



**COBALT 27 CAPITAL CORP.**

*(formerly ARAK RESOURCES LTD.)*

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED OCTOBER 31, 2017**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED)**

---

**COBALT 27 CAPITAL CORP.**  
*(formerly ARAK RESOURCES LTD.)*  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

	As at October 31, 2017	As at April 30, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 14,095,939	\$ 536,676
Short-term deposits	60,000	-
Amounts receivable and other assets (Note 3)	245,175	83,648
	<b>14,401,114</b>	<b>620,324</b>
<b>Non-Current Assets</b>		
Investments in cobalt (Note 5)	185,657,077	-
Royalty Contracts (Note 6)	850,000	-
Investment (Note 4)	248,102	-
Deferred financing cost	-	135,916
	<b>186,755,179</b>	<b>135,916</b>
<b>Total Assets</b>	<b>\$ 201,156,293</b>	<b>\$ 756,240</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 257,531	\$ 101,154
<b>Non-Current Liabilities</b>		
Deferred tax liabilities	1,400,000	-
	<b>1,400,000</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,657,531</b>	<b>101,154</b>
<b>Shareholders' Equity</b>		
Share capital (Note 7)	199,412,711	3,288,921
Reserves	4,741,587	1,249,420
Deficit	(4,655,536)	(3,883,255)
	<b>199,498,762</b>	<b>655,086</b>
<b>Total Shareholders' Equity</b>	<b>199,498,762</b>	<b>655,086</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 201,156,293</b>	<b>\$ 756,240</b>

Subsequent Event (Note 13)

**Approved on behalf of the Board:**

"Frank Estergaard", Director

"Anthony Milewski", Director

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

**COBALT 27 CAPITAL CORP.***(formerly ARAK RESOURCES LTD.)***Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)****(Expressed in Canadian Dollars)****(Unaudited)**

	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
<b>Cobalt Related Gain</b>				
Unrealized gain on investments in cobalt (Note 5)	\$ 11,919,406	\$ -	\$ 5,322,763	\$ -
<b>Operating Expenses</b>				
Consulting fees and salaries (Note 9)	149,669	19,000	285,489	25,000
Directors fees (Note 9)	56,258	-	114,238	-
Foreign exchange (gain) loss	(6,066)	-	114,309	-
General and administrative	47,720	225	91,030	1,831
Marketing and promotion	113,712	-	240,533	-
Professional fees	111,290	11,225	128,093	11,225
Regulatory fees	30,522	4,388	61,041	5,419
Share based compensation	3,509,162	-	3,509,162	-
Transport and storage	107,911	-	151,149	-
<b>Total Operating Expenses</b>	<b>4,120,178</b>	<b>34,838</b>	<b>4,695,044</b>	<b>43,475</b>
<b>Net Income (Loss) before taxes</b>	<b>7,799,228</b>	<b>(34,838)</b>	<b>627,719</b>	<b>(43,475)</b>
Deferred tax expense	(1,400,000)	-	(1,400,000)	-
<b>Net and Comprehensive Income (Loss) for the period</b>	<b>\$ 6,399,228</b>	<b>\$ (34,838)</b>	<b>\$ (772,281)</b>	<b>\$ (43,475)</b>
<b>Basic Income (Loss) Per Share</b> (Note 8)	<b>\$ 0.26</b>	<b>\$ (0.19)</b>	<b>\$ (0.04)</b>	<b>\$ (0.24)</b>
<b>Diluted Income (Loss) Per Share</b> (Note 8)	<b>\$ 0.26</b>	<b>\$ (0.19)</b>	<b>\$ (0.04)</b>	<b>\$ (0.24)</b>
<b>Weighted Average Number of Common Shares</b>				
Outstanding - Basic (Note 8)	24,816,280	183,019	17,974,349	183,019
<b>Weighted Average Number of Common Shares</b>				
Outstanding - Diluted (Note 8)	24,970,252	183,019	18,097,478	183,019

