur prior to the scheduled maturity date of December 31, 2019. If the Company is unable to repay all amounts outstanding under the Loan Facility, Sprott may realize on its security and the Company could lose its interest in the Kami Project. The Company does not currently have sufficient funds to repay all amounts outstanding with respect to the Loan Facility and it continues to work to identify additional sources of financing to satisfy such obligations.

The Company currently does not have sufficient financial resources to cover all of its originally planned commitments and as a result, it has split its purchase orders for equipment into two phases, engineering and manufacturing. Advances for engineering have been paid in full while commitments for manufacturing and fabrication remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan (note 26).

The Company is seeking to arrange the necessary funds in order to satisfy its obligations and commitments. Specifically, the Company continues to advance all of the elements of its financing plan, including debt and equity. There can be no assurance that implementation of the results of the re-scoping process and completion of the financing plan will be successful. These conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

If management is unable to obtain new funding, comply with the terms of the credit agreement with Sprott, and/or delay the payment of certain of its amounts payable, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these consolidated financial statements. If the going concern assumption was not appropriate, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

2 Significant accounting policies

Principles of consolidation

These consolidated financial statements include any entity in which the Company, directly or indirectly, holds more than 50% of the voting rights or over which it exercises control. An entity is included in the consolidation from the date that control is transferred to the Company, while any entities that are sold are excluded from the consolidation from the date that control ceases. All intercompany balances and transactions are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using the same accounting policies.

2 Significant accounting policies (continued)

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiary is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.

Foreign currency

The accompanying consolidated financial statements are presented in Canadian dollars, unless otherwise noted. The functional currency of the Company and its subsidiaries and affiliate is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statement of comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash on hand and balances with banks, as well as short-term, interest-bearing deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity of three months or less from the date of acquisition.

Mineral properties

Mineral properties, consisting of assets that are being explored and evaluated and representing titles associated with the Kami Property, are recorded at cost. Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property. If payments received exceed the capitalized cost of the mineral property, the excess is recognized as income in the year received. The carrying value of mineral properties is presented net of impairment charges, if any, and depreciation, which is recognized over the estimated useful life of the properties following the commencement of production. Mineral properties are derecognized in the event that mineral properties are sold or projects are abandoned.

Management has taken actions to verify the ownership rights for mineral properties in which the Company owns an interest in accordance with industry standards for the current exploration phase of these properties. However, these procedures do not guarantee that one or more titles to the Kami Property will not be challenged. Title to the Kami Property may be subject to prior unregistered agreements, transfers or claims or may be affected by, among other factors, undetected defects.

Exploration and evaluation expenditures

Pre-exploration costs, which include costs incurred prior to the Company's obtaining rights to explore and evaluate a defined area, are expensed as incurred. As noted above, costs to acquire mineral properties are capitalized and include costs that are directly related to the acquisition of the underlying mineral rights.

2 Significant accounting policies (continued)

Exploration and evaluation expenditures include engineering, metallurgical and other studies and activities that are necessary in order to delineate an ore body, as well as employee costs (including share-based compensation) related to the Company's exploration and evaluation personnel. Specifically, exploration and evaluation expenditures include costs associated with the following activities: surveying; geological, geochemical and geophysical studies; exploratory drilling; land maintenance; sampling and analyses; and efforts associated with the assessment of technical feasibility and commercial viability.

Expenditures related to the exploration and evaluation of mineral properties are expensed as incurred, until the technical feasibility and commercial viability of the extraction of a project's mineral reserves are demonstrated, at which time any further directly attributable pre-production expenditures that give rise to future economic benefits are capitalized as development costs.

Property, plant and equipment and depreciation

Items of property, plant and equipment are recorded at cost, net of impairment charges and accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets and that have been incurred up until the time that the assets are in the condition necessary to be used or operated in the manner intended by management. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Residual values, the method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated using the straight-line method, over the estimated useful life of each component, as follows:

Category	Useful life (years)
Building	25
Furniture and fixtures	5
Exploration equipment	5
Computer and office equipment	3
Computer software	3
Leasehold improvements	Over the lease term

Depreciation expense is allocated to the appropriate functional expense categories to which the underlying items of property, plant and equipment relate.

Items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the related asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

2 Significant accounting policies (continued)

Impairment of long-lived assets

Mineral properties, property, plant and equipment and the long-term advance are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss in the consolidated statement of comprehensive loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the event that long-lived assets suffer impairment losses, those losses are reviewed for possible reversal if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation, had the original impairment not occurred.

Employee benefits

Salaries and other short-term benefit obligations are measured on an undiscounted basis and are recognized in the consolidated statement of comprehensive loss over the related service period or when the Company has a present legal or constructive obligation to make payments as a result of past events and when the amount payable can be estimated reliably.

Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 provides three different measurement categories for non-derivative financial assets – subsequently measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income – while all non-derivative financial liabilities are classified as subsequently measured at amortized cost. The category into which a financial asset is placed and the resultant accounting treatment is largely dependent on the nature of the business of the entity holding the financial asset. All financial instruments are initially recognized at fair value.

The implementation of the new standard did not have a material impact on the measurement of the Company's reported financial results; however additional disclosures have been provided.

Financial assets

The Company initially recognizes financial assets on the trade date, which is the date that 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 in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

2 Significant accounting policies (continued)

The Company classifies all of its financial assets as subsequently measured at amortized cost. All financial assets that do not meet the criteria to be recognized as subsequently measured at amortized cost or subsequently measured at fair value through other comprehensive income are classified as FVTPL.

Financial liabilities

The Company measures all of its financial liabilities as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Convertible debt

The Company's convertible debt was accounted for as a compound financial instrument comprised of a non-derivative host contract and a conversion option. The conversion option was equity classified because it would have resulted in the issuance of a fixed number of equity instruments issued in return for a fixed dollar value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar secured liability that does not have an equity conversion option. The equity component is recognized initially as the residual difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. The Company's option to prepay the instrument early was a separable embedded derivative but had nominal value.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions may represent obligations associated with the retirement or reclamation of mineral property or other assets. Provisions are not recognized for future operating losses.

Share capital and warrants

Common shares are classified as equity. Share purchase warrants are also classified as equity when the warrants are derivative instruments that will be settled only by the Company exchanging a fixed number of its own shares for a fixed amount of cash; otherwise, warrants would be classified as liabilities. Incremental costs that are directly attributable to the issuance of common shares and equity-classified warrants are recognized as a deduction from equity, net of any tax effects.

The Company has issued share purchase warrants to investors who have participated in certain private placements as well as to placement agents, underwriters, finders or brokers who have facilitated certain financing transactions with investors. Share purchase warrants issued to placement agents, underwriters, finders or brokers are measured at their fair value on the date that the services are provided and are accounted for as additional transaction costs, since the issuance of the underlying warrants is directly attributable to the financing transaction to which the warrants relate.

2 Significant accounting policies (continued)

Share-based payments

The Company accounts for employee share-based compensation using the fair value-based method. The fair value of stock options is determined at the date of grant using the Black-Scholes option pricing model, which includes estimates of the number of awards that are expected to vest over the vesting period. The Company takes into account the expected forfeiture rate of the granted share options based on the Company's past experience. Where granted share options vest in installments over the vesting period (defined as graded vesting), the Company treats each installment as a separate share option grant. Share-based compensation expense is recognized over the vesting period, or as specified vesting conditions are satisfied, and credited to other capital within equity.

Any consideration received by the Company in connection with the exercise of stock options is credited to share capital. Any other capital component of the share-based compensation is transferred to share capital upon the issuance of shares.

For equity-settled deferred share units, fair values are determined at the date of grant using the five-day volume weighted average price per share at which the common shares traded on the TSX immediately prior to the grant date. The expense is recognized as a component of general and administrative expenses with a corresponding increase to other capital within equity. Upon redemption, the fair value of the award is reclassified from other capital to share capital.

For cash-settled deferred share units, fair values are determined at each reporting date and periodic changes are recognized as a component of general and administrative expenses, with a corresponding change to liabilities.

For equity instruments that are issued to non-employees, share-based compensation is measured at the fair value of the goods or services received. If some or all of the goods or services received by the Company as consideration cannot be specifically identified, they are measured at the fair value of the equity instrument in the same manner that employee share-based compensation is determined.

Related party transactions

A related party is defined as any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of the Company's key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2 Significant accounting policies (continued)

Finance income

Finance income comprises interest income earned on cash and cash equivalents and short-term investments.

Finance costs

Finance costs comprise interest and other costs incurred in connection with the borrowing of funds, net of amounts capitalized to mineral properties.

Income taxes

Income tax on profit or loss comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 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 or 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 taxes are recognized as income or expense in profit or loss, except to the extent that they arise from business combinations and transactions recognized in equity. Therefore, when deferred taxes relate to equity items, a backward tracing is necessary to determine the adjustment to taxes (e.g. change in tax rates and change in recognized deferred tax assets) that should be recorded in equity. For this purpose, the accounting policy of the Company is to allocate changes in the recognition of deferred tax assets based on their expected maturity date.

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.

2 Significant accounting policies (continued)

Net loss per share

Basic net loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net loss per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents, such as stock and compensation options, deferred share units and warrants. For the years ended December 31, 2018 and 2017, basic and diluted loss per share was calculated based on the net loss and comprehensive loss attributable to owners of the parent.

3 Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and judgments about and apply assumptions to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions and estimates in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Judgments:

Management considers the following areas to be significant judgments used in the process of applying the Company's accounting policies that have the most significant effect on the Company's consolidated financial statements.

Going concern

The preparation of the Company's consolidated financial statements requires management to make judgments regarding the Company's ability to continue as a going concern (note 1).

Capitalization of development costs

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Project. Accordingly, costs incurred with respect to the Kami Project subsequent to November 15, 2014 have generally been recorded as project maintenance expenses in the Company's operating expenses.

3 Critical accounting estimates and judgments (continued)

Estimates:

Management considers the following areas to be those where critical accounting policies affect the significant estimates used in the preparation of the Company's consolidated financial statements.

Carrying value and recoverability of long-lived assets

The carrying amounts of the Company's mineral properties and related long-lived assets do not necessarily represent present or future values, and the Company's long-lived assets have been accounted for under the assumption that the carrying amounts will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties and related long-lived assets.

Mineral properties, property, plant and equipment and the long-term advance are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss in the consolidated statement of comprehensive loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, or cash-generating units. In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

During the years ended December 31, 2018 and 2017, management determined that there were indicators that the Kami Project assets, including mineral properties, property, plant and equipment and the long-term advance, may not be recoverable (note 9). As of each reporting date, the Company determined the recoverable amount of the Kami Project assets using the value in use calculation which was assessed using cash flow projections, which take into account the capital and operating costs over the expected construction timeline and life of mine, as well as the cash generated from subsequent sales of the Kami Project's iron ore production based on the most recent technical report available at the date of the assessment. The key assumptions used in this calculation included the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price, the long-term Canadian and US dollar exchange rate, expected operating costs, as well as discount rates which were based on estimates of the risks associated with the projected cash flows based on information available as of the date of the impairment test.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows (note 1).

3 Critical accounting estimates and judgments (continued)

Fair value of warrants, stock options and compensation options

Determining the fair value of stock and compensation options requires the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments (notes 17 and 18). Determining the fair value of warrants requires the estimation of stock price volatility (note 16). Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results.

Fair value estimates of financial liabilities

The determination of the fair value of the liability component of the convertible debt required management to make estimates of the interest rate that the Company would have obtained for a similar secured loan without a conversion feature.

4 New standard and interpretation not yet adopted

The following standard that is considered to be relevant to the Company's operations that is issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements is disclosed below:

Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16") which replaces IAS 17, *Leases* ("IAS 17") and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Control is considered to exist if the customer has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets.

The Company will adopt IFRS 16 in its consolidated financial statements on January 1, 2019 retrospectively, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information. The Company has elected to measure its right of use assets at amounts equal to the associated lease liabilities; as such, the adjustment to retained earnings will be $nil. Upon adoption, the Company has elected to apply the available exemptions as permitted by IFRS 16 to recognize a lease expense on a straight line basis for short term leases (lease term of 12 months or less) and low value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short term leases. Upon the adoption of IFRS 16, the Company expects to recognize additional right of use assets and lease liabilities related to commercial real estate. Based on the Company's assessment of the expected impact of IFRS 16, the Company expects that the adoption of the new standard will result in the recognition of additional right of use assets and lease liabilities of approximately $142,000. The Company does not expect the adoption of IFRS 16 to have a material impact to the consolidated statements of comprehensive loss or cash flows. However, due to the recognition of additional lease assets and liabilities, a higher amount of expense on lease liabilities will be recorded under IFRS 16 compared to the current standard. Lastly, the Company expects a positive impact on operating cash flows with a corresponding increase in financing cash outflows under IFRS 16.

(amounts in Canadian dollars, except where noted)

5 Receivables

	As of December 31, 2018	As of December 31, 2017
	$	$
Sales and other tax credits receivable	13,113	28,786
Interest receivable	10,888	8,617
Other receivables	1,150	-
	25,151	37,403

6 Mineral properties

On January 15, 2013, the Company filed on SEDAR a Technical Report entitled *Feasibility Study of the Rose Deposit and Resource Estimate for the Mills Lake Deposit of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.*, (the "Feasibility Study"), dated effective December 17, 2012. As the technical feasibility and commercial viability of the extraction of the Kami Property's mineral reserves had been demonstrated, the Company started to capitalize directly attributable pre-production expenditures as of February 1, 2013. Pre-production expenditures incurred prior to February 1, 2013 were recorded in the consolidated statements of comprehensive loss as exploration and evaluation expenses or environmental, aboriginal, government and community expenses. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Project. Accordingly, most of the costs incurred with respect to the Kami Project subsequent to November 15, 2014 have been recorded as project maintenance expenses in the Company's operating expenses.

On November 20, 2017, the Company filed on SEDAR a Technical Report entitled *Update to the Re-scoped Preliminary Economic Assessment of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.* (the "Updated PEA"), dated effective November 7, 2017. The Company re-scoped the capital and operating costs of the Kami Project in order to identify savings that had arisen in the market and changes in ownership and management of assets in the Labrador Trough. As certain infrastructure access was not secured as expected, the cash flows used to test the recoverability of the Kami Project assets were revised and impairment occurred during the year ended December 31, 2017 (note 9).

On October 31, 2018, the Company filed on SEDAR a Technical Report entitled *Updated Feasibility Study of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.* (the "Updated FS"), dated effective September 26, 2018. The Updated FS is the current Technical Report for the Kami Project. The revised project economics included in the Updated FS form the basis for the cash flows used to test the recoverability of the Kami Project assets, including mineral properties, property, plant and equipment and the long-term advance as at December 31, 2018.

(amounts in Canadian dollars, except where noted)

6 Mineral properties (continued)

Components of the Company's mineral properties, as well as activity associated therewith, are summarized below.

