

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

Financial Statements

Years ended December 31, 2018 and 2017

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Unitholders of Gravitas Select Flow-Through Limited Partnership III:

Opinion

We have audited the financial statements of Gravitas Select Flow-Through Limited Partnership III (the "Partnership"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive income (loss), changes in partners' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership'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 Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Toronto, Ontario

April 1, 2019

MNP LLP
Chartered Professional Accountants

Licensed Public Accountants

Gravitas Select Flow-Through L.P. III

Statements of Financial Position As at December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash	\$ 17,316	\$ 142,799
Investments at fair value	–	2,662,946
Accounts receivable	11,494	–
Total Assets	28,810	2,805,745
LIABILITIES		
Current liabilities		
Trade and other payables	28,810	450,729
Total Liabilities	28,810	450,729
PARTNERS' EQUITY	\$ –	\$ 2,355,016
Number of Partnership Units outstanding	–	129,729
Partners' Equity per Unit	\$ –	\$ 18.15

These financial statements were approved and authorized for issue on behalf of the Partnership by the General Partner on April 1, 2019.

/s/ Chris Guthrie
Director, Gravitas Select Flow-Through GP Inc.

The accompanying notes are an integral part of the financial statements.

Gravitas Select Flow-Through L.P. III

Statements of Comprehensive Income (Loss) For the years ended December 31, 2018 and 2017

	2018	2017
Income		
Interest income	\$ 1,309	\$ –
Realized gain on investments	486,087	602,354
Change in value of investments	<u>(1,499,580)</u>	<u>324,805</u>
	<u>(1,012,184)</u>	<u>927,159</u>
Expenses (recovery)		
Management fees	44,365	74,233
Performance fees (recovery)	(318,369)	416,871
Administrative expenses	42,020	–
Consulting fees	14,083	14,884
Professional fees	10,368	6,833
Bank fees	<u>100</u>	<u>445</u>
	<u>(207,433)</u>	<u>513,266</u>
(Decrease) Increase in Partners' Equity from Operations	\$ <u>(804,751)</u>	\$ <u>413,893</u>
Weighted average number of Partnership Units outstanding	129,729	154,214
(Decrease) Increase in Partners' Equity per Unit	\$ (6.20)	\$ 2.68

The accompanying notes are an integral part of the financial statements.

Gravitas Select Flow-Through L.P. III

Statements of Changes in Partners' Equity For the years ended December 31, 2018 and 2017

	Partnership Units	Total
Balance at January 01, 2018	129,729	\$ 2,355,016
Decrease in Partners' Equity from operations	–	(804,751)
Distribution to partners	(129,729)	(1,550,265)
Balance at December 31, 2018	–	\$ -

	Partnership Units	Total
Balance at January 01, 2017	162,850	\$ 2,486,290
Increase in Partners' Equity from operations	–	413,893
Distribution to partners	(33,121)	(545,167)
Balance at December 31, 2017	129,729	\$ 2,355,016

The accompanying notes are an integral part of the financial statements.

Gravitas Select Flow-Through L.P. III

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating Activities		
(Decrease) increase in Partners' Equity	\$ (804,751)	\$ 413,893
Change in non-cash balances		
Accounts receivable	(11,494)	–
Trade and other payables	(421,919)	359,601
Investments	2,662,946	66,755
Cash provided by operating activities	<u>1,424,782</u>	<u>840,249</u>
Financing Activities		
Distributions to Limited Partners	(1,550,265)	(545,167)
Due to the General Partner's parent company	–	(225,210)
Cash used in financing activities	<u>(1,550,265)</u>	<u>(770,377)</u>
Increase (decrease) in cash and cash equivalents during the year	(125,483)	69,872
Cash and cash equivalents, beginning of year	<u>142,799</u>	<u>72,927</u>
Cash and cash equivalents, end of year	<u>\$ 17,316</u>	<u>\$ 142,799</u>

The accompanying notes are an integral part of the financial statements.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 1. STATUTES AND NATURE OF ACTIVITIES

Gravitas Select Flow-Through Limited Partnership III (the "Partnership") was formed as a limited partnership under the laws of the Province of Ontario on February 10, 2015. The principal purpose of the Partnership is to achieve capital appreciation primarily through investment in equity securities (including flow-through shares) of Resource Companies whose principal business is oil and gas exploration, development and/or production, resource issuers involved in mineral exploration, development and/or production or resource issuers involved in the generation of electrical and heat energy who qualify for Canadian renewable and conservation expenses.