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

**COBALT 27 CAPITAL CORP.**  
*(formerly ARAK RESOURCES LTD.)*  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>October 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Net income (loss) for the period	\$ (772,281)	\$ (43,475)
Adjustments for:		
Unrealized gains on investments in cobalt	(5,322,763)	-
Share based compensation	3,509,162	-
Deferred tax expense	1,400,000	-
Non-cash working capital items:		
Amounts receivable and other assets	(161,527)	1,500
Accounts payable and accrued liabilities	156,377	52,353
<b>Net cash (used in) provided by Operating Activities</b>	<b>(1,191,032)</b>	<b>10,378</b>
<b>Investing Activities</b>		
Evaluation and exploration expenditures	-	(1,438)
Purchase of investments in cobalt	(78,654,069)	-
Short-term deposit	(60,000)	-
Purchase of investment	(248,102)	-
<b>Net cash used in Investing Activities</b>	<b>(78,962,171)</b>	<b>(1,438)</b>
<b>Financing Activities</b>		
Common shares issued for cash	104,619,780	-
Share issuance costs	(11,597,943)	-
Common shares issued on exercise of warrants	668,472	-
Common shares issued on exercise of stock options	22,157	-
<b>Net cash provided by Financing Activities</b>	<b>93,712,466</b>	<b>-</b>
<b>Net change in Cash</b>	<b>13,559,263</b>	<b>8,940</b>
<b>Cash, Beginning of period</b>	<b>536,676</b>	<b>749</b>
<b>Cash, End of period</b>	<b>\$ 14,095,939</b>	<b>\$ 9,689</b>
<b>Supplemental Information</b>		
Common shares issued for investments in cobalt	\$ 101,680,245	\$ -
Common shares issued for Royalty Contracts	\$ 850,000	\$ -
Deferred financing costs included in share issuance costs	\$ 135,916	\$ -

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

**COBALT 27 CAPITAL CORP.**  
*(formerly ARAK RESOURCES LTD.)*  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

	Share Capital		Reserves	Deficit	Total
	Number	Amount			
<b>Balance, April 30, 2016</b>	<b>183,019</b>	<b>\$ 1,787,113</b>	<b>\$ 721,790</b>	<b>\$ (2,925,275)</b>	<b>\$ (416,372)</b>
Net loss for the period	-	-	-	(43,475)	(43,475)
<b>Balance, October 31, 2016</b>	<b>183,019</b>	<b>\$ 1,787,113</b>	<b>\$ 721,790</b>	<b>\$ (2,968,750)</b>	<b>\$ (459,847)</b>
<b>Balance, April 30, 2017</b>	<b>1,659,164</b>	<b>\$ 3,288,921</b>	<b>\$ 1,249,420</b>	<b>\$ (3,883,255)</b>	<b>\$ 655,086</b>
Issuance of common shares for cash (Note 7(b)(i))	10,924,420	98,319,780	-	-	98,319,780
Issuance of common shares for investments in cobalt (Note 7(b)(i))	11,297,805	101,680,245	-	-	101,680,245
Issuance of common shares on exercise of over-allotment (Note 7(b)(ii))	700,000	6,300,000	-	-	6,300,000
Share issuance costs (Note 7(b)(i)(ii))	-	(11,733,859)	-	-	(11,733,859)
Issuance of common shares for Royalty Contracts (Notes 6 and 7(b)(iii))	127,778	1,150,000	-	-	1,150,000
Escrowed shares (Note 6)	-	(300,000)	-	-	(300,000)
Issuance of common shares on exercise of warrants (Note 7(b)(iv))	102,681	668,472	-	-	668,472
Issuance of common shares on exercise of options (Note 7(b)(v))	5,117	39,152	(16,995)	-	22,157
Share based compensation (Note 7(e)(f))	-	-	3,509,162	-	3,509,162
Net loss for the period	-	-	-	(772,281)	(772,281)
<b>Balance, October 31, 2017</b>	<b>24,816,965</b>	<b>\$ 199,412,711</b>	<b>\$ 4,741,587</b>	<b>\$ (4,655,536)</b>	<b>\$ 199,498,762</b>

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

---

**COBALT 27 CAPITAL CORP.**

*(formerly ARAK RESOURCES LTD.)*

**Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended October 31, 2017**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

---

**1. Nature of Operations**

Cobalt 27 Capital Corp. (*formerly* Arak Resources Ltd.), (the "Company" or "Cobalt 27") was incorporated in British Columbia on May 9, 2006. Its shares are listed on the TSX Venture Exchange ("TSX-V"). For the period from incorporation in 2006 to February 2017, the Company was a mineral exploration company but in March 2017, the Company redirected its efforts to be a company focused on the acquisition of cobalt by physical possession, entering into streaming contracts and cobalt net smelter return royalty ("Co NSR") agreements and/or participation in producing cobalt mines or early stage exploration and development of mineral properties containing cobalt.