	Acquisition costs	Development costs	Share-based compensation capitalized	Interest capitalized	Depreciation capitalized	Accumulated impairment	Total
	$	$	$	$	$	$	$
Balance – January 1, 2017	88,668,710	86,212,203	495,423	1,694,823	48,986	-	177,120,145
Additions during the year	-	175,095	-	-	-	-	175,095
Impairment loss (note 9)	-	-	-	-	-	(78,416,384)	(78,416,384)
Balance – December 31, 2017	88,668,710	86,387,298	495,423	1,694,823	48,986	(78,416,384)	98,878,856
Additions during the year	-	175,096	-	-	-	-	175,096
Balance – December 31, 2018	88,668,710	86,562,394	495,423	1,694,823	48,986	(78,416,384)	99,053,952

During the year ended December 31, 2018, cash expenditures totaled $175,096 (2017 - $175,095).

During the year ended December 31, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of $111,666,355 of which $78,416,384 was allocated to mineral properties (note 9).

7 Property, plant and equipment

Components of the Company's property, plant and equipment, as well as activity associated therewith, are summarized below.

	Computer and office equipment	Construction in progress	Total
	$	$	$
Historical cost – January 1, 2017	-	28,906,099	28,906,099
Additions	-	-	-
Historical cost – December 31, 2017	-	28,906,099	28,906,099
Additions	3,019	41,110	44,129
Historical cost – December 31, 2018	3,019	28,947,209	28,950,228
Accumulated depreciation and impairment – January 1, 2017	-	-	-
Impairment loss (note 9)	-	(12,784,955)	(12,784,955)
Accumulated depreciation and impairment – December 31, 2017	-	(12,784,955)	(12,784,955)
Depreciation	(839)	-	(839)
Accumulated depreciation and impairment – December 31, 2018	(839)	(12,784,955)	(12,785,794)
Carrying value – December 31, 2017	-	16,121,144	16,121,144
Carrying value – December 31, 2018	2,180	16,162,254	16,164,434

7 Property, plant and equipment (continued)

During the year ended December 31, 2018, the Company advanced $357,337 (2017 - $221,239) to suppliers in relation to the purchase of equipment included in construction in progress for which $316,227 (2017 - $221,239) was previously accrued and included in payables and accrued liabilities (note 10). As of December 31, 2018, other non-cash items totaled $39,000 (2017 - $39,000).

During the year ended December 31, 2018, cash expenditures related to the purchase of computer and office equipment totaled $3,019 (2017 - $nil).

During the year ended December 31, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of $111,666,355 of which $12,784,955 was allocated to property, plant and equipment (note 9).

8 Long-term advance

The Company entered into an agreement with the Sept-Îles Port Authority (the "Port") to secure usage of a new multi-user deep water dock facility that the Port was constructing (the "Port Agreement"). The initial commitment paid by the Company was $20,465,016 (the "Buy-in Payment"), which constituted an advance on the Company's future shipping fees. The Buy-in Payment was to be reimbursed to the Company via a discount to shipping fees once the Company's usage of the multi-user facility commences. Now that the new multi-user dock facility is operational, the Company has a take or pay obligation based on a discounted rate applied on 50% of the 8,000,000 tonnes minimum annual shipping capacity and is payable even if the Company does not use the facilities.

On December 18, 2017, the Company executed an amended agreement with the Port as a result of the multi-user facility becoming operational (the "Amended Port Agreement"). Pursuant to the Amended Port Agreement, effective February 1, 2018 and until the Company starts shipping iron ore, the take or pay obligation is reduced by 75% and payable in cash on a quarterly basis. All amounts paid in cash are added to the Buy-in Payment balance total. Alternatively, the Company may apply the undiscounted take or pay obligation against the Buy-in Payment balance on a quarterly basis. The take or pay obligation amount is based on shipping fee rates which are adjusted on January 1 of each year based on the Canada All-Items Consumer Price Index (the "CPI").

During the year ended December 31, 2017, the Company recorded an impairment loss with respect to the Kami Project in the amount of $111,666,355 of which $20,465,016 was allocated to the long-term advance as a result of executing the Amended Port Agreement and the Company's intention to apply the take or pay obligation against the Buy-in Payment (note 9).

The Company satisfied its take or pay obligations for the year ended December 31, 2018 by applying the amounts to the Buy-in Payment balance.

9 Impairment of Kami Project

The values assigned to key assumptions within the impairment test represented management's assessments of future trends in the iron ore industry and in the global economic environment. The assumptions summarized below were management's best estimates and based on both current and historical information from external and internal sources at the time of the assessments.

(amounts in Canadian dollars, except where noted)

9 Impairment of Kami Project (continued)

Year ended December 31, 2017

As a result of a third party acquiring infrastructure to which the Company had previously assumed access for the purpose of disposing of the tailings produced from the Kami Project, the Company revised the future cash flows used to test the recoverability of its long-lived assets related to the Kami Project during the year ended December 31, 2017. These revisions, for the purpose of the impairment test, included the addition of the incremental costs to construct an alternative tailings management facility and reassessment of iron ore pricing and the discount rate applied to estimated future cash flows. Iron ore pricing was based on a historical average of The Steel Index, adjusted for a quality premium specific to the grade of iron ore at the Kami Property.

For the purpose of the impairment test, the Company determined the cash-generating unit related to the Kami Project to include mineral properties, property, plant and equipment and the long-term advance (the “Kami Project CGU”). During the year ended December 31, 2017, the Company determined the recoverable amount of the Kami Project CGU based on a value in use calculation which comprised estimated future cash flows discounted at a pre-tax discount rate of 15.5%. As the recoverable amount of the Kami Project CGU ($115,000,000) was less than the carrying amount of the assets ($226,666,355), an impairment loss in the amount of $111,666,355 was recorded in the consolidated statements of comprehensive loss and allocated to the carrying values of mineral properties, property, plant and equipment and the long-term advance during the year ended December 31, 2017.

The impairment loss was first allocated to the long-term advance as a result of the Company executing the Amended Port Agreement (note 8) and the remaining amount was allocated on a pro-rata basis to mineral properties and property, plant and equipment. A reconciliation of the impairment loss allocation to each asset is presented below.

	Impairment loss allocation $
Kami Project CGU	
Mineral properties (note 6)	78,416,384
Long-term advance (note 8)	20,465,016
Property, plant and equipment (note 7)	12,784,955
	111,666,355

Year ended December 31, 2018

As of December 31, 2018, management determined that there remained indicators of impairment with respect to the Kami Project CGU and that the carrying values may not be recoverable. The future cash flows used to test the recoverability of the Kami Project CGU were updated to reflect the Updated FS. No further impairment loss was recorded as of December 31, 2018 on the basis that the recoverable amount exceeded the carrying values of the Kami Project CGU.

(amounts in Canadian dollars, except where noted)

10 Payables and accrued liabilities

	As of December 31, 2018	As of December 31, 2017
	$	$
Accrued payable on purchases of equipment (note 7)	5,348,579	5,242,147
Accrued development and project maintenance costs	3,450,067	3,467,096
Other accrued liabilities	373,148	363,815
Trade accounts payable	126,238	132,203
Accrued legal and professional expenses	113,904	294,897
Accrued salaries and benefits	3,446	2,773
	9,415,382	9,502,931

11 Convertible debt

On February 24, 2014, Liberty provided a loan to The Kami LP (the “Note”) in the amount of $22,000,000. Commencing 12 months after the issuance of the Note, the principal amount of the Note and any accrued but unpaid interest, became convertible at Liberty’s option into the Company’s common shares at a conversion price equal to $2.376 per common share. The Note was secured with a mortgage over the Kami Project and accrued interest at a rate of 8% per annum, payable on June 30th and December 31st of each year. A 1.5% establishment fee was paid to Liberty in connection with the Note. The Company had the option to prepay the entire balance of the Note, at a premium of a 20% internal rate of return to Liberty. The maturity date of the Note was December 31, 2018.

On December 8, 2014, the Company and Liberty amended the Note (the “Amended Note”). Liberty agreed to defer the interest payments due on December 31, 2014 and June 30, 2015 which totalled $1,795,198. The deferred interest was added to the principal amount of the Note and was subject to interest in accordance with the terms of the Amended Note. In consideration of such deferral, the Company issued a total of 5,241,436 warrants to Liberty which expired on December 31, 2018 (note 16).

The Company accounted for the fair value of the warrants issued in the amount of $799,948 as additional transaction costs of the Note which modified the carrying amount of the Note. The effective interest rate of the Amended Note was revised to 13.3%.

On May 22, 2018, the Company and Liberty executed a forbearance agreement which provided for the extinguishment of the Amended Note (the “Forbearance Agreement”). Pursuant to the Forbearance Agreement:

a) On May 23, 2018, the Company made a partial repayment to Liberty in the amount of $7,000,000 which was applied to Liberty’s legal fees ($30,000), interest which accrued for the period from January 1, 2018 to May 22, 2018 ($737,696), and the principal balance ($6,232,304). The Company was not required to pay any prepayment penalty.

b) On June 29, 2018, the Company paid interest which accrued for the period from May 23, 2018 to June 30, 2018 ($149,334).

c) On July 12, 2018, the Company made a final principal payment to Liberty in the amount of $14,850,666; and as a result the Amended Note was extinguished and the mortgage over the Kami Project was discharged. The Company was not required to pay any prepayment penalty.

(amounts in Canadian dollars, except where noted)

11 Convertible debt (continued)

As a result of the Forbearance Agreement, the Company recorded a gain on modification in the amount of $1,929,743 in the consolidated statements of comprehensive loss for the year ended December 31, 2018. The effective interest rate of the Amended Note was further revised to 12.5%.

Changes in the balance of the convertible debt for the years ended December 31, 2018 and 2017 are summarized below.

	$
Balance – January 1, 2017	21,411,871
Accretion	1,077,422
Balance – December 31, 2017	22,489,293
Principal payments	(21,082,970)
Gain on modification	(1,929,743)
Transaction costs	(30,000)
Accretion	553,420
Balance – December 31, 2018	-

During the year ended December 31, 2018, the Company paid interest in the amount of $887,030 (2017 - $1,896,191) and recorded accretion expense in the amount of $553,420 (2017 - $1,077,422). Interest and accretion expenses related to the Amended Note have been recorded as finance costs in the consolidated statements of comprehensive loss.

12 Loan facility

On June 20, 2018, The Kami LP, together with Alderon as guarantor, and Sprott executed a credit agreement with respect to a non-revolving loan facility in the amount of US$14,000,000 for the purpose of extinguishing the Amended Note and reimbursing The Kami LP for amounts paid to Liberty prior to closing the Loan Facility (note 11). The Loan Facility is secured with a mortgage over the Kami Project and accrues interest at a rate of 10% per annum, payable monthly. The Loan Facility requires the Company and The Kami LP to maintain certain consolidated working capital requirements. The maturity date of the Loan Facility is December 31, 2019 which may be extended to June 30, 2020 if certain conditions are met, including the issuance of common shares of the Company for additional consideration of US$350,000. The Loan Facility is non-revolving, and any repayment under the Loan Facility cannot be reborrowed. The Kami LP may repay the outstanding balance of the Loan Facility, in whole or in part, at any time before maturity, provided that the equivalent of not less than US$1,400,000 of interest is paid on the Loan Facility.

Altius Minerals Corporation (“Altius”), through a wholly-owned subsidiary, participated in the Loan Facility by providing US$2,000,000 of the principal amount of the Loan Facility. Altius is a significant shareholder of the Company (note 13).

(amounts in Canadian dollars, except where noted)

12 Loan facility (continued)

The Company recorded total transaction costs of $2,047,643 in connection with closing the Loan Facility, including professional fees incurred of $299,348 and equity instruments issued by the Company with fair values of $1,748,295. The Company issued 4,811,030 common shares with a fair value of $1,539,530 (note 15) and 900,000 compensation options with a fair value of $208,765 (note 18) to the lenders of the Loan Facility. The compensation options are exercisable for common shares of the Company, have an exercise price of $0.34, and expire on July 12, 2020. The issuance of equity instruments by the Company increased the non-controlling interest by $437,073 on the basis that the equity instruments were issued for the benefit of The Kami LP as the borrower of the Loan Facility.

Transaction costs were offset against the Loan Facility and the effective interest rate that was used to accrete the Loan Facility up to the principal amount at maturity was 18.8%.

Changes in the balance of the Loan Facility for the year ended December 31, 2018 are summarized below.

	$
Balance – January 1, 2018	-
Proceeds received	18,375,000
Transaction costs	(2,047,643)
Accretion	602,168
Cumulative foreign exchange translation	664,887
Balance – December 31, 2018	17,594,412

During the year ended December 31, 2018, the Company paid interest in the amount of $890,845, recorded accretion expense in the amount of $602,168 and recorded a cumulative foreign exchange loss on revaluation of the Loan Facility in the amount of $664,887. Interest and accretion expenses related to the Loan Facility have been recorded as finance costs in the consolidated statements of comprehensive loss.

Any failure to meet any of the payment obligations under the Loan Facility, or otherwise adhere to the covenants therein or fulfill the other obligations thereunder, may trigger an event of default and a demand for full immediate repayment of all amounts outstanding under the Loan Facility. The Company does not currently have sufficient funds to repay all amounts outstanding with respect to the Loan Facility and it continues to work to identify additional sources of financing to satisfy such obligations (note 1).

13 Related party disclosures

Related parties and related party transactions impacting the consolidated financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company’s Board of Directors, corporate officers, including the Company’s Chief Executive Officer and Chief Financial Officer, as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

(amounts in Canadian dollars, except where noted)

13 Related party disclosures (continued)

Remuneration attributed to key management personnel can be summarized as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Short-term benefits*	1,152,150	1,372,256
Share-based and deferred share unit compensation (notes 14 and 17)	722,689	113,514
	1,874,839	1,485,770

* include base salaries, pursuant to contractual employment or consultancy arrangements, directors' fees and other non-post-retirement benefits.

Other related parties

Altius: Altius is a significant shareholder of the Company and participated in the Loan Facility by providing one-seventh of the principal amount (note 12). In accordance with the Loan Facility, the Company pays one-seventh of interest accrued on the Loan Facility to Altius. Altius received 687,290 common shares of the Company on closing of the Loan Facility (note 15).

GN Consulting Services Inc. ("GN Consulting"): GN Consulting is an entity that is owned by the Executive Vice President of Government & Community Affairs of the Company and provides consulting services to the Company.

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of HBIS Group Co., Ltd. ("HBIS Group"), a significant shareholder of the Company and a 25% owner of The Kami LP. HBIS has nominated two individuals who act as officers of Kami GP and provide services to the Company.

King & Bay West Management Corp. ("King & Bay"): King & Bay is an entity that is owned by the Non-Executive Chairman of the Company's Board of Directors. King & Bay provides certain administrative, management, legal and regulatory, accounting, corporate development, information technology support and corporate communications services to the Company.