The Partnership head office is located at 333, Bay Street, suite 1700, Toronto, Ontario, M5H 2R2.

The general partner of the Partnership is Gravitas Select Flow-Through GP Inc. (the "General Partner") which is a promoter of the Partnership in connection with the offering of units of the Partnership (the "Units"). Under the Limited Partnership Agreement between the General Partner and each of the limited partners (the "LPA"), the General Partner is entitled to a 0.01% beneficial interest in the Partnership.

Gravitas Securities Inc. is acting as the Portfolio Manager (the "Portfolio Manager") of the Partnership. The Portfolio Manager will provide portfolio management, investment advisory and investment management services, administrative and other services to the Partnership on behalf of the General Partner. The Portfolio Manager will identify, analyze and select investment opportunities, structure and negotiate prospective investments, make investments for the Partnership in securities, monitor the performance of Mining and Energy Resource Companies, and determine the timing, terms, and method of disposition of investments.

Under the LPA, the Partnership will be dissolved not later than December 31, 2018. The Partnership was dissolved on December 31, 2018 accordingly.

NOTE 2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these financial statements are based on IFRS effective as of April 1, 2019 which is the date the General Partner approved these financial statements.

Basis of preparation and evaluation of financial statements

These financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss which are presented at fair value.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the accounting policies of the Partnership.

Cash

Cash includes bank deposits at a reputable financial institution in Canada.

Functional and presentation currency and basis of evaluation

The functional currency is the currency of the primary economic environment in which the entity operates. These financial statements are presented in Canadian Dollars, which is the Partnership's functional currency and presentation currency.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting judgments, estimates and assumptions

The preparation of the Partnership's financial statements in conformity with IFRS requires the General Partner to make judgments, estimates and assumptions that affect the application of accounting policies, reported amounts of assets, liabilities, revenues and expenses at the date of the financial statements and during the reporting period.

Estimates and assumptions are continuously evaluated and are based on the General Partner's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Partnership, the Portfolio Manager is required to make significant judgments about whether or not the business of the Partnership is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IFRS 9 – Financial Instruments. The most significant judgments made include the determination that certain investments are fair value through profit or loss ("FVTPL").

The Partnership holds financial instruments that are not quoted in active markets. Fair values may be determined using reputable pricing vendors (for derivatives) or indicate prices from market makers/brokers. Broker quotes as obtained from pricing sources may be indicative and not executable or binding. Securities not listed upon a recognized public stock exchange, or securities for which a last sale or closing price are unavailable or securities for which market quotations are inaccurate, unreliable or not reflective of all available material information, are valued at their estimated fair value, determined by using appropriate and accepted industry valuation techniques including valuation models. The estimated fair value of a security determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. The estimates include consideration of liquidity and model inputs related to items such as credit risk and volatility. Valuation techniques utilized by the Partnership are described in Note 5. Changes in assumption about these factors could affect the reported fair value of financial instruments and the level where the instruments are disclosed in the fair value hierarchy. To assess the significance, the Partnership performs a sensitivity analysis of these estimates to the fair value of the Partnership's holdings (see Note 9).

Valuation of investments

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices. In accordance with the provisions of the Partnership's Offering Memorandum, investment positions are valued based on the last traded market price for the purpose of determining the net asset per unit for subscriptions and redemptions. For financial reporting purposes, the Partnership uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. When the Partnership holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

The fair value of financial assets and financial liabilities that are not traded in an active market is determined using valuation techniques based on observable and unobservable market data. The Partnership uses a variety of methods and makes assumptions that are based on market conditions existing at each Statement of Net Assets' date. Valuation techniques used include the use of; net asset values of investment funds, comparable recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of the Partnership's investments as at the financial reporting date is determined as follows:

Common shares in quoted companies

All securities listed on a recognized public stock exchange are generally valued at their last bid price. The Partnership uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the General Partner determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. Common shares with restrictions on disposal for certain period of time are discounted by the General Partner after considering the restriction period remaining after the reporting date, financial performance of the investee company and the stock exchange the common shares are listed on.

Common shares in a private company

Investments in securities having no quoted market values or in illiquid securities are valued using valuation techniques. Valuation techniques include, but are not limited to, referencing the current value of similar instruments, using recent arm's length market transactions, discounted cash flow analyses or other valuation models.

Warrants

Warrants are valued at fair value using the Black-Scholes model which considers the following factors and assumptions: exercise price, expected rate of dividend, stock historical volatility, risk-free interest rate, and expected life of the warrant.