On April 6, 2017, the Company changed its name to Cobalt 27 Capital Corp. and commenced trading under its new name and stock trading symbol KBLT. Effective November 29, 2016, the Company consolidated its common shares on a 10:1 basis. Effective April 10, 2017, the Company completed a 3:1 forward split of its common shares. In addition, on June 23, 2017, the date of closing of the Offering, the Company consolidated its existing common shares on a 20:1 basis. All references in the financial statements have been adjusted to reflect these share consolidations and forward split.

The head office is located at Suite 401, 4 King Street West, Toronto, Ontario, Canada. The registered and records offices are located at Suite 2900 – 595 Burrard Street, Vancouver, British Columbia, Canada.

These unaudited condensed interim consolidated financial statements of the Company for the three and six months ended October 31, 2017 were approved and authorized for issue by the Board of Directors on December 19, 2017.

**2. Significant Accounting Policies***Statement of compliance*

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of December 19, 2017 the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended April 30, 2017 except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending April 30, 2018 could result in restatement of these unaudited condensed interim consolidated financial statements.

---

**COBALT 27 CAPITAL CORP.**  
**(formerly ARAK RESOURCES LTD.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended October 31, 2017**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

---

**2. Significant Accounting Policies (Continued)**

Changes in accounting policies

The following accounting policies were adopted during the period ended October 31, 2017 due to the changes to the Company's corporate structure and nature of operations.

(i) Basis of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of Cobalt 27 and its wholly-owned subsidiaries: Cobalt 27 Capital (Europe) Ltd. and Cobalt 27 Capital (US) Ltd.

Subsidiaries are entities which the Company controls, either directly or indirectly, where control is defined as the power to govern an entity's financial and operating policies and generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that may arise upon the exercise or conversion of non-voting securities are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and they are de-consolidated from the date on which control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

(ii) Foreign currency translation

The presentation and functional currency of the Company is the Canadian dollar.

Foreign currency transactions are translated into the Company's 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 and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing at the reporting date are recognized in profit or loss. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Investments in cobalt

Investments in cobalt are initially recorded at cost, on the date that significant risks and rewards of ownership of the cobalt pass to the Company. Cost is calculated as the purchase price excluding transaction fees, which are expensed as incurred. Subsequent to initial recognition, investments in cobalt are measured at fair value at each reporting period end, based on the average bid and ask prices as quoted from Metal Bulletin and converted to Canadian dollars using the month-end foreign exchange noon rate. The Bank of Canada ceased reporting foreign exchange noon and closing rates effective March 1, 2017. As a result, starting March 1, 2017, the Company will utilize the Bank of Canada's month-end indicative foreign exchange rate for the purposes of measuring the fair value of its investments in cobalt. Related fair value increment gains and losses are recorded in the condensed interim consolidated statements of comprehensive income (loss) as "Unrealized gains (losses) on investments in cobalt" in the period in which they arise.

Due to the lack of specific IFRS guidance on accounting for investments in cobalt, the Company considered IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, to develop and apply an accounting policy that would result in information that is most relevant to the economic decision-making needs of users within the overall IFRS accounting framework. Consequently, the cobalt investments are presented at fair value based on the application of IAS 40 *Investment Property*, which allows the use of a fair value model for assets held for long-term capital appreciation.

---

**COBALT 27 CAPITAL CORP.**

(formerly ARAK RESOURCES LTD.)

**Notes to Condensed Interim Consolidated Financial Statements**

Three and Six Months Ended October 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

---

**2. Significant Accounting Policies (Continued)***Changes in accounting policies (continued)*

(iv) Royalty contracts

Royalty contracts consist of acquired royalty interests. These interests are recorded at cost and capitalized as tangible assets with finite lives. They are subsequently measured at cost less accumulated depletion and accumulated impairment losses, if any. Project evaluation costs that are not related to a specific agreement are expensed in the period incurred.

Producing royalty and other interests are depleted using the units-of-production method over the life of the property to which the interests relate, which are estimated using available information of proven and probable reserves and the portion of resources expected to be classified as mineral reserves at the mine corresponding to the specific agreement.

(v) Share based compensation

The Company follows the fair value method of accounting for the stock option, restricted share unit ("RSU") and warrant awards granted to officers, employees, directors, advisors and consultants. The fair value of stock options and warrants is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and the expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock. Share based compensation is amortized to earnings over the vesting period of the related option or RSU.