Liberty: Liberty was a significant shareholder of the Company. During the years ended December 31, 2014 and 2013, Liberty provided the Company with financing. The Company paid interest related to the Amended Note (note 11). As of December 31, 2018, Liberty is no longer a shareholder of the Company. Liberty previously held 5,241,436 warrants, which expired on December 31, 2018 (note 16).

(amounts in Canadian dollars, except where noted)

13 Related party disclosures (continued)

Transactions entered into with related parties, other than key management personnel and not otherwise disclosed, include the following:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
King & Bay	532,162	441,438
HBIS	320,016	320,016
	852,178	761,454

Amounts owed to related parties, not otherwise disclosed, are summarized below.

	As of December 31, 2018	As of December 31, 2017
	$	$
HBIS	256,680	256,680
Accrued short-term benefits	95,454	-
King & Bay	50,527	53,519
GN Consulting	-	1,660
	402,661	311,859

The amounts payable to related parties are non-interest bearing, unsecured, and have no fixed terms for payment.

14 Deferred share units ("DSUs")

The Company has in place a deferred share unit plan (the "DSU Plan") whereby directors are issued DSUs, which vest immediately and are equivalent in value to a common share upon issuance of the Company. Under the DSU Plan, directors have the option to convert 25, 50, 75 or 100 percent of their annual director fees into DSUs. The director fees are converted into DSUs on a quarterly basis by dividing the appropriate percentage of director fees by the five-day volume weighted average price per share at which the common shares traded on the TSX immediately prior to the grant date. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

The DSU Plan was initially established as a cash-settled award plan. On September 14, 2017, the Company amended the DSU Plan whereby DSUs are to be settled by the payment of cash, the issuance of common shares from treasury, or a combination of both, as determined by the Board of Directors. On the basis that it is the Company's option and intent to settle any DSU redemptions received subsequent to September 14, 2017 by the issuance of common shares from treasury, the DSU Plan is considered an equity-settled award plan effective September 14, 2017.

(amounts in Canadian dollars, except where noted)

14 Deferred share units ("DSUs") (continued)

As of September 14, 2017, the Company had 3,894,571 DSUs outstanding of which the Company had received redemption notices for 1,008,912 DSUs prior to the effective date of amendment. As a result of the amendment, 2,885,659 DSUs were considered equity-settled awards and $793,556 was reclassified from deferred share unit liability to other capital within equity.

During the year ended December 31, 2017, two former directors of the Company redeemed 1,008,912 DSUs of which 504,456 DSUs were settled in common shares issued from treasury (note 15) and 504,456 DSUs were settled in cash in the amount of $139,785. Cash payments totaled $144,913 and included the redemption amount of $139,785 and related source deductions of $5,128.

A summary of the activity related to the Company's DSUs is provided below.

	Number
Balance – January 1, 2017	3,795,986
Granted	262,879
Redeemed	(1,008,912)
Balance – December 31, 2017	3,049,953
Granted	340,206
Balance – December 31, 2018	3,390,159

During the year ended December 31, 2018, the Company recorded compensation costs related to equity-settled DSUs in the amount of $94,472 (2017 - $40,374), which were classified as share-based compensation costs within general and administrative expenses in the consolidated statements of comprehensive loss (note 19).

During the year ended December 31, 2018, the Company recorded a recovery of compensation costs related to cash-settled DSUs in the amount of $nil (2017 - $117,482), which were classified as a recovery of deferred share unit compensation costs within general and administrative expenses in the consolidated statements of comprehensive loss (note 19).

15 Share capital

The Company has authorized for issue an unlimited number of common shares (being voting and participating shares) without par value, and all shares issued and outstanding as of December 31, 2018 and 2017 are fully paid. Pursuant to the Company's articles of incorporation (the "Articles"), the Company may by following the procedures set out in the Articles and the *Business Corporations Act* (British Columbia) (the "Act"): create one or more classes or series of shares, with rights and restrictions specific to each class; subdivide or consolidate all or any of its unissued or fully paid issued shares; alter the identifying name of any of its shares; or otherwise alter its shares or authorized share structure when required or permitted to do so by the Act.

(amounts in Canadian dollars, except where noted)

15 Share capital (continued)

The Company issued the following common shares during the year ended December 31, 2018:

On February 15, 2018, the Company issued 833,333 common shares to an executive as a part of his compensation package. The common shares had a fair value of $241,666 of which $200,000 was included in payables and accrued liabilities as of December 31, 2017 (note 22). The Company incurred related share issue costs in the amount $6,378.

On July 10, 2018, the Company issued 4,811,030 common shares with a fair value of $1,539,530 to settle the establishment fee in connection with the closing of the Loan Facility and incurred related share issue costs in the amount $9,733 (notes 12 and 22). Sprott and Altius received 4,123,740 common shares and 687,290 common shares, respectively.

The Company issued the following common shares during the year ended December 31, 2017:

On September 26, 2017, the Company issued 504,456 common shares valued at $139,785 upon the redemption of 504,456 DSUs by former directors of the Company (note 14).

16 Warrants

The following table summarizes warrant activity for the years ended December 31, 2018 and 2017.

	Number	Weighted average exercise price $
Balance – December 31, 2016 and 2017	5,241,436	0.35
Expired	(5,241,436)	0.35
Balance – December 31, 2018	-	-

17 Stock options

The Company operates an equity-settled share-based compensation plan under which the Company receives services from employees as consideration for equity instruments of the Company. The related stock option plan (the “Plan”) follows applicable stock exchange policies regarding stock option awards granted to employees, directors and consultants.

The Plan allows for a fixed maximum number of shares equal to 16,500,000 to be reserved for issuance under the Plan. Options granted under the Plan have a maximum term of ten years. The vesting terms are at the discretion of the Company’s Board of Directors.

(amounts in Canadian dollars, except where noted)

17 Stock options (continued)

The following table summarizes the activity under the Company's stock option plan.

	Number	Weighted average exercise price $
Balance – January 1, 2017	4,630,000	0.77
Granted	780,000	0.40
Expired	(950,000)	2.01
Forfeited	(300,000)	0.15
Balance – December 31, 2017	4,160,000	0.47
Granted	3,275,000	0.31
Expired	(200,000)	1.79
Balance – December 31, 2018	7,235,000	0.36

Options outstanding as of December 31, 2018 are summarized below.

Exercise price ($)	Expiry date	Remaining expected life (years)	Number of stock options outstanding	Number of stock options exercisable
1.48	May 29, 2019	0.41	600,000	600,000
0.15	September 7, 2021	2.69	2,580,000	2,580,000
0.53	January 23, 2022	3.06	180,000	180,000
0.43	March 30, 2022	3.24	100,000	100,000
0.34	April 27, 2022	3.32	350,000	350,000
0.35	June 7, 2022	3.43	150,000	150,000
0.31	January 23, 2023	4.06	2,675,000	2,675,000
0.26	April 2, 2023	4.25	300,000	75,000
0.33	June 21, 2023	4.47	300,000	75,000
			7,235,000	6,785,000

During the year ended December 31, 2018, the Company recorded share-based compensation with respect to stock options in the amount of $800,245 (2017 - $247,030) which was recorded within general and administrative expenses in the consolidated statements of comprehensive loss (note 19).

The Company settles stock options exercised through the issuance of common shares from treasury.

(amounts in Canadian dollars, except where noted)

17 Stock options (continued)

Fair value input assumptions

The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes Option Pricing Model in order to determine share-based compensation costs over the life of the awards for stock options granted during each of the periods presented.

	Year ended December 31, 2018	Year ended December 31, 2017
Expected dividend yield	0.00%	0.00%
Estimated volatility	100.4%	94.2%
Weighted average risk-free annual interest rate	2.01%	1.03%
Weighted average expected life (years)	5.0	5.0
Grant date fair value	$0.23	$0.29

18 Compensation options

The following table summarizes the Company's compensation options activity.

	Number	Weighted average exercise price $
Balance – January 1, 2018	-	-
Granted	900,000	0.34
Balance – December 31, 2018	900,000	0.34

Compensation options outstanding as of December 31, 2018 are summarized below.

Exercise price ($)	Expiry date	Remaining expected life (years)	Number of compensation options outstanding	Number of compensation options exercisable
0.34	July 12, 2020	1.53	900,000	900,000

During the year ended December 31, 2018, the fair value of compensation options granted in the amount of $208,765 was included in transaction costs and offset against the Loan Facility proceeds (notes 12 and 22).

The Company settles compensation options exercised through the issuance of common shares from treasury.

(amounts in Canadian dollars, except where noted)

18 Compensation options (continued)

Fair value input assumptions

The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes Option Pricing Model in order to determine the fair value of the compensation options granted during each of the periods presented.

	Year ended December 31, 2018	Year ended December 31, 2017
Expected dividend yield	0.00%	-
Estimated volatility	155.31%	-
Weighted average risk-free annual interest rate	1.93%	-
Weighted average expected life (years)	2.00	-
Grant date fair value	$0.23	-

19 Operating expenses

General and administrative expenses for the years ended December 31, 2018 and 2017 are summarized below:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Consulting, professional and legal fees	1,118,087	1,952,488
Share-based compensation (notes 14 and 17)	894,717	287,404
Salaries and benefits	435,845	-
Investor relations	260,212	197,402
Rent and facilities	187,077	158,352
Office and administration	149,480	307,661
Director fees	122,006	104,442
Travel	101,094	34,540
Regulatory	52,029	62,438
Depreciation (note 7)	839	-
Recovery of deferred share unit compensation (note 14)	-	(117,482)
	3,321,386	2,987,245

(amounts in Canadian dollars, except where noted)

19 Operating expenses (continued)

Project maintenance expenses for the years ended December 31, 2018 and 2017 are summarized below.

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Professional services and consulting	685,347	680,734
Rent and facilities	410,394	407,054
Other costs	10,574	7,901
	1,106,315	1,095,689

20 Non-controlling interest

The Kami LP has a material non-controlling interest. The following table summarizes financial information of The Kami LP, prepared in accordance with IFRS, and excludes inter-company eliminations with other subsidiaries of the Company.

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Loss from operations	(6,903,845)	(119,351,896)
Net finance costs	(880,118)	(2,716,948)
Net loss and comprehensive loss	(7,783,963)	(122,068,844)
Net loss and comprehensive loss attributable to non-controlling interest	(1,945,991)	(30,517,211)
Current assets	6,312,587	14,915,034
Non-current assets	115,216,206	115,000,000
Current liabilities	(76,108,024)	(78,458,597)
Net assets	45,420,769	51,456,437
Net assets attributable to non-controlling interest	11,355,191	12,864,109
Cash flows used in operating activities	(3,255,649)	(12,814,532)
Cash flows provided by (used in) investing activities	(543,131)	20,866,480
Cash flows used in financing activities	(4,815,193)	(1,896,191)
Net increase (decrease) in cash	(8,613,973)	6,155,757

(amounts in Canadian dollars, except where noted)

21 Income taxes

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying consolidated statements of comprehensive loss is provided below.

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Loss before income taxes	(6,571,202)	(127,623,281)
Income tax recovery at combined federal and provincial income tax rate of 28% (2017 - 28%)	1,831,005	35,736,695
Change in unrecognized deferred income tax assets	4,044,000	(28,856,500)
Share-based compensation costs	(261,251)	(80,581)
Income tax attributable to non-controlling interest	1,189,685	(9,141,639)
Impact of future income tax rates applied versus current statutory rate for current income tax	90,296	2,548,475
Non-deductible expenditures and other	(6,893,735)	(206,450)
	-	-

The significant components of deferred tax assets and liabilities are summarized below.

	As of December 31, 2018	As of December 31, 2017
	$	$
Mineral properties	33,950,000	38,131,000
Non-capital losses	24,710,000	24,013,000
Property, plant and equipment	2,988,000	3,634,000
Other	423,000	337,000
	62,071,000	66,115,000
Unrecognized deferred tax assets	(62,071,000)	(66,115,000)
	-	-

Deferred tax assets have not been recognized in respect of all of these items because it is not considered more likely than not that future taxable profit will be available against which the Company can utilize benefits therefrom.

(amounts in Canadian dollars, except where noted)

21 Income taxes (continued)

The significant components of the Company's unrecognized temporary differences and tax losses are summarized below.

	As of December 31, 2018	Expiry	As of December 31, 2017
	$		$
Mineral properties	120,954,000	No expiry	120,822,000
Non-capital losses available for future periods	82,366,000	2027 - 2038	80,043,000
Property, plant and equipment	22,086,000	No expiry	22,052,000
Investment tax credit	6,680,000	2030 - 2033	6,680,000
Allowable capital losses	472,000	No expiry	472,000
Share issue costs	210,000	2019 - 2022	50,000

Non-capital loss carryforwards are subject to review, and potential adjustment, by tax authorities.

22 Supplemental disclosure with respect to cash flow information

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Changes in operating assets and liabilities		
Receivables	14,523	158,985
Prepaid expenses	4,808	44,624
Payables and accrued liabilities	428,678	(395,239)
Deferred share unit liability	-	(144,913)
Due to related parties	90,802	(38,887)
	538,811	(375,430)

Non-cash transactions affecting cash flows from financing activities during the year ended December 31, 2018 are summarized below:

On February 15, 2018, the Company issued 833,333 common shares to an executive as a part of his compensation package (note 15). The common shares had a fair value of $241,666 of which $200,000 was included in payables and accrued liabilities as of December 31, 2017. The additional expense in the amount of $41,666 is included in general and administrative expenses in the consolidated statements of comprehensive loss.

In connection with closing the Loan Facility, the Company issued 4,811,030 common shares with a fair value of $1,539,530 and 900,000 compensation options with a fair value of $208,765 to the lenders of the Loan Facility (notes 12, 15 and 18). The issuance of equity instruments by Alderon was recorded as transactions costs of the Loan Facility, decreasing the carrying value of the debt by $1,748,295.

There were no non-cash transactions affecting cash flows from financing activities during the year ended December 31, 2017.

23 Capital disclosures

The Company's capital structure currently consists of equity and debt financing to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; working capital; and capital expenditures.

Management regularly monitors the Company's capital structure and makes adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. The Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the development stage, and the Company does not generate any revenue. Accordingly, the Company is dependent upon sources of external financing to fund both the Kami Project and its other costs. While the Company endeavours to minimize dilution to its shareholders, management has in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

The Company's policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Company's Kami Project. Alderon provided commitments to HBIS Group with respect to the use of $119,926,293 (the "Initial Investment") in proceeds that HBIS Group provided in exchange for a 25% interest in The Kami LP during the year ended December 31, 2013. Under the terms of the agreements with HBIS Group, Alderon agreed that the proceeds from the Initial Investment were to be used solely for Kami Project related expenditures.

As at December 31, 2018, $5,283,190 of cash and $1,001,249 in short-term investments are held by The Kami LP, relate to the remaining funds received from the Loan Facility (note 12), and are not attributable to the Initial Investment. The Loan Facility requires certain consolidated working capital and other conditions to be maintained by the Company and The Kami LP. The Company will need to obtain additional financing in the future (note 1).