Offsetting financial instrument

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business the Partnership enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts.

Recognition and derecognition of financial assets and liabilities

The Partnership recognizes financial assets or liabilities designated as trading securities on the trade date - the date it commits to purchase or sell short the instruments. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statement of comprehensive income.

Other financial assets are derecognized and only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Partnership derecognizes financial liabilities when, and only when, the Partnership's obligations are discharged, cancelled or they expire.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is derived from interest and dividends. Interest income is recognized based on the effective interest rate basis. Dividends, if any, are recognized as of the ex-dividend date. Transaction costs related to the acquisition or disposal of investments are recognized in the Statement of comprehensive income (loss).

Unit issue costs

Expenses related to the initial offering of the Partnership Units and agent's fees have been accounted for as a reduction of Partners' equity.

Increase (decrease) in Partners' Equity per unit

The increase (decrease) in Partners' Equity per unit is disclosed in the Statement of Comprehensive Income (Loss) and represents the increase or decrease in Partners' Equity from operations for the year divided by the weighted average number of Partnership Units outstanding during the year.

Income taxes

These financial statements include the assets and liabilities and results of operations of the Partnership and do not include the assets, liabilities, revenues and expenses of the Limited Partners. The Partnership income is allocated to the Partners in accordance with the Limited Partnership Agreement. Income taxes are not eligible at the Partnership level and accordingly no provision for tax is recorded in these financial statements.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

IFRS 15 – Revenue from contracts with customers ("IFRS 15")

On January 1, 2018, the Partnership adopted IFRS 15 using the modified retrospective approach. IFRS 15 replaces IAS 18 "Revenue" and establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Under IFRS 15, the initial steps in revenue recognition are to identify the appropriate contracts with customers and define the performance obligations in the contracts. Revenue is recognized when the performance obligations are satisfied — when "control" of goods or services transfers to the customers. IFRS 15 also requires the transaction price to be allocated to each separate performance obligation in proportion to stand-alone selling prices. In addition, variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Revenue associated with principal trading and investment income are excluded from the scope of IFRS 15.

There was no impact on adoption of IFRS 15 on the Partnership's standard revenue contracts.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 4. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 9 – Financial instruments (“IFRS 9”)

On January 1, 2018, the Partnership adopted IFRS 9 “Financial Instruments”, which includes a principle-based approach for classification and measurement of financial assets and a forward looking ‘expected credit loss’ model. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”); or fair value through profit or loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Partnership reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Impairment of financial assets under IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. The Partnership applies this model to its trade receivables. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information (“FLI”) is incorporated into the estimation of ECL allowances, which involves significant judgment. The calculation of ECL allowances is based on the expected value of the probability-weighted scenarios to measure expected cash shortfalls, discounted at the effective interest rate. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default (“PD”) is an estimate of the likelihood of default over a given time horizon;
- The loss given default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default (“EAD”) is an estimate of the exposure at a future default date.

Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears or greater is automatically considered impaired. Any financial instruments where the borrower has filed for bankruptcy will also be considered to be impaired.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery.

As permitted under IFRS 9, the Partnership applies a simplified approach to its due from General Partner and amounts receivable relating to accrued income whereby lifetime ECLs are recognized at initial recognition. The Partnership does not currently apply a credit risk rating to its financial assets as there are no expected future credit losses.

Due from related parties, trade and other payables and due to related parties are consistently recorded at amortized cost. Due to their short-term nature or applicable market-rate terms, the carrying value approximates their fair value.

Cash previously classified as FVTPL under IAS 39 is still classified as FVTPL as these financial assets are not held in a business model whose objective is to collect contractual cash flows and sell financial assets.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 4. CHANGES IN ACCOUNTING POLICIES (Continued)

All financial instruments are required to be measured at fair value on initial recognition, plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments or principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods.

All other financial assets including securities owned are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Financial assets and liabilities are recognized when the Partnership becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership. Regular way purchases and sales of financial assets are accounted for at the trade date.

The Partnership classifies its financial instruments by category according to their nature and their characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction. The Partnership classifies its financial assets and financial liabilities as outlined below:

Financial instrument	Category	Measurement
Assets		
Cash	FVTPL	Fair value
Investments at fair value	FVTPL	Fair value
Accounts receivable	AMC	Amortized cost
Liabilities		
Trade and other payables	Other financial liabilities	Amortized cost

NOTE 5. INVESTMENTS OWNED

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Partnership's investments owned fall as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
Cash	\$ 17,316	\$ -	\$ -	\$ 17,316
	\$ 17,316	\$ -	\$ -	\$ 17,316

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Partnership's investments owned fall as of December 31, 2017.