The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

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

*Recent accounting pronouncements*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing after May 1, 2017. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(a) Financial Instruments ("IFRS 9")

In July 2014, the IASB published the final version of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. The final version of IFRS 9 is effective for periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of adopting this standard.



**COBALT 27 CAPITAL CORP.**  
*(formerly ARAK RESOURCES LTD.)*  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended October 31, 2017**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

**2. Significant Accounting Policies (Continued)**

*Recent accounting pronouncements (continued)*

(b) Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of adopting this standard.

(c) Leases (“IFRS 16”)

IFRS 16 was issued by the IASB in January 2016. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for periods beginning on or after January 1, 2019. Earlier application is permitted. The Company is in the process of assessing the impact of adopting this standard.

**3. Amounts Receivable and Other Assets**

	<b>As at October 31, 2017</b>	<b>As at April 30, 2017</b>
Sales tax receivable - (Canada)	\$ 38,153	\$ 9,973
Prepaid expenses	191,222	73,675
Advances	15,800	-
	<b>\$ 245,175</b>	<b>\$ 83,648</b>

**4. Investment**

During the six months ended October 31, 2017, the Company purchased 200,000 common shares of Minerva Intelligence Inc. for US \$1.00 per common share for total cost of US\$200,000 (C\$248,102). Minerva Intelligence Inc. is a privately-held company and the Company’s investment is initially recorded at cost, being the fair value at the time of acquisition. The absence of occurrence of any event or any significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

**COBALT 27 CAPITAL CORP.***(formerly ARAK RESOURCES LTD.)***Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended October 31, 2017****(Expressed in Canadian Dollars)****(Unaudited)****5. Investments in cobalt**

During the six months ended October 31, 2017, the Company acquired 1,488.3 tonnes of premium-grade cobalt and 672.6 tonnes of standard-grade cobalt at a cost of \$180,334,314. As of October 31, 2017, details of cobalt holdings are as follows:

<b>Category of cobalt</b>	<b>Quantity of cobalt metric tonne (mt)</b>	<b>Cost</b>	<b>Fair value <sup>(1)</sup></b>
Premium grade	1,488.3	\$ 126,992,354	\$ 128,492,308
Standard grade	672.6	53,341,960	57,164,769
	<b>2,160.9</b>	<b>\$ 180,334,314</b>	<b>\$ 185,657,077</b>

<b>Location</b>	<b>Facility</b>	<b>Quantity of cobalt (mt)</b>	<b>Cost</b>	<b>Fair value <sup>(1)</sup></b>
Baltimore	Steinweg	1,499.9	\$ 127,237,762	\$ 129,341,585
Rotterdam	Steinweg	419.0	33,231,906	35,613,507
Rotterdam	Vollers	100.0	8,603,468	8,633,762
Antwerp	Steinweg	142.0	11,261,178	12,068,223
		<b>2,160.9</b>	<b>\$ 180,334,314</b>	<b>\$ 185,657,077</b>

<sup>(1)</sup> Based on the Metal Bulletin average high grade price of US\$30.38 per pound and the Metal Bulletin average low grade price of US\$29.90 as of October 31, 2017, and US\$/C\$ exchange rate of \$1.2893 as at October 31, 2017.

During the three and six months ended October 31, 2017, \$11,919,406 and \$5,322,763, respectively are the unrealized gains on investments in cobalt which are mainly attributable to the increase in the price of cobalt but has also been impacted by fluctuations in the value of the Canadian dollar relative to the United States dollar.

---

**COBALT 27 CAPITAL CORP.****(formerly ARAK RESOURCES LTD.)****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended October 31, 2017****(Expressed in Canadian Dollars)****(Unaudited)**

---

**6. Royalty Contracts**

Subsequent to the closing of the Offering, the Company entered into eight agreements to acquire royalties on exploration-stage mineral properties containing cobalt (the "Royalty Contracts") in consideration for a total of 127,778 common shares valued at \$1,150,000. On July 4, 2017, the Company completed seven of the eight Royalty Contracts. As at October 31, 2017, 33,333 of the above issued common shares (valued at \$300,000) were held in escrow pending the fulfillment of several obligations by the vendor (the "Vendor") on one of its Royalty Contracts. The value of the common shares held in escrow has been deducted from Share Capital in the Condensed Interim Consolidated Statements of Changes in Shareholders' Equity. As a result of a strategic review process, the Company and the Vendor have agreed in principle to mutually terminate the Royalty Contract and are currently in negotiations to finalize a termination agreement.