24 Financial instruments, financial risk management and fair value

Financial risk management

The Company is exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed in note 23, the Company's capital management objectives include working to ensure that the Company has sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavours to ensure that it will have sufficient liquidity in order to meet short to medium-term business requirements and all financial obligations as those obligations become due (note 1). Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including strategic, traditional and flow-through private placements to investors and institutions. The Company does not currently have sufficient resources to fund the construction of the Kami Project. Alderon is actively engaged in discussions to raise the necessary capital to meet its funding requirements for the Kami Project and repay the Loan Facility, including debt and equity financing. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences. There is no assurance that financing of sufficient amounts or on terms acceptable to the Company will be available.

24 Financial instruments, financial risk management and fair value (continued)

The following are the contractual maturities of the financial liabilities as of December 31, 2018:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 years	3-4 years	More than 5 years
	$	$	$	$	$	$
Payables and accrued liabilities	9,415,382	9,415,382	9,415,382	-	-	-
Due to related parties	402,661	402,661	402,661	-	-	-
Loan facility [1]	17,594,412	21,035,206	21,035,206	-	-	-
	27,412,455	30,853,249	30,853,249	-	-	-

(1) The loan facility is denominated in US dollars. Amounts have been translated based on an exchange rate of CAD$1.00 = US$0.7330.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's receivables include sales tax credits due from Canadian federal and provincial tax agencies and interest receivable from high-credit quality Canadian financial institutions. Additionally, the Company's cash and cash equivalents and short-term investments are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to accounts receivable, cash and cash equivalents and short-term investments to be minimal.

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.

Fluctuations of market interest rates have little impact on the Company's financial results since the Company does not have variable rate debt as of December 31, 2018. Changes in market interest rates do not have an impact on interest expense related to the Loan Facility because the rate of the Loan Facility is fixed.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk relating to financial instruments that are denominated in US dollars, including cash and cash equivalents, payables and accrued liabilities and the Loan Facility.

A 10% increase in the value of the US dollar versus the Canadian dollar would affect the consolidated net loss and comprehensive loss of the Company by approximately $2.1 million. The Company has not hedged its exposure to fluctuations in the US dollar.

(amounts in Canadian dollars, except where noted)

24 Financial instruments, financial risk management and fair value (continued)

Fair value

The Company defines the fair value hierarchy for financial instruments carried at fair value as follows:

a) Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
b) Level 2 fair value measurements includes inputs other than quoted prices included in level 1 that are observable for the assets or liability, either directly or indirectly.
c) Level 3 valuations use unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair valued measurement of the instrument.

The fair value of financial assets and financial liabilities were measured using Level 2 inputs in the fair value hierarchy, with the exception of the convertible debt and the Loan Facility, which were measured using Level 3 inputs.

The carrying values of the Company's cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities and amounts due to related parties approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market. As of December 31, 2018, the determination of the fair value of the Loan Facility is based on a discounted cash flow model using an interest rate of 10%, which reflects the Company's current rate of borrowing. As of December 31, 2017, the determination of fair value of the convertible debt was based on a discounted cash flow model using the market interest rate that the Company could have obtained for a similar secured loan without a conversion option.

The fair values of the Company's financial assets and liabilities, together with the carrying values included in the consolidated statements of financial position, as of December 31, 2018 and 2017 are presented below. In the following tables, receivables exclude sales and other tax credits.

As of December 31, 2018	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	6,033,848	6,033,848
Short-term investments	1,001,249	1,001,249
Receivables (note 5)	12,038	12,038
Financial liabilities		
Payables and accrued liabilities (note 10)	(9,415,382)	(9,415,382)
Due to related parties (note 13)	(402,661)	(402,661)
Loan facility (note 12)	(17,594,412)	(19,201,828)
	(20,365,320)	(21,972,736)

(amounts in Canadian dollars, except where noted)

24 Financial instruments, financial risk management and fair value (continued)

As of December 31, 2017	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	14,840,135	14,840,135
Short-term investments	990,551	990,551
Receivables (note 5)	8,617	8,617
Financial liabilities		
Payables and accrued liabilities (note 10)	(9,502,931)	(9,502,931)
Due to related parties (note 13)	(311,859)	(311,859)
Convertible debt (note 11)	(22,489,293)	(21,845,571)
	(16,464,780)	(15,821,058)

25 Segment information

The Company operates in a single operating segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's resource properties and items of property, plant and equipment are located in Canada.

26 Commitments and contingencies

The Company has the following commitments with respect to leases:

	For the years ending December 31,			
	2019	2020	2021	Total
	$	$	$	$
Rent	66,300	60,000	40,000	166,300

The Company has negotiated contracts with suppliers in relation to the purchase of equipment. As of December 31, 2018, payments of $30,780,000 remain to be paid on the equipment for contracts entered into and approximately $30,595,000 of this amount is contingent on confirmation by the Company of future fabrication of this equipment.

In connection with the 2010 purchase from Altius of the Kami Property, Alderon committed to paying Altius a 3% gross royalty on iron ore concentrate that is generated from the Kami Project.

In connection with the 2012 subscription transaction and the Initial Investment into the Kami Project, HBIS Group agreed to purchase, upon the commencement of commercial production, 60% of the actual annual production from the Kami Project up to a maximum of 4,000,000 tonnes of the first 8,000,000 tonnes of iron ore concentrate produced annually at the Kami Project. The price paid by HBIS Group will be based on the Platts Iron Ore Index ("Platts Price"), including additional quoted premium for iron content greater than 62%, less a discount equal to 5% of such quoted price. HBIS Group also will have the option to purchase additional tonnages at a price equal to the Platts Price, without any such discount.

26 Commitments and contingencies (continued)

On January 21, 2014, the Company entered into an agreement (the “Agreement”) with the Town of Labrador City (“Labrador City”) with respect to the development of the Kami Project (as amended on October 21, 2016). Under the terms of the Agreement, the Company will pay to Labrador City an annual grant based on the Kami Project mining operations that will be located in the Municipal Planning Area of Labrador City. The Company will not be required to pay municipal or other taxes except with respect to such assets and business of the Company, as may be located from time to time within the town boundaries of Labrador City.

On January 21, 2014, the Company and the Innu Nation entered into an Impact and Benefits Agreement ("IBA") with respect to carrying out the Kami Project. The IBA provides for participation in the Kami Project on the part of the Innu Nation in the form of training, jobs and contract opportunities, along with providing their community with financial and socio-economic benefits over the life of the mine. The IBA also contains provisions which recognize and support the culture, traditions and values of the Innu Nation.

On March 25, 2014, the Company signed a Grant-in-lieu of Municipal Taxes Agreement (the “Wabush Agreement”) with the Town of Wabush (“Wabush”) with respect to the development of the Kami Project. Under the terms of the Wabush Agreement, the Company will pay to Wabush an annual grant-in-lieu of municipal taxes on the Kami Project mining operations. Payments under the Wabush Agreement will commence after initial production occurs at the Kami Project. As long as the Company makes the payments required under the Wabush Agreement, Wabush will not seek to charge or assess the Company for any municipal taxes in relation to the Kami Project or the business carried on by the Company on the Kami Project.

On May 27, 2014, Alderon signed a benefits agreement with the Province of Newfoundland and Labrador (the “Provincial Agreement”). The Provincial Agreement covers the life of the Kami Project and sets out employment, procurement and training benefits. Under the terms of the Provincial Agreement, Alderon has committed to provide full and fair opportunity and first consideration for provincial residents and suppliers. The Company has also agreed to establish an education and training fund commencing after the Kami Project achieves commercial production.

On June 30, 2014, the Company announced the completion of the required engineering work in order to commence construction at the Kami Project. The commencement of construction remains subject to the completion of the Company’s financing plan and project sanction by the Board of Directors of Alderon. As such, Alderon has temporarily suspended any further work by the EPCM contractor. It is likely that the temporary suspension of the EPCM contractor will result in certain demobilization costs to be incurred and charged to the Company in accordance with the terms of the EPCM contract. The actual amount to be incurred is a function of the duration of delay, actual costs incurred and commitments entered into by the EPCM contractor, and adjustments to the estimate will be recorded in future periods as necessary.

On July 29, 2014, the Company entered into an off-take agreement (the “Glencore Agreement”) with a subsidiary of Glencore plc (“Glencore”), with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. Under the terms of the Glencore Agreement, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3,200,000 tonnes of the first 8,000,000 tonnes of iron ore concentrate produced annually at the Kami Project. The term of the Glencore Agreement will continue until the Company has delivered 48,000,000 tonnes of iron ore concentrate to Glencore, which is expected to be 15 years after the commencement of commercial production. The market price paid by Glencore will be based on the Platts Price, including additional quoted premium for iron content greater than 62%, less a discount equal to 2% of such quoted price.

27 Subsequent events

The following events occurred subsequent to the year ended December 31, 2018:

On February 12, 2019, the Company issued 113,332 common shares pursuant to the exercise of 250,000 stock options on a cashless basis.

On February 14, 2019, the Company issued 7,584 common shares pursuant to the exercise of 25,000 stock options on a cashless basis.

Introduction

This Management's Discussion and Analysis ("MD&A") provides a review of the financial performance, financial condition and cash flows of Alderon Iron Ore Corp. for the year ended December 31, 2018. In this MD&A, "Alderon", the "Company", "we", "us" or "our" mean Alderon Iron Ore Corp. and its subsidiaries and affiliates. This MD&A should be read in conjunction with the Company's annual consolidated financial statements as of and for the years ended December 31, 2018 and 2017 (the "Financial Statements"). This MD&A is prepared as of March 29, 2019.

The Company has prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

All dollar amounts in this MD&A are presented in Canadian dollars (which is the Company's presentation and functional currency), except where otherwise indicated.

Responsibility of financial reports

Management is responsible for the preparation and integrity of financial reports, as well as for the maintenance of appropriate information systems, procedures and internal controls and for ensuring that information used internally or disclosed externally, including our Financial Statements and MD&A, is complete and reliable. The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. Our Board of Directors' Audit Committee meets with management quarterly to review the Financial Statements and the MD&A and to discuss other financial, operating and internal control matters.

Our Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Consequently, all comparative financial information presented in this MD&A reflects the consistent application of IFRS.

Forward-looking information

This MD&A contains "forward-looking information" within the meaning of the U.S. Private Securities Litigation Reform Act and applicable Canadian securities laws concerning anticipated developments and events that may occur in the future. Forward looking information contained in this MD&A includes, but is not limited to, statements with respect to: (i) permitting time lines; (ii) the sufficiency of working capital; (iii) requirements for additional capital; (iv) development, construction and production timelines and estimates; (v) the timing of long lead equipment items; (vi) the supply of power for the Kami Project; (vii) forecasts for future expenditures; (viii) the Company's financing strategy for the development of the Kami Project, including a senior debt facility; (ix) the results of the Updated FS (as defined below) including statements about mineral resources, mineral reserves, estimated future production, future operating and capital costs, the projected internal rate of return ("IRR"), net present value ("NPV"), payback period, construction timelines and production timelines for the Kami Project; and (x) the statements in the "Outlook" section of this MD&A, including, the successful completion of a senior debt facility and other financing for the construction of the Kami Project, and the expected timeline for the commencement of construction and its duration.

In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information contained in this MD&A is based on certain factors and assumptions regarding, among other things, the estimation of mineral resources, the realization of resource estimates, iron ore and other metal prices, the timing and amount of future exploration and development expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials to continue to explore and develop the Kami Property (as defined below) in the short and long-term, the progress of exploration and development activities, the receipt of necessary regulatory approvals, the estimation of insurance coverage, and assumptions with respect to currency fluctuations, environmental risks, title disputes or claims, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, these assumptions may prove to be incorrect.

Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information including, without limitation, the following risks and uncertainties referred to under the heading "Risk Factors" in the Company's Annual Information Form ("Annual Report") for the year ended December 31, 2018:

- risks relating to the fact that the Company depends on a single mineral project;
- risks inherent in the exploration and development of mineral deposits, including risks relating to changes in project parameters as plans continue to be redefined including the possibility that mining operations may not commence at the Kami Property;
- risks relating to variations in mineral resources, grade or recovery rates resulting from current exploration and development activities;
- risks related to fluctuations in the price of iron ore as the Company's future revenues, if any, are expected to be derived from the sale of iron ore;
- risks related to a reduction in worldwide and specifically Chinese demand for iron ore which could result in lower prices and demand for iron ore;
- financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the development and construction activities at the Kami Property may not be available on satisfactory terms, or at all;
- the Company has no history of mining operations and no revenues from operations and expects to incur losses for the foreseeable future;
- risks related to the Company relying on two customers for 100% of its expected iron ore concentrate production;
- risks related to the Company obtaining various permits required to conduct its current and anticipated future operations;
- risks related to unresolved land claims by various aboriginal groups;
- risks related to disputes concerning property titles and interest;
- risks relating to the ability to access rail transportation, sources of power and port facilities;

- the Company is dependent on the support and cooperation of HBIS Group Co., Ltd. ("HBIS Group"), its partner to develop the Kami Property;
- operational risks inherent in the conduct of mining activities, including the risk of accidents, labour disputes, increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the development process;
- risks related to the significant governmental regulation that the Company is subject to;
- environmental risks;
- climate change risks;
- risks associated with efforts to control or reduce greenhouse gas emissions;
- reliance on key personnel;
- risks related to increased competition in the market for iron ore and related products and in the mining industry generally;
- cybersecurity risks;
- risks related to potential conflicts of interests among the Company's directors and officers;
- the absence of dividends;
- risks related to current global financial conditions;
- land reclamation requirements may be burdensome;
- risks associated with the acquisition of any new properties;
- uncertainties inherent in the estimation of mineral resources;
- the Company may become subject to legal proceedings; and
- risks relating to the Company's common shares.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information is made as of the date of this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking information, and readers should also carefully consider the matters discussed under the heading, "Risk Factors", in this MD&A and in the Annual Report.

Description of business and overview

Alderon is a development-stage company conducting iron ore evaluation activities related entirely to its Canadian properties located in western Labrador in the province of Newfoundland and Labrador. Those properties are collectively referred to as the Kamistiatusset, or "Kami", Property. All activities associated with the Kami Property are referred to as the Kami Project. The Company transferred the Kami Property and its related assets into The Kami Mine Limited Partnership ("The Kami LP") during the year ended December 31, 2013 in connection with the strategic investment from HBIS Group. HBIS Group contributed $119.9 million (the "Initial Investment") into The Kami LP for 25% interest in the Kami Project. Alderon retains 75% interest in The Kami Project.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX"), under the symbol "IRON".

The Kami Project

Alderon is focused on developing its core asset, the Kami Property of which it owns 75%, located next to the mining towns of Wabush and Labrador City in western Labrador, Canada. The Kami Property is surrounded by two producing mines and is within close proximity to a common carrier railway that is connected to deep sea ports with year-round access to the global market. The Company's goal is to develop the Kami Property into a profitable mining operation and to become a producer of low-cost iron concentrate by taking advantage of the Kami Property's strategic location and of the readily available regional infrastructure.