	Level 1	Level 2	Level 3	Total
Cash	\$ 142,799	\$ -	\$ -	\$ 142,799
Investments at fair value	2,662,946	-	-	2,662,946
	\$ 2,805,745	\$ -	\$ -	\$ 2,805,745

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 6. RELATED PARTY TRANSACTIONS

Management fees

Pursuant to the terms of the LPA and a Portfolio and Investment Fund Management Agreement, each of the General Partner and the Portfolio Manager is entitled to a management fee (the "Management Fee") equal to 1.125% per annum (2.25% per annum in aggregate) of the Net Asset Value of the Partnership, calculated and payable quarterly in arrears, commencing on the first quarter end following the initial closing date.

Performance fees

The General Partner is also entitled to a performance fee (the "Performance Fee") payable on the earlier of: (a) the day on which a distribution is made to the Limited Partners; (b) the business day prior to the date of completion of a Liquidity Alternative; and (c) the business day immediately prior to the date of dissolution or termination of the Partnership (each a "Performance Fee Date"), equal to twenty-five percent (25%) of the amount that is equal to the product of: (i) the number of units outstanding on the Performance Fee Date; and (ii) the amount by which the Net Asset Value per unit on such Performance Fee Date plus any distributions per unit paid until the Performance Fee Date exceeds \$11.00.

The Performance Fee will be paid to the General Partner in cash before any assets of the Partnership are exchanged as part of a Liquidity Alternative or the dissolution or termination of the Partnership.

Liquidity alternative as defined in the LPA means an alternative to the termination of the Partnership, which the General Partner may propose for the approval of the Limited Partners at a special meeting of Limited Partners.

Administrative operating expenses

In addition to the Management Fee, the Partnership will pay all of its administrative and operating expenses (to a maximum of \$100,000 per annum during the term of the Partnership), expenses relating to investment transactions (including finder's fees, if any, but excluding brokerage costs), taxes, legal fees, audit fees, printing and mailing costs and other regulatory compliance costs, if any. Such expenses, as well as the Performance Fee of the General Partner and the Portfolio Manager will be paid from the net proceeds of the sale of investments.

The Partnership will pay all costs relating to the proposed offering of units, limited to 1.75% plus applicable taxes of gross proceeds received of which 0.75% will be payable to the General Partner and 1% to the Agent and Selling Agents for dealer due diligence, platform and distribution override fees to a maximum of \$175,000. Also, the Partnership will pay selling commissions and fees of 10% of the gross proceeds received on the proposed offering to the Agent and Selling Agents.

The Partnership's related parties include its joint key management and other related parties, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The General Partner and the Portfolio Manager are entitled to management and performance fees as outlined above. In the year 2018, management fees of \$44,365 (2017 - \$74,233) were charged by the General Partner and the Portfolio Manager. In the year 2017, \$416,871 performance fees were charged by the General Partner and the Portfolio Manager, of which \$318,369 in performance fees accrued were reversed in the year 2018 due to the decreased net asset value at distribution and the balance of \$98,502 performance fees accrued were paid in the year 2018 upon dissolution of the Partnership.

As at December 31, 2018, the Partnership owes an amount of \$nil (2017 - \$217,918) to the Manager and \$nil (2017 - \$217,918) to the General Partner. These amounts were included under Trade and other payables and are non-interest bearing and payable on demand.

These transactions were carried out in the normal course of business and are measured at the exchange amount, i.e. the amount established and agreed upon by the parties.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 7. UNITS OF THE LIMITED PARTNERS

Partnership Units issued and outstanding represent the Partners' equity of the Partnership. The Partnership is not subject to any regulatory requirements on capital. The Partnership Units were issued at a price of \$10.00 per unit, subject to a minimum subscription of 500 units for \$5,000. The Partnership has no restrictions or specific capital requirements and is authorized to issue maximum of 1,500,000 units as specified in the LPA. The Statement of Changes in Partners' Equity outlines the relevant changes of the Partnership's Units during the year.

The Partnership manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 6 while maintaining sufficient liquidity to meet obligations. All Partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the Limited Partners.

The Partnership redeemed all of the 129,729 units outstanding for gross proceeds of \$1,550,265 in the year 2018 (2017 - 33,121 units redeemed for gross proceeds of \$545,167).