The royalties relate to cobalt as a by-product associated with polymetallic and base metals exploration properties.

As of October 31, 2017, the Company's completed Royalty Contracts consisted of the following:

---

<b>Royalty Name</b>	<b>Owner</b>	<b>Property Location</b>	<b>Stage</b>	<b>Primary Metal(s)</b>	<b>Royalty Type and %</b>	<b>Consideration</b>
Triangle Property	New Found Gold Corp. (formerly Palisade Resources Corp.)	Ontario	Exploration	Co-Ag	2% Co NSR	27,778 shares valued at \$250,002
Rusty Lake Property	New Found Gold Corp. (formerly Palisade Resources Corp.)	Ontario	Exploration	Co-Ag	2% Co NSR	27,778 shares valued at \$250,002
Professor & Waldman Properties <sup>(1)</sup>	New Found Gold Corp. (formerly Palisade Resources Corp.)	Ontario	Exploration	Co-Ag	2% Co NSR	27,777 shares valued at \$249,996
North Canol Properties <sup>(1)</sup>	Golden Ridge Res. Ltd.	Yukon	Exploration	Ag-Pb-Zn-Co	2% Co NSR	5,556 shares valued at \$50,000
Sunset Mineral Corp.	Three Individuals	British Columbia	Exploration	Cu-Zn-Co	2% Co NSR	5,556 shares valued at \$50,000
<b>Total Royalty Contracts</b>						<b>94,445 shares valued at \$850,000</b>

---

<sup>(1)</sup> Two separate mineral properties to which a Co NSR applies.

---

**COBALT 27 CAPITAL CORP.**

*(formerly ARAK RESOURCES LTD.)*

**Notes to Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended October 31, 2017**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

---

**7. Share Capital**

a) Authorized: Unlimited number of common shares without par value.

b) Common shares issued:

- (i) On June 23, 2017, the Company closed an offering (the "Offering") for 22,222,225 common shares at a price (the "Offering Price") of \$9.00 per share for a value of \$200,000,025. The Offering was completed as follows: (a) 10,924,420 common shares for aggregate gross cash proceeds of \$98,319,780 (the "Cash Offering") and (b) 11,297,805 common shares for cobalt contracts (the "Cobalt Contract Shares") for aggregate value of \$101,680,245 (the "Cobalt Shares Offering"). The cobalt contracts were subsequently converted to physical cobalt. The number of Cobalt Contract Shares issued was equal to the agreed fair market value for the cobalt purchased pursuant to the terms of the cobalt contracts divided by the Offering Price of the common shares. The Company granted the underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the closing of the Offering, to purchase from the Company at the Offering Price up to an additional 15% of the number of common shares distributed under the Offering.

Pursuant to the terms and conditions of the Underwriting Agreement, the Company agreed to pay a cash fee to the underwriters in an amount calculated as 6.0% of the gross proceeds realized from the sale of common shares distributed under the Cash Offering and 6.0% of the value of the common shares distributed under the Cobalt Shares Offering, provided that the first \$70 million of Cobalt Contract Shares under the Offering and the sale of 2,270,000 Shares to Pala Investments will be subject to a 1.0% fee (the "Commissions"). These Commissions totaled \$7,478,502. The Company reimbursed the Underwriters' legal fees and other expenses incurred with respect to the Offering which totalled \$350,000. In addition, the Company paid \$3,000,000 for financial advisory fees and \$527,227 in legal and professional fees.

- (ii) On June 29, 2017, a portion of the over-allotment option granted by the Company to the underwriters in connection with the Offering was exercised. A total of 700,000 common shares were issued at a price of \$9.00 per share, for additional gross proceeds of \$6,300,000. The Company paid a 6% cash commission of \$378,000.
- (iii) The Company issued 127,778 common shares in consideration for Royalty Contracts (see Note 6).
- (iv) During the six months ended October 31, 2017, 102,681 warrants and agent's warrants were exercised for gross proceeds of \$668,472.
- (v) During the six months ended October 31, 2017, 5,117 stock options were exercised for gross proceeds of \$22,157. The grant date fair value of \$16,995 was transferred from reserves to share capital.
- (vi) On October 17, 2017, the Company filed a short form base shelf prospectus ("Shelf Prospectus") to qualify the distribution of common shares, debt securities, subscription receipts, warrants, share purchase contracts and or units of the Company having aggregate proceeds of up to \$300,000,000 during the 25 month period that the Shelf Prospectus remains valid. As of October 31, 2017, the Company has not issued any securities pursuant to the Shelf Prospectus (note 13).