Technical information disclosed in this MD&A is from the National Instrument ("NI") 43-101 Technical Report entitled *Updated Feasibility Study of the Kamistiatusset (Kami) Iron Ore Property, Labrador for Alderon Iron Ore Corp.*, dated effective September 26, 2018 (the "Technical Report" or the "Updated FS") and filed on SEDAR (www.sedar.com) on October 31, 2018. The Technical Report was prepared under the supervision of Mr. Angelo Grandillo, P.Eng, of BBA, Inc. ("BBA") with contributions from Mr. Jeffrey Cassoff, P.Eng, of BBA, Mr. James Powell of Gemtec Limited ("Gemtec"), Mr. Peter Merry of Golder Associates Ltd. ("Golder") and Mr. Michael Kociumbas, P. Geo. Mr. Grandillo, Mr. Cassoff and Mr. Kociumbas each meet the NI 43-101 definition of a Qualified Person and are independent of Alderon. Mr. Grandillo has reviewed and approved the technical information contained in this MD&A, with the exception of the mineral resource and mineral reserve estimates. Mr. Kociumbas is responsible for reviewing and approving the mineral resource estimate and the QA/QC associated with the mineral resource estimate. Mr. Cassoff was responsible for reviewing and approving the mineral reserve estimate. The Updated FS is based on 100% ownership of the Kami Project. The Kami Project is held through The Kami Mine Limited Partnership, as to 75% by Alderon and 25% by HBIS Group.

The Company engaged BBA to prepare the Updated FS on the Rose Deposit of the Kami Property as it underpins the Company's renewed focus on project financing and builds on the previous feasibility study dated December 17, 2012 (the "2012 Feasibility Study"), the updated preliminary economic assessment dated November 7, 2017 (the "Updated PEA"), and detailed engineering carried out between 2013 and 2015. The flowsheet and product characteristics remained unchanged and the focus was on a tailings management facility, market analysis, capital and operating expenditures and updated reserve estimates.

Highlights of the Updated FS include:

NPV at 8% discount rate (pre-tax)	US$	1,698 M
NPV at 8% discount rate (post-tax)	US$	866 M
IRR (pre-tax)		24.6%
IRR (post-tax)		18.2%
Total Estimated Capital Cost (excluding sustaining capital and closure costs)	US$	982.41 M
Average Estimated Operating Costs (loaded in ship Port of Sept-Îles)	US$/dmt	30.72
CFR Concentrate Sales Price Forecast(1)	US$/dmt	CFR 89.67 (FOB 73.17)
Estimated Mine Life		23 years
Final Product Iron Grade (%Fe)		65.2%
Proven and Probable Mineral Reserves (COG=15%, 28.8% Total Fe, 3.4% Dilution, 2.5% Ore Loss)		517.2 Mt
Annual Concentrate Production Rate (average life of mine, post ramp-up year)		7.84 Mtpa
Projected Years to Payback (pre-tax)		4.0
Projected Years to Payback (post-tax)		4.9

(1) Based on three year trailing average CFR benchmark price of US$63.30/dmt @ 62%Fe adjusted for Kami Fe grade, and HBIS Group and Glencore agreement terms

Based on a production rate of 7.8 million tonnes per year of iron ore concentrate at a grade of 65.2% iron, the Updated FS shows a pre-tax net present value of US$1,698 million at a cash flow discount rate of 8%. The pre-tax internal rate of return for the project is 24.6%. An exchange rate of CAD$1.00 = US$0.77 was used.

On a post-tax basis, the Updated FS shows a NPV of US$866 million at a cash flow discount rate of 8%. The post-tax IRR for the project is 18.2%. The post-tax analysis is based on a number of assumptions detailed in the Technical Report.

The Updated FS is based on the same mineral processing flowsheet as the previous technical reports including the 2012 Feasibility Study. The major infrastructure required to support the Kami Project, as stated in the Updated FS, includes the following components:

- Mining of the Rose open pit and adjacent crushing plant at the Kami mine area.
- Crushed ore conveyed from the crusher to the crushed ore stockpile, ahead of the concentrator, to the east of the Waldorf crossing.
- Concentrator consisting of autogenous grinding, gravity and magnetic separation and dewatering and utilizing the autogenous and ball mills that already have been procured.
- Tailings disposal in the designated area on the Kami Project, in the location which was identified during the 2012 Feasibility Study. In the Updated FS, the Tailings Management Facility (the "TMF") and tailings deposition plan have been redesigned to conform to current industry standards and in accordance with the Canadian Dam Association Dam Safety Guidelines.
- Concentrate load-out located at the new Kami rail loop, connecting to the QNS&L main rail line by way of a new railway constructed as part of the Kami Project.

- Rail transportation of concentrate from the Kami rail loop to the common port terminal facilities at Pointe Noire near Sept-Îles, Québec (owned and operated by third parties).
- Ship-loading services provided by Port of Sept-Îles.
- Electrical power supplied by Newfoundland and Labrador Hydro ("NLH") based on the terms set out in the power purchase agreement between NLH and The Kami LP.

Prior to construction commencing, the Company will have to re-assemble the owner's team, award an EPCM/EPC contract, resume detailed engineering, and have construction financing in place. This process could take several months to complete once it is commenced. Construction is expected to last 26 months.

For additional information on the Updated FS results, please refer to the Technical Report filed on SEDAR (www.sedar.com).

Corporate activities

Financing strategy

Alderon is pursuing a financing strategy for the Kami Project based on a combination of a senior debt facility, other debt options, equipment financing, and equity. In order to provide flexibility and maximize its financing options, Alderon intends to pursue a senior debt facility and its other debt and equity options in parallel. In January 2019, the Company appointed Scotiabank as its financial advisor with respect to strategic transactions, including equity and debt financing for the construction and commissioning of the Kami Project. The financing strategy is anticipated to be completed in two phases: (i) financing in an amount sufficient to repay the outstanding loan facility (detailed below) and for working capital purposes, and (ii) the project financing in an amount required to complete the construction of the Kami Project. There can be no assurance that the Company will successfully conclude an interim financing to repay the outstanding loan facility or complete the project financing for the construction of the Kami Project.

Loan facility

On June 20, 2018, The Kami LP, together with Alderon as guarantor, and Sprott Private Resource Lending (Collector), LP ("Sprott") executed a credit agreement with respect to a non-revolving loan facility in the amount of US$14,000,000 (the "Loan Facility") for the purpose of extinguishing a convertible promissory note (the "Amended Note") which was payable to Liberty Metals & Mining Holdings, LLC ("Liberty") and reimbursing The Kami LP for amounts paid to Liberty prior to closing the Loan Facility. The Loan Facility is secured with a mortgage over the Kami Project and accrues interest at a rate of 10% per annum, payable monthly. The Loan Facility requires the Company and The Kami LP to maintain certain consolidated working capital requirements. The maturity date of the Loan Facility is December 31, 2019 which may be extended to June 30, 2020 if certain conditions are met, including the issuance of common shares of the Company for additional consideration of US$350,000. The Loan Facility is non-revolving, and any repayment under the Loan Facility cannot be reborrowed. The Kami LP may repay the outstanding balance of the Loan Facility, in whole or in part, at any time before maturity, provided that the equivalent of not less than US$1,400,000 of interest is paid on the Loan Facility.

Altius Minerals Corporation ("Altius"), through a wholly-owned subsidiary, participated in the Loan Facility by providing US$2,000,000 of the principal amount of the Loan Facility. Altius is a significant shareholder of the Company. Refer also to "Related party transactions".

On July 12, 2018, the Company concurrently received the full proceeds of the Loan Facility of $18,375,000 from Sprott and extinguished the Amended Note. Transaction costs incurred in connection with the closing of the Loan Facility totaled $2,047,643 and included the issuance of 4,811,030 common shares with a fair value of $1,539,530, the issuance of 900,000 compensation options with a fair value of $208,765 and other professional fees of $299,348. The compensation options are exercisable for common shares of the Company, have an exercise price of $0.34, and expire on July 12, 2020. The issuance of equity instruments by the Company to settle transaction costs related to the Loan Facility increased the non-controlling interest by $437,073 on the basis that the equity instruments were issued for the benefit of The Kami LP as the borrower of the Loan Facility.

Any failure to meet any of the payment obligations under the Loan Facility, or otherwise adhere to the covenants therein or fulfill the other obligations thereunder, may trigger an event of default and a demand for full immediate repayment of all amounts outstanding under the Loan Facility. In particular, if the Company is unable to meet the consolidated working capital covenant it will be in default of the terms of the Loan Facility and it is possible this could occur prior to the scheduled maturity date of December 31, 2019. If the Company is in default of the terms of the Loan Facility, or is unable to repay all amounts outstanding under the Loan Facility, Sprott may realize on its security and the Company could lose its interest in the Kami Project. The Company does not currently have sufficient funds to repay all amounts outstanding with respect to the Loan Facility and it continues to work to identify additional sources of financing to satisfy such obligations.

Outlook

On October 31, 2018, the Company filed the Updated FS on SEDAR (www.sedar.com) which further demonstrates the strong economics of the Kami Project as summarized above in "The Kami Project". The Company will use the results of the Updated FS to further its goal of completing its financing plan, as discussed above in "Corporate activities - Financing strategy", or completing a strategic transaction.

As previously disclosed, Alderon intends to commence construction of the Kami Project when the Company's financing plan is successfully completed. In addition, prior to construction commencing the Company will have to secure access to the proposed infrastructure integrations in the Updated FS, re-assemble the owner's team, award an EPCM/EPC contract and resume detailed engineering. This process could take several months to complete once it is commenced. Once construction does commence, it is expected to take 26 months for completion, including pre-operational verifications, hot commissioning and handover to mine operations team.

Selected annual information

The following financial data are selected information of the Company for the three most recently completed financial years:

	Years ended December 31, 2018	2017	2016
	$	$	$
Net loss and comprehensive loss attributable to owners of the parent	(4,625,211)	(97,106,070)	(2,614,263)
Net loss per share Basic and diluted	(0.03)	(0.73)	(0.02)
Total assets	122,325,593	130,919,856	258,096,071
Total non-current financial liabilities	-	-	21,411,871

There were no distributions or cash dividends declared during the years ended December 31, 2018, 2017 or 2016.

Net loss and comprehensive loss

Net loss and comprehensive loss attributable to owners of the parent decreased during the year ended December 31, 2018 compared to the year ended December 31, 2017. The decrease in loss was primarily a result of the impairment of the Kami Project and Newfoundland and Labrador Hydro settlement recorded during the year ended December 31, 2017. These transactions were partially offset by increased corporate activities reflected in general and administrative and government and community expenses and foreign exchange losses recorded during the year ended December 31, 2018. Refer to "Results of operations" for further detail of net loss and comprehensive loss for the years ended December 31, 2018 and 2017.

Net loss and comprehensive loss attributable to owners of the parent increased during the year ended December 31, 2017 compared to the year ended December 31, 2016 as a result of the impairment of the Kami Project and Newfoundland and Labrador Hydro settlement recorded during the year ended December 31, 2017.

Total assets

The decrease in total assets as of December 31, 2018 compared to as of December 31, 2017 is primarily attributable to the decreased cash and cash equivalent balances.

The decrease in total assets as of December 31, 2017 compared to as of December 31, 2016 is explained by the impairment loss recorded with respect to the long-term assets related to the Kami Project and the release of restricted investments by, net of settlement amounts paid to, Newfoundland and Labrador Hydro during the year ended December 31, 2017.

Refer to "Consolidated statements of financial position information" for asset balance details as of December 31, 2018 and 2017. Refer to "Liquidity and capital resources - Consolidated statements of cash flows information" for a summary of cash flows by activity for the years ended December 31, 2018 and 2017.

Total non-current financial liabilities

As of December 31, 2018 and 2017, the Company had no non-current financial liabilities.

As of December 31, 2016, non-current financial liabilities related to the balance of the Amended Note.

Results of operations

Annual consolidated results of operations

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Operating expenses		
General and administrative expenses	3,321,386	2,987,245
Project maintenance expenses	1,106,315	1,095,689
Foreign exchange loss (gain)	1,005,673	(337,651)
Government and community relations expenses	259,578	-
Impairment of Kami Project	-	111,666,355
Newfoundland and Labrador Hydro settlement	-	9,500,000
	5,692,952	124,911,638
Loss from operations	(5,692,952)	(124,911,638)
Finance income	125,470	261,970
Finance costs	(2,933,463)	(2,973,613)
Gain on modification of convertible debt	1,929,743	-
Net finance costs	(878,250)	(2,711,643)
Net loss and comprehensive loss	(6,571,202)	(127,623,281)
Attributable to:		
Owners of the parent	(4,625,211)	(97,106,070)
Non-controlling interest	(1,945,991)	(30,517,211)
	(6,571,202)	(127,623,281)
Net loss per share		
Basic and diluted	(0.03)	(0.73)
Weighted average number of shares outstanding		
Basic and diluted	135,660,305	132,266,740

General and administrative expenses

Comparative general and administrative expenses, by nature of expenditure, are summarized below:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Consulting, professional and legal fees	1,118,087	1,952,488
Share-based compensation	894,717	287,404
Salaries and benefits	435,845	-
Investor relations	260,212	197,402
Rent and facilities	187,077	158,352
Office and administration	149,480	307,661
Director fees	122,006	104,442
Travel	101,094	34,540
Regulatory	52,029	62,438
Depreciation	839	-
Recovery of deferred share unit compensation	-	(117,482)
	3,321,386	2,987,245

During the year ended December 31, 2018, the Company incurred general and administrative expenses in the amount of $3,321,386 (2017 - $2,987,245). The increase in general and administrative expenses is explained below.

Consulting, professional and legal fees decreased by $834,401 during the year ended December 31, 2018 compared to the prior year. The decrease reflects work completed in the prior year in connection with the Company's efforts to acquire certain assets of the Wabush Scully Mine, arbitration with NLH and the transition of a consultant to a salaried executive during the year ended December 31, 2018.

During the year ended December 31, 2018, the Company recorded non-cash share-based compensation expense in the amount of $894,717 (2017 - $287,404) with respect to the fair value of equity-settled awards, including stock options and deferred share units. The fluctuation in share-based compensation expense is primarily attributable to the number of stock options and deferred share units granted in a period and the respective vesting schedules.

The Company incurred salaries and benefits in the amount of $435,845 (2017 - $nil) during the year ended December 31, 2018, as a result of hiring an executive. The amount includes accrued short-term benefits in the amount of $95,454. The Company had no employees during the year ended December 31, 2017 as all services were provided by consultants.

Investor relations expenses increased by $62,810 during the year ended December 31, 2018 compared to the prior year due to increased corporate communications activities, including engagement of analysts and media in anticipation of and subsequent to the release of the Updated FS, updating corporate materials to reflect the Updated FS results, developing strategies to support the Company's financing plan, and translation services related to the Company's bilingual website and press releases.