NOTE 8. GENERAL AND LIMITED PARTNERS' ENTITLEMENTS

The limited partners' entitlements with respect to the Net Assets of the Partnership and distribution of income are generally as follows:

Allocation of net income, loss and eligible expenditures

The Partnership shall allocate 99.99% of its net income for each fiscal year to the limited partners of record on December 31 of each such fiscal year and 0.01% to the General Partner at the end of each fiscal year. 100% of the net loss for each fiscal year shall be allocated at the end of each fiscal year to the limited partners of record on December 31 of each such fiscal year.

All Canadian Exploration Expenses ("CEE"), if any, renounced to the Partnership with an effective date in such fiscal year and 99.99% of the net income or net loss of the Partnership for the fiscal year are allocated to limited partners at the end of the fiscal year in proportion to the number of limited partnership units owned. The General Partner is entitled to 0.01% of the net income or net loss of the Partnership. For income tax purposes, the adjusted cost base of flow-through shares is reduced by the amount of expenditures renounced to the Partnership. Upon disposition of such shares, a capital gain will result and will be allocated to the Limited Partners based upon their proportionate share of the Partnership.

Distributions

Any distribution of capital that is to be made among the Limited Partners pursuant to the LPA are to be made in proportion to the credit balances in each Limited Partners' respective capital account as at the end of a fiscal year or, in the event of dissolution of the Partnership, on the date of dissolution. Any allocation of Income or Loss or distribution of cash of a non-capital nature that is to be made among the Limited Partners pursuant to the LPA is to be made in proportion to the number of Units held by each Limited Partner at the end of a fiscal year or in the event of dissolution of the Partnership on the date of dissolution.

Redemption of Units

The Partnership's Units are not redeemable and therefore have been classified as equity.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 9. FINANCIAL INSTRUMENTS

In the normal course of business, the Partnership is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Partnership's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, the market and, company news related to specific securities within the Partnership. The level of risk depends on the Partnership's investment objective and the type of securities it invests in.

There have been no changes in the current year with respect to the Partnership's policies and procedures surrounding management of financial instrument risks.

Credit risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to honor its financial obligation or commitment that it has entered into with a Partnership. The Partnership minimizes credit risk by maintaining its primary bank account at a reputable financial institution. Credit risk related to the accounts receivable and the subscription receivable is minimized due to the short-term nature of the asset.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. The Partnership's maximum exposure to credit risk is reflected in the carrying values recorded in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Partnership may not be able to settle or meet its obligations on time or at a reasonable price. In order to maintain sufficient liquidity, the Partnership invests its assets in securities that are traded in an active market and can be readily disposed. The Partnership has minimal liquidity risk as the Partnership units are not redeemable throughout the Partnership term. In addition, the Partnership aims to retain sufficient cash and cash equivalent positions to maintain liquidity. All of the Partnership's current liabilities have contractual maturities of less than 30 days and are subject to normal trade terms unless otherwise noted in these financial statements.

The Partnership has no financial liabilities that are due later than one year.

Market risk

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer, or factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Portfolio Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy. The Partnership's investments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at December 31, 2018, 0% (2017 - 113%) of the Partnership's Net Assets were invested in common shares and warrants of other companies. If security prices on the investments had increased or decreased by 10% as at the year end of 2018, with all other factors remaining constant, Net Assets could possibly have increased or decreased by approximately \$nil (2017 - \$266,295). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The value of securities with restriction on disposal is also susceptible to other price risk. These values, which are discounted based on the General Partner's judgment, do not necessarily represent the amounts that may be ultimately realized, nor values that would have been used had there been no restriction on disposal of such securities.

GRAVITAS SELECT FLOW-THROUGH LIMITED PARTNERSHIP III

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 9. FINANCIAL INSTRUMENTS (Continued)

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category. As at December 31, 2018, the Partnership's portfolio investments were substantially all sold into cash, with only an investment at cost of \$17,000 and a fair value of \$nil. As at December 31, 2017 the Partnership's portfolio investments were held in resource issuers involved in mineral exploration development and/or production.

NOTE 10. FILING OF FINANCIAL STATEMENTS

These financial statements have not been filed with the provincial regulators pursuant to the exemption under section 2.11 of National Instrument 81-106 Investment Fund Continuous Disclosure ("NI 81-106"). This exemption is available when the financial statements have been sent to the unit holders by the Partnership, as required under NI 81-106.