---

**COBALT 27 CAPITAL CORP.***(formerly ARAK RESOURCES LTD.)***Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended October 31, 2017****(Expressed in Canadian Dollars)****(Unaudited)**

---

**7. Share Capital (Continued)**

## c) Warrants

The following table reflects the continuity of warrants for the periods ended October 31, 2017 and 2016:

	<b>Number of warrants</b>	<b>Weighted average exercise price (\$)</b>
<b>Balance, April 30, 2016 and October 31, 2016</b>	<b>94,950</b>	<b>6.67</b>
<b>Balance, April 30, 2017</b>	<b>101,700</b>	<b>6.30</b>
Exercised	(96,974)	6.67
Expired	(976)	6.67
<b>Balance, October 31, 2017</b>	<b>3,750</b>	<b>1.20</b>

The following table reflects the actual warrants issued and outstanding as of October 31, 2017:

<b>Number of warrants outstanding</b>	<b>Exercise price (\$)</b>	<b>Expiry date</b>
3,750	1.20	March 21, 2022

## d) Agent's Warrants

The following table reflects the continuity of agent's warrants for the periods ended October 31, 2017 and 2016:

	<b>Number of warrants</b>	<b>Weighted average exercise price (\$)</b>
<b>Balance, April 30, 2016 and October 31, 2016</b>	<b>5,707</b>	<b>6.67</b>
<b>Balance, April 30, 2017</b>	<b>5,707</b>	<b>6.67</b>
Exercised	(5,707)	6.67
<b>Balance, October 31, 2017</b>	<b>-</b>	<b>-</b>

**COBALT 27 CAPITAL CORP.***(formerly ARAK RESOURCES LTD.)***Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended October 31, 2017****(Expressed in Canadian Dollars)****(Unaudited)****7. Share Capital (Continued)**

## e) Stock options

The Company has a stock option plan in place under which it is authorized to grant options of up to 10% of its outstanding shares to officers, employees, directors, advisors and consultants. The exercise price is determined by the Board of Directors provided the minimum exercise price is set at the Company's closing share price on the day before the grant date. The options can be granted for a maximum term of ten years and vesting terms are determined by the Board of Directors at the date of grant.

The following table reflects the continuity of stock options for the periods ended October 31, 2017 and 2016:

	Number of stock options	Weighted average exercise price (\$)
<b>Balance, April 30, 2016 and October 31, 2016</b>	<b>16,500</b>	<b>0.25</b>
<b>Balance, April 30, 2017</b>	<b>158,867</b>	<b>4.33</b>
Granted (i)	510,000	9.00
Exercised	(5,117)	4.33
<b>Balance, October 31, 2017</b>	<b>663,750</b>	<b>7.92</b>

(i) On August 7, 2017, the Company granted a total of 510,000 stock options to certain directors, officers, advisors and consultants of the Company pursuant to the Company's stock option plan. The stock options are exercisable at a price of \$9.00 per share, expire on August 7, 2022 and vest immediately. The fair value of the stock options was estimated to be \$1,427,490 using the Black-Scholes option pricing model on the following assumptions: exercise price of \$9.00, risk free interest rate of 1.53%, an expected life of 2.5 years and an expected volatility of 50%. During the three and six months ended October 31, 2017, share based compensation of \$1,427,490 was recorded in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) (three and six months ended October 31, 2016 - \$nil).

The following table reflects the Company's stock options outstanding and exercisable as at October 31, 2017:

Options outstanding and exercisable	Grant date fair value (\$)	Exercise price (\$)	Weighted average remaining contractual life (years)	Expiry date
153,750	510,635	4.33	4.42	March 31, 2022
510,000	1,427,490	9.00	4.77	August 7, 2022
<b>663,750</b>	<b>1,938,125</b>	<b>7.92</b>	<b>4.69</b>	

---

**COBALT 27 CAPITAL CORP.****(formerly ARAK RESOURCES LTD.)****Notes to Condensed Interim Consolidated Financial Statements****Three and Six Months Ended October 31, 2017****(Expressed in Canadian Dollars)****(Unaudited)**

---

**7. Share Capital (Continued)**

(f) Restricted share units

On August 6, 2017, the Company adopted a Restricted Share Unit Plan (the "RSU Plan"), subject to TSX-V and disinterested shareholder approval. The maximum aggregate number of shares reserved for issuance under the RSU Plan, together with the Company's existing Stock Option Plan (as approved by its shareholders on May 18, 2017), shall not exceed a combined total of 10% of the Company's issued and outstanding shares. In addition, the RSU Plan sets out certain other restrictions in respect of grants to certain participants under the RSU Plan in accordance with the rules of the TSX-V. No Shares shall be issued until the Company has received TSX-V and disinterested shareholder approval of the RSU Plan.