During the year ended December 31, 2018, rent and facilities increased by $28,725 compared to the prior year as a result of opening local offices in Newfoundland and Labrador and Quebec.

The decrease in office and administration expenses in the amount of $158,181 during the year ended December 31, 2018 compared to the prior year primarily reflects administrative fees associated with bank guaranteed letters of credit. During the year ended December 31, 2018, the Company held no bank guaranteed letters of credit. In addition, the Company completed information technology upgrades during the year ended December 31, 2017.

The Company incurred costs related to its corporate directors in the amount of $122,006 (2017 - $104,442) during the year ended December 31, 2018. Director costs fluctuate based on the composition of the Board of Directors and its committees, as well as the timing, frequency and location of meetings.

Travel costs increased by $66,554 during the year ended December 31, 2018 compared to the prior year and is explained by increased corporate activity, including meetings held with strategic partners, government officials and key stakeholders.

Regulatory costs decreased by $10,409 during the year ended December 31, 2018 compared to the prior year and is explained by a decrease in costs associated with the Company's annual general meeting.

Deferred share unit ("DSU") compensation costs (recovery) are a non-cash item and related to a cash-settled award plan. DSU compensation costs were a function of the number of cash-settled DSUs outstanding and the Company's share price at period end. Effective September 14, 2017, the Company's DSU Plan was modified from a cash-settled to an equity-settled plan; and as such, no further DSU compensation costs were recorded subsequent to the modification. Equity-settled awards are included in share-based compensation.

It is the Company's expectation that total general and administrative expenses will continue at current levels for the year ending December 31, 2019, excluding the impact of share-based compensation costs which in turn depend on a number of unknown or currently inestimable factors such as the Company's future share price, the number of options and DSUs that will be granted in future periods and any changes to parameters or judgments applied to the option pricing model used to calculate the underlying fair value of equity-based awards.

Project maintenance expenses

Comparative project maintenance expenses, by nature of expenditure, are summarized below:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Professional services and consulting	685,347	680,734
Rent and facilities	410,394	407,054
Other costs	10,574	7,901
	1,106,315	1,095,689

The Company started to capitalize costs directly attributable to the Kami Project as of February 1, 2013, which coincided with the release of the 2012 Feasibility Study. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Property. Therefore, most Kami Project costs incurred subsequent to November 15, 2014 have been recorded as project maintenance expenses in the Company's operating expenses as they did not meet the criteria for capitalization.

During the year ended December 31, 2018, the Company incurred project maintenance expenses in the amount of $1,106,315 (2017 - $1,095,689) while the Kami Project was temporarily suspended. The amount and nature of project maintenance expenses have remained consistent year to year.

During the years ended December 31, 2018 and 2017, the Company incurred professional services and consulting fees in the amounts of $685,347 and $680,734, respectively, in connection with the preparation of various technical reports. Refer to "The Kami Project" above for additional detail.

During the year ended December 31, 2018, the Company incurred rent and facilities in the amount of $410,394 (2017 - $407,054). The fluctuation in rent and facilities expenses is primarily due to the impact of foreign currency exchange changes on US dollar denominated storage fees.

Foreign exchange loss (gain)

The foreign exchange loss (gain) recorded reflects changes in the currency exchange rate between the US dollar compared to the Canadian dollar as of each period end and the related impact on US dollar denominated financial instruments.

The increase in the foreign exchange loss recorded during the year ended December 31, 2018 compared to the prior year is due to the Loan Facility as it is denominated in US dollars. Refer to "Consolidated statements of financial position information – Loan facility" for further detail on foreign currency revaluations and "Financial instruments and risk management – Currency risk".

Government and community relations expenses

During the year ended December 31, 2018, the Company incurred government and community relations expenses in the amount of $259,578 (2017 - $nil) in connection with corporate initiatives to strengthen support for the Kami Project and augment the financing strategy through engagement with local, provincial and federal government bodies and communities.

Impairment of Kami Project

For the purposes of impairment testing, the Company assesses the recoverable amount of the cash-generating unit related to the Kami Project which includes mineral properties, property, plant and equipment and the long-term advance (the "Kami Project CGU"). Based on a value in use calculation which comprised estimated future cash flows discounted at a pre-tax discount rate of 15.5%, during the year ended December 31, 2017, the recoverable amount of the Kami Project CGU ($115,000,000) was less than the carrying amount of the assets ($226,666,355). As a result, an impairment loss in the amount of $111,666,355 was recorded in the consolidated statements of comprehensive loss and allocated to the carrying values of mineral properties, property, plant and equipment and the long-term advance during the year ended December 31, 2017.

As of December 31, 2018, management determined that there remained indicators of impairment with respect to the Kami Project CGU and that the carrying values may not be recoverable. The future cash flows used to test the recoverability of the Kami Project CGU were updated to reflect the Updated FS. No further impairment loss was recorded as of December 31, 2018 on the basis that the recoverable amount exceeded the carrying values of the Kami Project CGU.

Newfoundland and Labrador Hydro settlement

During the year ended December 31, 2017, the Company paid a settlement in the amount of $9,500,000 with respect to a security agreement with NLH and the release of a security deposit to The Kami LP. Refer to the annual consolidated financial statements of the Company for the year ended December 31, 2017 for additional detail of the settlement.

Net finance costs

During the year ended December 31, 2018, the Company incurred net finance costs in the amount of $878,250 comprised of interest and accretion on the Amended Note and Loan Facility ($2,933,463), net of a gain on modification of the Amended Note ($1,929,743) and finance income earned on cash and cash equivalents and short-term investments ($125,470).

During the year ended December 31, 2017, the Company incurred net finance costs in the amount of $2,711,643 comprised of interest and accretion on the Amended Note ($2,973,613), net of finance income earned on cash and cash equivalents and short-term investments ($261,970).

Quarterly consolidated results of operations

As summarized in the table below, loss from operations for the three month period ended December 31, 2018 amounted to $1,954,179 (2017 - $1,247,310), representing an increase of $706,869 compared to the same period of the period year.

The increase in loss from operations is due to increases in foreign exchange loss recorded from revaluing the Loan Facility denominated in US dollars ($1,011,490) and government and community relations expenses to augment the Company's financing strategy ($41,689). These increases were partially offset by decreases in general and administrative expenses ($184,115) from reductions in consulting, professional and legal services incurred, and project maintenance expenses ($162,195) from the timing of technical reports prepared. Refer to "Results of operations – Annual consolidated results of operations" for additional details.

Net loss and comprehensive loss attributable to owners of the parent for the three month period ended December 31, 2018 decreased by $74,649 compared to the same period of the period year which is explained by an increase in net loss and comprehensive loss allocated to the non-controlling interest ($790,020), which was partially offset by an increase in operating costs ($706,869) and net finance costs ($8,502).

Selected quarterly consolidated results of operations information for the most recently completed eight fiscal quarters are presented below:

	Quarters ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	$	$	$	$
Loss from operations	(1,954,179)	(625,637)	(1,416,539)	(1,696,597)
Net income (loss) and comprehensive income (loss) attributable to owners of the parent	(1,541,730)	(1,347,420)	50,577	(1,786,638)
Earnings (loss) per share				
Basic and diluted	(0.01)	(0.01)	0.00	(0.01)

	Quarters ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	$	$	$	$
Loss from operations	(1,247,310)	(10,173,802)	(112,157,521)	(1,333,005)
Net loss and comprehensive loss attributable to owners of the parent	(1,616,379)	(8,724,862)	(84,954,246)	(1,810,583)
Loss per share				
Basic and diluted	(0.01)	(0.07)	(0.64)	(0.01)

Earnings (loss) per share is based on each reporting period's weighted average number of shares outstanding, which may differ on a quarter-to-quarter basis. As such, the sum of the quarterly earnings (loss) per share amounts may not equal year-to-date earnings (loss) per share.

Historical quarterly results of operations and earnings (loss) per share data do not necessarily reflect any recurring expenditure patterns or predictable trends. As such, quarterly results cannot be interpreted as being indicative of future expectations, results of operations or net loss per share.

Over the past eight quarters, the Company has maintained low levels of operating expenditures, consistent with the temporary suspension of the Kami Project and the implementation of cash conservation measures. The fluctuations in the loss from operations from quarter to quarter are generally explained by non-recurring and/or non-cash transactions, including: non-cash deferred share unit compensation costs (quarter ended March 31, 2017) and share-based compensation costs (quarter ended March 31, 2018); the impairment loss recorded with respect to the Kami Project in the amount of $111,666,355 (quarter ended June 30, 2017); the settlement amount accrued in the amount of $9,500,000 with respect to NLH (quarter ended September 30, 2017); the gain on modification recorded in the amount of $1,929,743 with respect to the Amended Note (quarter ended June 30, 2018); and unrealized foreign exchange gains and losses related to US dollar denominated financial liabilities (quarter ended December 31, 2018).

Consolidated statements of financial position information

	As of December 31, 2018	As of December 31, 2017
	$	$
Cash and cash equivalents	6,033,848	14,840,135
Short-term investments	1,001,249	990,551
Receivables and other current assets	72,110	89,170
Mineral properties	99,053,952	98,878,856
Property, plant and equipment	16,164,434	16,121,144
Total assets	122,325,593	130,919,856
Payables and accrued liabilities	9,415,382	9,502,931
Due to related parties	402,661	311,859
Convertible debt	-	22,489,293
Loan facility	17,594,412	-
Equity attributable to owners of the parent	83,557,947	85,751,664
Non-controlling interest	11,355,191	12,864,109
Total liabilities and equity	122,325,593	130,919,856

<u>Cash and cash equivalents</u>

As noted below in "Liquidity and capital resources", cash and cash equivalents decreased by $8,806,287 during the year ended December 31, 2018, due to cash used in financing activities with respect to the Amended Note and related Forbearance Agreement and other operating activities.

<u>Short-term investments</u>

During the year ended December 31, 2018, short-term investments increased by $10,698 as a result of investments maturing and the reinvestment of earned interest.

<u>Receivables and other current assets</u>

Receivables and other current assets include sales and other tax credits receivable, accrued interest receivable, other receivables and prepaid expenses. The total balance of receivables and other current assets decreased by $17,060 during the year ended December 31, 2018 and is primarily attributable to a decrease in sales and other tax credits received. In addition, prepaid expenses decreased by $4,808 during the year ended December 31, 2018 due to the timing of corporate activities and related prepayments.

Mineral properties

As discussed above in "Results of operations – Project maintenance expenses", the Company started to capitalize development costs incurred in relation to the Kami Project as of February 1, 2013. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Property. Development costs capitalized to mineral properties will only increase significantly once the Company's financing plan is in place and the Company commences construction of the Kami Project.

During the year ended December 31, 2018, mineral properties increased by $175,096 as a result of the renewal of annual mining and surface rights leases.

Property, plant and equipment

As of December 31, 2018, property, plant and equipment consisted of the carrying value of construction in progress in the amount of $16,162,254 (2017 - $16,121,144) pertaining to advances paid or accrued on equipment for the Kami Project and computer and office equipment in the amount of $2,180 (2017 - $nil).

During the year ended December 31, 2018, the balance of property, plant and equipment increased by $43,290 as a result of cash additions of $360,356, for which $316,227 was previously accrued, net of depreciation of $839.

Payables and accrued liabilities

Payables and accrued liabilities decreased by $87,549 during the year ended December 31, 2018 which is explained by a decrease in accrued legal and professional expenses ($180,993) resulting from the issuance of common shares to settle amounts previously accrued of $200,000 and partially offset by increased legal fees accrued for corporate initiatives; and decreases in accrued development and project maintenance costs ($17,029) and trade accounts payable ($5,965) due to the timing of payments to third parties. These decreases were partially offset by an increase in accrued equipment purchases ($106,432) due to the impact of foreign exchange, net of advances paid; and an increase in other accrued liabilities ($9,333).

Due to related parties

As of December 31, 2018, amounts due to related parties increased by $90,882 compared to the balance as of December 31, 2017 and are detailed in "Related party transactions" below.

Convertible debt

On May 22, 2018, The Kami LP and Liberty executed a forbearance agreement which provided for the extinguishment of the Amended Note (the "Forbearance Agreement"). Pursuant to the Forbearance Agreement, The Kami LP paid the principal balance ($21,082,970), recorded a gain on modification ($1,929,743), and incurred additional transaction costs ($30,000). These transactions were partially offset by non-cash accretion ($553,420). The Company was not required to pay any prepayment penalties.

During the year ended December 31, 2018, the Company paid interest in the amount of $887,030 with respect to the Amended Note.

Loan facility

As discussed above in "Corporate activities – Loan facility", the Company executed a credit agreement with Sprott and obtained the Loan Facility. As of December 31, 2018, the balance of the Loan Facility was $17,594,412. During the year ended December 31, 2018, the Company received the Loan Facility proceeds ($18,375,000), and recorded non-cash accretion ($602,168) and a cumulative foreign exchange loss on revaluation of the Loan Facility ($664,887). These increases to the balance of the Loan Facility were partially offset by transaction costs incurred ($2,047,643).

During the year ended December 31, 2018, the Company paid interest in the amount of $890,845 with respect to the Loan Facility.

Equity attributable to owners of the parent

Equity attributable to owners of the parent decreased by $2,193,717 during the year ended December 31, 2018, due to the net loss and comprehensive loss attributable to the parent for the year ($4,625,211), amounts reclassified to non-controlling interest ($437,073), and share issue costs paid ($16,111). These amounts were partially offset by the fair value of common shares issued by the Company ($1,781,196) and share-based compensation recorded ($1,103,482) during the year ended December 31, 2018.

No distributions or cash dividends were made or declared during the year ended December 31, 2018.

Non-controlling interest

Non-controlling interest represents HBIS Group's 25% interest in the equity of the Company's less than wholly-owned affiliate, The Kami LP, and is classified as a separate component of equity. On initial recognition, non-controlling interest, which represented HBIS Group's $119.9 million contribution into The Kami LP, was measured at fair value.

Changes in the Company's ownership interest in The Kami LP that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest decreased by $1,508,918 during the year ended December 31, 2018 due to the net loss and comprehensive loss attributable to The Kami LP in the amount of $1,945,991, which was partially offset by the issuance of equity instruments by the Company in connection with the closing of the Loan Facility, which increased the non-controlling interest by $437,073.

Liquidity and capital resources

Consolidated statements of cash flows information

As of December 31, 2018, the Company had cash and cash equivalents of $6,033,848 compared to $14,840,135 as of December 31, 2017, and a working capital deficit (total current assets less total current liabilities) of $20,305,248 compared to $16,384,227 as of December 31, 2017.

The increase in working capital deficit in the amount of $3,921,021 during the year ended December 31, 2018 is primarily due to extinguishing the Amended Note and concurrently closing the Loan Facility. Refer to "Consolidated statements of financial position information" for further discussion of account balance changes during the year ended December 31, 2018.

During the year ended December 31, 2018, cash and cash equivalents decreased by $8,806,287. Cash used in operating activities during the year ended December 31, 2018 amounted to $3,428,833, as discussed in "Results of operations". Net cash used in investing activities amounted to $546,150 and related to additions to mineral properties ($175,096), a deposit paid on equipment ($357,337), reinvestment of interest income received ($10,698) and the purchase of other equipment ($3,019). Net cash used in financing activities amounted to $4,831,304 and reflects the net transactions of extinguishing the Amended Note and receiving the proceeds of the Loan Facility, including proceeds received ($18,375,000), net of principal amounts paid ($21,082,970), transaction costs incurred ($329,348), and interest paid ($1,777,875). The Company also incurred share issue costs in the amount of $16,111.

During the year ended December 31, 2017, cash and cash equivalents increased by $5,985,489. Cash used in operating activities during the year ended December 31, 2017 amounted to $12,984,800, as discussed in "Results of operations". Cash provided by investing activities amounted to $20,866,480 and related to the release of restricted investments ($21,000,000) and short-term investments ($262,814), which was partially offset by additions to mineral properties ($175,095) and a deposit paid on equipment ($221,239). Cash used in financing activities related to interest payments on the Amended Note ($1,896,191).

A summary of cash flows by activity is summarized below.

	Years ended December 31, 2018	2017
	$	$
Net cash used in operating activities	(3,428,833)	(12,984,800)
Net cash provided by (used in) investing activities	(546,150)	20,866,480
Net cash used in financing activities	(4,831,304)	(1,896,191)
Net change in cash and cash equivalents	(8,806,287)	5,985,489
Cash and cash equivalents at the beginning of the year	14,840,135	8,854,646
Cash and cash equivalents at the end of the year	6,033,848	14,840,135

Cash used in operating activities represents net loss and excludes the impact of any non-cash transactions, such as the recording of accretion, share-based and DSU compensation costs, depreciation, and certain gains and losses. Additionally, net cash used in operating activities reflects any changes in components of working capital, such as receivables and payables, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund our evaluation and development initiatives and other expenses.

Cash provided by (used in) investing activities primarily represents cash development costs that have been capitalized, changes in short-term investments and advances made in relation to the Kami Project, as discussed above in "Consolidated statements of financial position information".

Cash used in financing activities reflects activities with respect to the Amended Note and Loan Facility, as detailed in "Corporate activities – Loan facility" and "Consolidated statements of financial position information", as well as share issue costs paid.

As at December 31, 2018, $5,283,190 of cash and $1,001,249 in short-term investments are held by The Kami LP, relate to the remaining funds received from the Loan Facility, and are not attributable to the Initial Investment. The Loan Facility requires certain consolidated working capital and other conditions to be maintained by the Company and The Kami LP. The Company will need to obtain additional financing in the future. See also "Financial instruments and risk management – Liquidity risk" and "Risk factors".

To date, the Company has not recorded any revenues from operations, has no source of operating cash flow and no assurance that additional funding will be available to it for further development of the Kami Project. The Company does not have financial resources sufficient to cover all of its commitments for the coming year, which include net amounts payable as at December 31, 2018, necessary general and administrative costs through the next twelve months, interest payments on outstanding debt, and contractual obligations as at December 31, 2018 (in relation to anticipated equipment payments).

During the year ended December 31, 2018, the Company executed (i) the Forbearance Agreement which provided for the settlement of the Amended Note, and (ii) the Loan Facility to provide additional funds to settle the Amended Note, as discussed in "Corporate activities - Loan facility" and "Consolidated statements of financial position information". The principal balance of the Loan Facility in the amount of US$14,000,000 becomes due on December 31, 2019. If the Company is unable to repay all amounts outstanding under the Loan Facility, Sprott may realize on its security and the Company could lose its interest in the Kami Project. The Company does not currently have sufficient funds to repay all amounts outstanding with respect to the Loan Facility and it continues to identify additional sources of financing to satisfy such obligations.

The Company currently does not have sufficient financial resources to cover all of its originally planned commitments and as a result, it has split its purchase orders for equipment into two phases, engineering and manufacturing. Advances for engineering have been paid in full while commitments for manufacturing, estimated at $30.6 million, and fabrication remain contingent upon the Company issuing to its suppliers a notice to proceed following successful completion of its financing plan.

In addition, the Company is committed to paying its amounts payable, of which certain amounts therein become due once financing is obtained. Necessary general and administrative costs are projected at approximately $3.4 million over the next twelve months, including key management personnel ($1.2 million), audit, tax, legal and other professional services ($0.4 million), Kami Project initiatives and maintenance ($0.9 million) and other corporate and regulatory costs ($0.9 million). In addition, interest and principal payments on the Loan Facility total $20.0 million over the next twelve months based on a maturity date of December 31, 2019.

Despite the actions taken by the Company, these conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Company is seeking to arrange the necessary funds in order to cover its obligations and commitments. While the Company has been successful in the past in obtaining necessary funds on terms acceptable to the Company, there is no assurance that such funds will be available in the future. The Company continues to advance all of the elements of its financing plan, including debt and equity. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the consolidated financial statements.

As discussed in the "Outlook" section, the Company does not currently have sufficient resources to fund the construction of the Kami Project. In order to obtain the necessary funds the Company is pursuing a financing strategy based on a combination of a senior debt facility, other debt options, equipment financing and equity. Refer to "Corporate Activities – Financing strategy". The Company will not be able to commence the construction of the Kami Project until the funds are obtained.

Outstanding share data

As of March 29, 2019, there were 138,403,796 common shares issued and outstanding, 6,960,000 stock options outstanding and 900,000 compensation options outstanding.

Related party transactions

A related party is any person, including close members of that person's family, or entity that has significant influence over the Company. Related parties also include members of our key management personnel—namely, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer, as well as any Vice Presidents reporting directly to a Corporate Executive Board member or officer, acting in that capacity.

Remuneration attributed to key management personnel can be summarized as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Short-term benefits*	1,152,150	1,372,256
Share-based and deferred share unit compensation	722,689	113,514
	1,874,839	1,485,770

*include base salaries, pursuant to contractual employment or consultancy arrangements, directors' fees and other non-post-retirement benefits.

Other related parties

Altius: Altius is a significant shareholder of the Company and participated in the Loan Facility by providing one-seventh of the principal amount. In accordance with the Loan Facility, the Company pays one-seventh of interest accrued on the Loan Facility to Altius. Altius received 687,290 common shares of the Company on closing of the Loan Facility.

GN Consulting Services Inc. ("GN Consulting"): GN Consulting is an entity that is owned by Gary Norris, the Executive Vice President of Government & Community Affairs of the Company, and provides consulting services. The fees for these services are consistent with the Company's compensation policies for other management personnel.

HBIS International Holding (Canada) Co., Ltd ("HBIS"): HBIS is a subsidiary of HBIS Group, a significant shareholder of the Company and a 25% owner of The Kami LP. Under the terms of the definitive agreements governing the strategic partnership between HBIS Group, HBIS and the Company, HBIS has the right to appoint two people to the management of The Kami LP. HBIS has nominated two individuals to act as Vice President, Finance & Procurement (China) and Vice President, Strategy & Development. These individuals provide management services to The Kami LP in these roles and HBIS is paid a fee for the provision of these individuals to provide these services. The fees for these services are consistent with the Company's compensation policies for other management personnel.

King & Bay West Management Corp. ("King & Bay"): King & Bay is an entity that is owned by Mark Morabito, the Non-Executive Chairman of the Company's Board of Directors. King & Bay provides certain administrative, management, legal and regulatory, finance, corporate development, information technology support and corporate communications services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company based on rates that are consistent with what King & Bay charges to arms' length third parties. The amount set out in the table below represents amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third party costs incurred by King & Bay on behalf of the Company.

Liberty: Liberty was a significant shareholder of the Company. During the year ended December 31, 2014, Liberty provided the Company with the Amended Note which had an interest rate of 8% per annum. Transactions with Liberty in connection with the Amended Note are discussed in "Consolidated statements of financial position information – Convertible debt". As of December 31, 2018, Liberty is no longer a shareholder of the Company. Liberty previously held 5,241,436 warrants, which expired on December 31, 2018.

Transactions entered into with related parties, other than key management personnel and not otherwise disclosed, include the following:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
King & Bay	532,162	441,438
HBIS	320,016	320,016
	852,178	761,454

Transactions with related parties, are described above, were for services rendered to the Company in the normal course of operations, and were measured based on the consideration established and agreed to by the related parties. All services were made on terms equivalent to those that prevail with arm's length transactions.

Amounts owed to related parties, not otherwise disclosed, are summarized below.

	As of December 31, 2018	As of December 31, 2017
	$	$
HBIS	256,680	256,680
Accrued short-term benefits	95,454	-
King & Bay	50,527	53,519
GN Consulting	-	1,660
	402,661	311,859

The amounts payable to related parties are non-interest bearing, unsecured, and have no fixed terms for payment.

Commitments and contingencies

In connection with the 2010 purchase from Altius of the Kami Property, Alderon committed to paying Altius a 3% gross royalty on iron ore concentrate that is generated from the Kami Project.

In connection with the Strategic Investment, HBIS Group agreed to purchase, upon the commencement of commercial production, 60% of the actual annual production from the Kami Project up to a maximum of 4.8 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The price paid by HBIS Group will be based on the Platts Iron Ore Index ("Platts Price"), including additional quoted premium for iron content greater than 62%, less a discount equal to 5% of such quoted price. HBIS Group also will have the option to purchase additional tonnages at a price equal to the Platts Price, without any such discount.

On July 29, 2014, The Kami LP entered into an off-take agreement (the "Glencore Agreement") with a subsidiary of Glencore plc ("Glencore"), with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. Under the terms of the Glencore Agreement, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project. The term of the Glencore Agreement will continue until The Kami LP has delivered 48.0 million tonnes of iron ore concentrate to Glencore, which is expected to be 15 years after the commencement of commercial production. The market price paid by Glencore will be based on the Platts Price, including additional quoted premium for iron content greater than 62%, less a discount equal to 2% of such quoted price.

As discussed above, as part of Alderon's strategy to source the long-lead mining and processing equipment in sufficient time to adhere to the Kami Project's schedule, the Company has negotiated contracts with suppliers in relation to the purchase of equipment. As of December 31, 2018, payments of $30,780,000 remain to be paid on the equipment for contracts entered into and approximately $30,595,000 of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment.

Including the commitments and contractual obligations discussed above, the Company has the following known commitments as of December 31, 2018:

		Payments due in:			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
	$	$	$	$	$
Equipment [(1)]	30,779,621	-	30,779,621	-	-
Loan Facility [(2)]	21,035,206	21,035,206	-	-	-
Lease obligations	166,300	66,300	100,000	-	-
Totals	51,981,127	21,101,506	30,879,621	-	-

(1) Approximately $30.6 million of this amount is contingent on confirmation by the Company of notice to proceed with fabrication of this equipment.

(2) The loan facility is denominated in US dollars. Amounts have been translated based on an exchange rate of CAD$1.00 = US$0.7330.

Off-balance sheet arrangements

As of December 31, 2018, the Company did not have any off-balance sheet arrangements.

Significant accounting policies and critical accounting estimates and judgments

Significant accounting policies

A complete summary of our significant accounting policies is provided in note 2 to the consolidated financial statements of the Company as of December 31, 2018 and 2017.

Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and judgments about and apply assumptions to future events and other matters that affect the reported amounts of the Company's assets, liabilities, expenses and related disclosures. Assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions and estimates in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Judgments:

Management considers the following areas to be significant judgments used in the process of applying the Company's accounting policies that have the most significant effect on the Company's consolidated financial statements.

Going concern

The preparation of the Company's consolidated financial statements requires management to make judgments regarding the Company's ability to continue as a going concern.

Capitalization of development costs

The application of the Company's accounting policy for development costs requires judgment in determining the timing at which to begin capitalizing development costs and whether future economic benefits, which are based on assumptions about future events and circumstances, may be realized. Generally, as of November 15, 2014, the Company ceased to incur development costs eligible for capitalization as it was focused on the advancement of its financing plan rather than the development of the Kami Project. Accordingly, costs incurred with respect to the Kami Project subsequent to November 15, 2014 have generally been recorded as project maintenance expenses in the Company's operating expenses.

Estimates:

Management considers the following areas to be those where critical accounting policies affect the significant estimates used in the preparation of the Company's consolidated financial statements.

Carrying value and recoverability of long-lived assets

The carrying amounts of the Company's mineral properties and related long-lived assets do not necessarily represent present or future values, and the Company's long-lived assets have been accounted for under the assumption that the carrying amounts will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of the Kami Project or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties and related long-lived assets.

Mineral properties, property, plant and equipment and the long-term advance are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss in the consolidated statement of comprehensive loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, or cash-generating units. In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

During the years ended December 31, 2018 and 2017, management determined that there were indicators that the Kami Project assets, including mineral properties, property, plant and equipment and the long-term advance, may not be recoverable. As of each reporting date, the Company determined the recoverable amount of the Kami Project assets using the value in use calculation which was assessed using cash flow projections, which take into account the capital and operating costs over the expected construction timeline and life of mine, as well as the cash generated from subsequent sales of the Kami Project's iron ore production based on the most recent technical report available at the date of the assessment. The key assumptions used in this calculation included the Kami Project's capital cost, estimated production volume, the long-term iron ore sales price, the long-term Canadian and US dollar exchange rate, expected operating costs, as well as discount rates which were based on estimates of the risks associated with the projected cash flows based on information available as of the date of the impairment test.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

Fair value of warrants, stock options and compensation options

Determining the fair value of stock and compensation options requires the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Determining the fair value of warrants requires the estimation of stock price volatility. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results.

Fair value estimates of financial liabilities

The determination of the fair value of the liability component of the convertible debt required management to make estimates of the interest rate that the Company would have obtained for a similar secured loan without a conversion feature.

New standard and interpretation not yet adopted

The following standard that is considered to be relevant to the Company's operations that is issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements is disclosed below:

Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16") which replaces IAS 17, *Leases* ("IAS 17") and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. Control is considered to exist if the customer has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets.

The Company will adopt IFRS 16 in its consolidated financial statements on January 1, 2019 retrospectively, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information. The Company has elected to measure its right of use assets at amounts equal to the associated lease liabilities; as such, the adjustment to retained earnings will be $nil. Upon adoption, the Company has elected to apply the available exemptions as permitted by IFRS 16 to recognize a lease expense on a straight line basis for short term leases (lease term of 12 months or less) and low value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short term leases. Upon the adoption of IFRS 16, the Company expects to recognize additional right of use assets and lease liabilities related to commercial real estate. Based on the Company's assessment of the expected impact of IFRS 16, the Company expects that the adoption of the new standard will result in the recognition of additional right of use assets and lease liabilities of approximately $142,000. The Company does not expect the adoption of IFRS 16 to have a material impact to the consolidated statements of comprehensive loss or cash flows. However, due to the recognition of additional lease assets and liabilities, a higher amount of expense on lease liabilities will be recorded under IFRS 16 compared to the current standard. Lastly, the Company expects a positive impact on operating cash flows with a corresponding increase in financing cash outflows under IFRS 16.