The grant date fair value of the Restricted Share Units ("RSUs") equals the fair market value of the corresponding shares at the grant date. The fair value of these equity-settled awards is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over the vesting period, which is the period over which all the specified vesting conditions should be satisfied.

During the three and six months ended October 31, 2017, the Company granted 700,000 RSUs to certain employees under its RSU Plan. These RSUs vest over three years on a monthly basis from the grant date. Compensation for the three and six months ended October 31, 2017 was \$2,081,672 (\$nil for the three and six months ended October 31, 2016).

As at October 31, 2017, there were 700,000 RSUs outstanding. The weighted average fair value of RSU's granted during the three and six months ended October 31, 2017 was \$9.20 per share.

**8. Net Income (Loss) per Common Share**

Basic and diluted income (loss) per share are as follows for the periods presented:

---

	<b>Three Months Ended October 31,</b>		<b>Six Months Ended October 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Numerator:</b>				
Net income (loss)	\$ 6,399,228	\$ (34,838)	\$ (772,281)	\$ (43,475)
<b>Denominator</b>				
Weighted average number of common shares - basic	24,816,280	183,019	17,974,349	183,019
Effect of dilutive securities	153,972	-	123,129	-
Weighted average number of common shares - diluted	24,970,252	183,019	18,097,478	183,019
Net income (loss) per share - basic	\$ 0.26	\$ (0.19)	\$ (0.04)	\$ (0.24)
Net income (loss) per share - diluted	\$ 0.26	\$ (0.19)	\$ (0.04)	\$ (0.24)

---

---

**COBALT 27 CAPITAL CORP.**

(formerly ARAK RESOURCES LTD.)

**Notes to Condensed Interim Consolidated Financial Statements**

Three and Six Months Ended October 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

---

**9. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are recorded at the exchange amount, being the amount agreed to between the related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and members of the Board of Directors.

Remuneration of key management personnel of the Company was as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
Consulting fees and salaries <sup>(1)(2)</sup>	\$ 133,999	\$ 9,000	\$ 255,238	\$ 15,000
Directors fees <sup>(2)</sup>	56,258	-	114,238	-
Share based compensation	3,075,317	-	3,075,317	-
	<b>\$ 3,265,574</b>	<b>\$ 9,000</b>	<b>\$ 3,444,793</b>	<b>\$ 15,000</b>

(1) Consulting fees and salaries paid to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer for their services.

(2) Included in accounts payable and accrued liabilities are fees owing to officers and directors of \$31,812 as at October 31, 2017 (April 30, 2017 - \$nil).

**Major shareholders**

To the knowledge of the directors and senior officers of the Company as at October 31, 2017, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the voting rights attached to all common shares of the Company other than as set out below:

Major shareholders	Number of common shares	Percentage of outstanding common shares
Pala Investments Limited	4,646,908	18.72 %
Green Energy Metals Fund, LP	3,811,037	15.36 %

The remaining 65.92% of the shares are widely held, which includes various small holdings which are owned by directors and officers of the Company. With the exception of Pala Investments Limited, directors and officers of the Company, the percentage holdings of shareholders can change at any time at the shareholder's discretion. Pala Investments Limited, directors and officers of the Company are subject to a six month lock-up agreement following the closing of the Offering.



---

**COBALT 27 CAPITAL CORP.**

(formerly ARAK RESOURCES LTD.)

**Notes to Condensed Interim Consolidated Financial Statements**

Three and Six Months Ended October 31, 2017

(Expressed in Canadian Dollars)

(Unaudited)

---

**10. Financial Instruments****Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access at the measurement date;

Level 2: Valuations based on directly or indirectly observable inputs for the asset or liability, other than quoted Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not observable, such as discounted cash flow methodologies based on internal cash flow forecasts.

As of October 31, 2017, the Company's financial instruments consist of cash, short-term deposits, investment, investments in cobalt and accounts payable and accrued liabilities. Cash and short-term deposits are stated at fair value and classified within Level 1. Investment is stated at fair value and classified within Level 3. Investments in cobalt are classified within Level 2. The fair values of accounts payable and accrued liabilities approximate their carrying values because of the short term nature of these instruments.

**11. Financial Risks**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

**Credit Risk**

Credit risk is the risk of loss due to a counter-party's inability to meet its obligations under a financial instrument or contractual agreement that will result in a financial loss to the Company. The Company's credit risk exposure includes the carrying amounts of cash, short-term deposits and investments in cobalt. To limit the credit risk exposure on its cash and short-term deposits, the Company holds all of its cash and short-term deposits in credit worthy financial institutions, while investments in cobalt are held with storage facilities owned by organizations that are credible and financially stable.

**Liquidity risk**

Financial liquidity represents the Company's ability to fund future operating activities. The Company may generate cash from the lending, relocation, or sale of cobalt, or the sale of additional equity securities, as well as through debt financing. The Company will fund its ongoing operations with its existing cash balance and has the ability to sell some of its inventory of cobalt to generate additional cash if required. Although the Company may enter into commitments to purchase additional cobalt or acquire cobalt streams, royalties, and direct interests in mineral properties containing cobalt, those commitments are normally funded by use of the Company's available cash or are contingent on its ability to raise funds through the sale of additional equity securities or debt financing.

**Market risk****(i) Interest rate risk**

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

---

**COBALT 27 CAPITAL CORP.**  
**(formerly ARAK RESOURCES LTD.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended October 31, 2017**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

---

**11. Financial Risks (Continued)**

*Market risk (continued)*

(ii) Foreign currency risk

Foreign currency risk arises from transactions and recognized assets and liabilities denominated in a currency that is not the Company's functional currency. The Company's functional currency is Canadian dollars. In calculating the value of investments in cobalt, the Company uses average bid and ask cobalt prices published by Metal Bulletin which are denominated in United States dollars. The Company expects to incur some expenses in United States dollars, British Pound Sterling and European Euro.

As at October 31, 2017, the Company has estimated that a 5% increase or decrease in the value of United States dollars, British Pound Sterling and European Euro, all other variables remaining constant, would result in a corresponding decrease or increase in net loss and comprehensive loss of \$9,297,030.

(iii) Price risk

The Company is exposed to price risk with respect to commodity prices. The value of the Company's physical holdings of cobalt may be adversely affected by a decline in the price of cobalt. The price of cobalt fluctuates widely and is affected by numerous factors beyond the Company's control, including but not limited to global and regional supply and demand, and the political and economic conditions of major cobalt producing countries throughout the world, including the Democratic Republic of the Congo ("DRC").

As at October 31, 2017, the Company has estimated that a 5% increase or decrease in the price of cobalt, all other variables remaining constant, would result in a corresponding decrease or increase in net loss and comprehensive loss of \$9,282,854.

**12. Segmented Information**

The Company operates in a single reportable operating segment, being the acquisition of cobalt.

**13. Subsequent Event**

On December 19, 2017, the Company announced that it has closed a bought deal offering detailed in the prospectus supplement filed on December 11, 2017 in conjunction with its short form base shelf prospectus dated October 17, 2017. The offering distributed a total of 8,100,000 common shares on a bought deal basis at an issue price of \$10.50 per common share for aggregate gross proceeds of approximately \$85 million. The offering was underwritten by a syndicate of underwriters co-led by TD Securities Inc. and Scotiabank and included BMO Capital Markets, Haywood Securities Inc., Canaccord Genuity Corp., RBC Dominion Securities Inc., Cormark Securities Inc., National Bank Financial Inc., Desjardins Securities Inc., Eight Capital and GMP Securities L.P. (collectively, the "Underwriters"),

Cobalt 27 has granted the Underwriters an over-allotment option, exercisable in whole or in part at any time up to 30 days following December 19, 2017, to purchase up to an additional 1,215,000 Common Shares at the issue price.

The net proceeds of this equity raise will be used to purchase 800 metric tonnes of physical cobalt. In addition, Cobalt 27 entered into agreements to purchase an additional 22 metric tonnes of physical cobalt for a total purchase price of approximately US\$1.7 million (approximately \$2.2 million) payable in common shares at the issue price of \$10.50. These purchases bring the Company's total cobalt holdings to 2,982.9 metric tonnes.

Directors and officers of the Company are subject to a 90 day lock-up agreement following December 19, 2017.