Capital disclosures

The Company's capital structure currently consists of equity and debt financing to ensure sufficient liquidity to fund: development and other Kami Project activities; general and administrative expenses; working capital; and capital expenditures.

Management regularly monitors the Company's capital structure and makes adjustments thereto based on funds available to the Company for the acquisition, exploration and development of mineral properties. The Board of Directors has not established quantitative return on capital criteria for capital management, but rather relies upon the expertise of the management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the development stage, and the Company does not generate any revenue. Accordingly, the Company is dependent upon sources of external financing to fund both the Kami Project and its other costs. While the Company endeavors to minimize dilution to its shareholders, management has in the past engaged in dilutive financial transactions, such as private placements, and may engage in dilutive arrangements in the future.

The Company's policy on dividends is to retain cash to keep funds available to finance the activities required to advance the Company's Kami Project. The Loan Facility requires certain consolidated working capital and other conditions to be maintained by the Company and The Kami LP. As previously disclosed, the Company will need to obtain additional financing in the future to avoid a default event under the terms of the Loan Facility.

Financial instruments and risk management

As of December 31, 2018, financial instruments are comprised of cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities, amounts due to related parties and the Loan Facility.

The carrying values of the Company's cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities and amounts due to related parties approximate their fair values due to their short-term maturities or to the prevailing interest rates of the related instruments, which are comparable to those of the market. As of December 31, 2018, the determination of the fair value of the Loan Facility is based on a discounted cash flow model using an interest rate of 10%, which reflects the Company's current rate of borrowing. As of December 31, 2017, the determination of fair value of the convertible debt was based on a discounted cash flow model using the market interest rate that the Company could have obtained for a similar secured loan without a conversion option.

The fair values of the Company's financial assets and liabilities, together with the carrying values included in the consolidated statements of financial position, as of December 31, 2018 are presented below. In the following table, receivables exclude sales and other tax credits.

As of December 31, 2018	Carrying value	Fair value
	$	$
Financial assets		
Cash and cash equivalents	6,033,848	6,033,848
Short-term investments	1,001,249	1,001,249
Receivables	12,038	12,038
Financial liabilities		
Payables and accrued liabilities	(9,415,382)	(9,415,382)
Due to related parties	(402,661)	(402,661)
Loan facility	(17,594,412)	(19,201,828)
	(20,365,320)	(21,972,736)

The Company is exposed in varying degrees to certain risks arising from financial instruments, as discussed below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As discussed above, the Company's capital management objectives include working to ensure that the Company has sufficient liquidity to fund Company activities that are directly and indirectly related to the advancement of the Kami Project.

The Company endeavors to ensure that it will have sufficient liquidity in order to meet short to medium-term business requirements and all financial obligations as those obligations become due. Historically, sufficient liquidity has been provided predominantly through external financing initiatives, including strategic, traditional and flow-through private placements to investors and institutions. The Company does not currently have sufficient resources to fund the construction of the Kami Project. Alderon is actively engaged in discussions to raise the necessary capital to meet its funding requirements for the Kami Project and repay the Loan Facility, including debt and equity financing. The Company will continue to rely upon sources of external financing in future periods until such time as commercial production commences. There is no assurance that financing of sufficient amounts or on terms acceptable to the Company will be available.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's receivables include sales tax credits due from Canadian federal and provincial tax agencies and interest receivable from high-credit quality Canadian financial institutions. Additionally, the Company's cash and cash equivalents and short-term investments are held in deposit at high-credit quality Canadian financial institutions. As a result, management considers the risk of non-performance related to accounts receivable, cash and cash equivalents and short-term investments to be minimal.

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.

Fluctuations of market interest rates have little impact on the Company's financial results since the Company does not have variable rate debt as of December 31, 2018. Changes in market interest rates do not have an impact on interest expense related to the Loan Facility because the rate of the Loan Facility is fixed.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk relating to financial instruments that are denominated in US dollars, including cash and cash equivalents, payables and accrued liabilities and the Loan Facility.

A 10% increase in the value of the US dollar versus the Canadian dollar would affect the consolidated net loss and comprehensive loss of the Company by approximately $2.1 million. The Company has not hedged its exposure to fluctuations in the US dollar.

Risk factors

The exploration of mineral deposits involves significant risks and uncertainties, which even a combination of careful evaluation, experience and knowledge may not eliminate. A comprehensive list of risk factors relating to our business is provided under the heading, "Risk factors", in the Company's Annual Report for the year ended December 31, 2018, which is available on SEDAR, at www.sedar.com. Certain of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above, are listed hereunder.

Risks associated with secured debt.

The Company's obligations under the Loan Facility are secured against the Kami Project. Any failure to meet any of the payment obligations under the Loan Facility, or otherwise adhere to the covenants therein or fulfill the other obligations thereunder, may trigger an event of default and a demand for full immediate repayment of all amounts outstanding under the Loan Facility. In particular, if the Company is unable to meet the consolidated working capital covenant, it will be in default of the terms of the Loan Facility and it is possible this could occur prior to the scheduled maturity date of December 31, 2019. If the Company is unable to repay all amounts outstanding under the Loan Facility, Sprott may realize on its security and the Company could lose its interest in the Kami Project. The Company does not currently have sufficient funds to repay all amounts outstanding under the Loan Facility and it continues to identify additional sources of financing to satisfy such obligations.

Alderon depends on a single mineral project.

The Kami Property accounts for all of Alderon's mineral resources and exclusively represents the current potential for the future generation of revenue. Mineral exploration and development involves a high degree of risk that even a combination of careful evaluation, experience and knowledge cannot eliminate and few properties that are explored are ultimately developed into producing mines. Any adverse development affecting the Kami Property will have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

The successful start of mining operations at, and the development of, the Kami Project into a commercially viable mine cannot be assured.

Development of mineral properties involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The commercial viability of a mineral deposit is dependent upon a number of factors which are beyond Alderon's control, including the attributes of the deposit, commodity prices, government policies and regulation and environmental protection. Fluctuations in the market prices of minerals may render resources and deposits containing relatively lower grades of mineralization uneconomic.

There are numerous activities that need to be completed in order to successfully commence development and production at the Kami Project, including, without limitation: optimizing the mine plan; recruiting and training personnel; having available funds to finance construction and development activities; avoiding potential increases in costs; negotiating contracts for railway transportation and port loading and handling; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that we will be able to successfully complete these activities, since most of these activities require significant lead times, and we will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, at the Kami Project and would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

As such, there can be no assurance that Alderon will be able to complete development of the Kami Project at all, on time or in accordance with any budgets due to, among other things, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support operations. Failure to successfully complete these events as expected would have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

There is no assurance that Alderon will ever achieve production or that the Company will ever be profitable if production is achieved.

Alderon currently relies on only two customers for 100% of its expected iron ore concentrate production.

Alderon currently relies on two significant customers for 100% of the Alderon expected output of 8 Mt of iron ore concentrate annually once the commencement of commercial production occurs. Alderon has entered into the Off-Take Agreement with HBIS Group, a related party who owns 25% of The Kami LP and 18.7% of the Company's common shares. As part of this agreement, upon the commencement of commercial production, HBIS Group is obligated to purchase 60% of the actual annual production from the Kami Property, up to a maximum of 4.8 Mt of the first 8.0 Mt of iron ore concentrate produced annually at the Kami Property. In addition, the Company entered into the Glencore Agreement with respect to an off-take transaction pursuant to which Glencore will acquire all of actual annual production from the Kami Project that has not been allocated to HBIS Group. As noted above, Glencore will be obligated to purchase upon the commencement of commercial production, 40% of the actual annual production from the Kami Project up to a maximum of 3.2 million tonnes of the first 8.0 million tonnes of iron ore concentrate produced annually at the Kami Project.

As a result of reliance on these two customers for the entirety of Alderon's iron ore production, Alderon could be subject to adverse consequences if HBIS Group or Glencore breach their purchase commitments.

Titles and other rights to the Kami Property cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.

Alderon cannot guarantee that title to the Kami Property will not be challenged. Alderon may not have, or may not be able to obtain, all necessary surface rights to develop the Kami Property. Title insurance generally is not available for mineral properties, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions comprising the Kami Property may be severely constrained. The Kami Property may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. We have not conducted surveys of all of the claims in which we hold direct or indirect interests. A successful challenge to the precise area and location of these claims could result in our being unable to operate on all or part of the Kami Property as permitted or being unable to enforce our rights with respect to all or part of the Kami Property. This could result in Alderon not being compensated for its prior expenditures relating to the property. In addition, Alderon's ability to continue to explore and develop the property may be subject to agreements with other third parties including agreements with aboriginal groups. For instance, Alderon has concluded agreements with the Innu Nation of Labrador and the NunatuKavut pursuant to which these groups will provide their support for the Kami Project in return for certain benefits.

Alderon needs to enter into contracts with external service providers.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. In order to develop a mine at the Kami Project, we will need to negotiate and conclude various agreements with external service providers for rail transportation and port loading and handling, and these are important determinants that affect capital and operating costs. The inability to conclude any such agreements could have a material adverse effect on the Company's financial position, results of operations and cash flows and render the development of a mine on the Kami Project unviable.

Alderon's activities are subject to environmental laws and regulations that may increase Alderon's costs of doing business and restrict the Company's operations.

All of our exploration, potential development and production activities in Canada are subject to regulation by governmental agencies under various environmental laws, including with respect to air emissions, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Alderon and may cause material changes or delays in our intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect our business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of our business, causing us to re-evaluate those activities at that time. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulator or judicial authorities, causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

The Newfoundland and Labrador Environmental Assessment Release is valid only by annual extension until January 2020. By this date, The Kami LP must start construction, request Ministerial exemption or risk the requirement for a new assessment either in full or under an abridged methodology. There is no legislated deadline for the start of construction with respect to the Federal Environmental Assessment Release.

Alderon may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth.

We are dependent on the services of key executives, including our Non-Executive Chairman and Chief Executive Officer, Chief Financial Officer and other highly skilled and experienced executives and personnel focused on managing Alderon's interests and the advancement of the Kami Property and on identifying new opportunities for growth and funding. Due to our relatively small size, the loss of these persons or our inability to attract and retain additional highly skilled employees, on a timely basis or at all, required for the development of our activities may have a material adverse effect on our business or future operations.

We also anticipate that, as we bring the Kami Project into production and, where appropriate, acquire additional mineral rights, we will experience significant growth in our operations. We expect this growth to create new positions and responsibilities for management and technical personnel and to increase demands on our operating and financial systems. There can be no assurance that we will successfully meet these demands and effectively attract and retain additional qualified personnel to manage our anticipated growth. The failure to attract such qualified personnel to manage growth would have a material adverse effect on our business, financial position, results of operations and cash flows.

The Company does not have financial resources sufficient to cover all of its commitments for the coming year, therefore, material uncertainties exist that may cast significant doubt upon the Company's ability to continue as a going concern.

Alderon currently has limited financial resources, no cash inflows from production and negative operating cash flows. Although Alderon has completed the engineering work required to commence construction at the Kami Project, the commencement of construction of the Kami Project is subject to the completion of the Company's financing plan.

The Company does not have financial resources sufficient to cover all of its commitments for the coming year and must secure sufficient funding to meet its existing commitments. In addition, further development and exploration of the Kami Property depends upon Alderon's ability to obtain financing through strategic partnerships, equity or debt financings, production-sharing arrangements or other dilutive or non-dilutive means. There is no assurance that Alderon will be successful in obtaining required financing on acceptable terms, or at all. If Alderon is unable to obtain additional financing it may consider other options, such as (i) selling assets, (ii) selling equity, or (iii) selling interests in the Kami Property. If Alderon raises additional funding by issuing additional equity securities or other securities that are convertible into equity securities, such financings may substantially dilute the interest of existing or future shareholders. Sales or issuances of a substantial number of securities, or the perception that such sales could occur, may adversely affect the prevailing market price of Alderon's common shares. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and may experience dilution in earnings per share. Failure to obtain additional financing could result in an indefinite postponement of further exploration and development of the Kami Property and will have a material adverse effect on Alderon's business, prospects, financial position, results of operations and cash flows.

Alderon is pursuing a financing strategy for the Kami Project that includes obtaining a senior debt facility to complete the construction and start-up of the Kami Project. The completion of the financing plan has taken longer than anticipated. There can be no assurance that Alderon will receive commitments from lenders for a senior debt facility or that Alderon will be able to negotiate binding agreements with respect to a senior debt facility. There can be no assurance that the Company will successfully conclude a senior debt facility or any of its financing strategy. These conditions and events indicate material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The failure of Alderon to enter into the senior debt facility on reasonable terms, or at all, could delay construction and start-up of the Kami Project. The Company may be unable to continue its operations, which would have a material adverse effect on Alderon's business, financial position, results of operations and cash flows.

If the going concern assumption was not appropriate, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

Alderon has a history of losses and expects to incur losses for the foreseeable future.

Alderon has incurred losses since its inception and expects to incur losses for the foreseeable future. We expect to continue to incur losses unless and until such time as the Kami Project enters into commercial production and generates sufficient revenues to fund continuing operations. The development of the Kami Project will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration, evaluation and development, the results of consultant analysis and recommendations, the rate at which operating losses are incurred, the execution of any agreements with strategic partners and our acquisition of additional properties. Some of these factors are beyond our control. There can be no assurance that Alderon will ever achieve profitability.

Our securities are subject to price volatility.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not been necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in our share price will not occur. It may be anticipated that any quoted market for our common shares will be subject to market trends generally, notwithstanding any potential success in creating revenues, cash flows or earnings. The value of our common shares will be affected by such volatility.

Subsequent events

The following events occurred subsequent to the year ended December 31, 2018:

On February 12, 2019, the Company issued 113,332 common shares pursuant to the exercise of 250,000 stock options on a cashless basis.

On February 14, 2019, the Company issued 7,584 common shares pursuant to the exercise of 25,000 stock options on a cashless basis.

Internal control over financial reporting

Management of Alderon is responsible for establishing and maintaining an adequate system of internal control, including internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It includes those policies and procedures that:

a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Alderon,
b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of Alderon are being made only in accordance with authorizations of management and Alderon's directors, and

c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Alderon's assets that could have a material effect on the annual financial statements or interim financial reports.

Alderon's management, including its CEO and CFO, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Alderon's internal control over financial reporting as of December 31, 2018, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2018, Alderon's internal control over financial reporting is effective.

During the year ended December 31, 2018, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information

Additional information relating to the Company, including the Company's Annual Report for the year ended December 31, 2018 is available on SEDAR at www.sedar.com.

Approval

The Board of Directors of Alderon Iron Ore Corp. has approved the information and disclosures contained in this MD&A.