# MELKIOR RESOURCES INC.

# CONDENSED INTERIM FINANCIAL STATEMENTS

# THREE AND SIX MONTHS ENDED FEBRUARY 28, 2021

# (EXPRESSED IN CANADIAN DOLLARS)

# (UNAUDITED)

**Notice To Reader**

The accompanying unaudited condensed interim financial statements of Melkior Resources Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

# Melkior Resources Inc.
**Condensed Interim Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | As at February 28, 2021 | As at August 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **$ 1,631,189** | $ 523,862 |
| Sales tax receivable and other receivables (note 6) | **40,969** | 716,885 |
| Prepaid expenses | **33,293** | 13,000 |
| Marketable securities (note 7) | **370,000** | 340,000 |
| **Total current assets** | **2,075,451** | 1,593,747 |
| **Non-current assets** | | |
| Exploration and evaluation assets (note 8) | **11,152,336** | 10,782,506 |
| **Total assets** | **$ 13,227,787** | $ 12,376,253 |
| **EQUITY AND LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 10) | **$ 41,006** | $ 105,209 |
| Flow-through share liability (note 9(b)) | **79,272** | 176,522 |
| **Total liabilities** | **120,278** | 281,731 |
| **Equity** | | |
| Share capital (note 9) | **47,961,982** | 46,775,250 |
| Contributed surplus (note 9) | **5,655,638** | 5,208,370 |
| Deficit | **(40,510,111)** | (39,889,098) |
| **Total equity** | **13,107,509** | 12,094,522 |
| **Total equity and liabilities** | **$ 13,227,787** | $ 12,376,253 |

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

Going concern (note 2)

## Melkior Resources Inc.
**Condensed Interim Statements of Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Three Months Ended February 28, 2021 | Three Months Ended February 28, 2020 | Six Months Ended February 28, 2021 | Six Months Ended February 28, 2020 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Consulting and management fees (note 10) | **$ 20,000** | $ 22,500 | **$ 54,750** | $ 38,175 |
| Marketing | **53,223** | - | **67,931** | - |
| Office and general | **7,586** | 5,933 | **13,927** | 10,976 |
| Professional fees (note 10) | **32,886** | 25,205 | **64,896** | 36,591 |
| Regulatory fees (note 10) | **12,556** | 27,007 | **25,016** | 33,455 |
| Share-based payments (notes 9 and 10) | **524,000** | 143,000 | **524,000** | 143,000 |
| Travel and promotion | **-** | - | **-** | 315 |
| **Net loss before other items** | **(650,251)** | (223,645) | **(750,520)** | (262,512) |
| **Other items** | | | | |
| Interest income | **2,257** | 923 | **2,257** | 2,473 |
| Gain (loss) on marketable securities (note 7) | **30,000** | 6,347 | **30,000** | (27,039) |
| Other income | **44,902** | - | **97,250** | 24,219 |
| **Net and comprehensive loss for the period** | **$ (573,092)** | $ (216,375) | **$ (621,013)** | $ (262,859) |
| **Basic and diluted net loss per share** | **$ (0.03)** | $ (0.01) | **$ (0.03)** | $ (0.01) |
| **Weighted average number of common shares outstanding - Basic and diluted** | **21,360,531** | 19,365,725 | **21,136,437** | 19,365,725 |

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

## Melkior Resources Inc.

**Condensed Interim Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Six Months Ended February 28, 2021 | Six Months Ended February 28, 2020 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | **$ (621,013)** | $ (262,859) |
| Adjustments for: | | |
| Share-based payments | **524,000** | 143,000 |
| Loss on marketable securities | **(30,000)** | 27,039 |
| Interest income | **(2,257)** | (2,473) |
| Other income | **(97,250)** | (24,219) |
| Changes in non-cash working capital items: | | |
| Sales tax receivable and other receivables | **(24,083)** | 17,039 |
| Prepaid expenses | **(20,293)** | (1,150) |
| Amounts payable and other liabilities | **(64,203)** | (8,013) |
| **Net cash used in operating activities** | **(335,099)** | (111,636) |
| **Investing activities** | | |
| Exploration and evaluation assets expenditures | **(369,830)** | (297,703) |
| Proceeds from sale of marketable securities | **-** | 152,961 |
| Interest income | **2,257** | 2,473 |
| **Net cash used in investing activities** | **(367,573)** | (142,269) |
| **Financing activities** | | |
| Shares issued for cash, net of issue costs | **1,699,999** | - |
| Stock options exercised | **110,000** | - |
| **Net cash provided by financing activities** | **1,809,999** | - |
| **Net change in cash** | **1,107,327** | (253,905) |
| **Cash, beginning of period** | **523,862** | 1,023,410 |
| **Cash, end of period** | **$ 1,631,189** | $ 769,505 |

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## Melkior Resources Inc.
**Condensed Interim Statements of Changes in Equity**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Share capital | | | | |
|---|---|---|---|---|---|
| | Number of shares | Share capital | Contributed surplus | Deficit | Total |
| **Balance, August 31, 2019** | **19,365,725** | **$ 46,244,273** | **$ 4,798,370** | **$ (39,252,737)** | **$ 11,789,906** |
| Share-based payments | - | - | 143,000 | - | 143,000 |
| Net comprehensive loss for the period | - | - | - | (262,859) | (262,859) |
| **Balance, February 29, 2020** | **19,365,725** | **$ 46,244,273** | **$ 4,941,370** | **$ (39,515,596)** | **$ 11,670,047** |
| | | | | | |
| **Balance, August 31, 2020** | **20,049,420** | **$ 46,775,250** | **$ 5,208,370** | **$ (39,889,098)** | **$ 12,094,522** |
| Shares issued for cash | 1,250,000 | 1,000,000 | - | - | 1,000,000 |
| Stock options exercised | 550,000 | 186,732 | (76,732) | - | 110,000 |
| Share-based payments | - | - | 524,000 | - | 524,000 |
| Net comprehensive loss for the period | - | - | - | (621,013) | (621,013) |
| **Balance, February 28, 2021** | **21,849,420** | **$ 47,961,982** | **$ 5,655,638** | **$ (40,510,111)** | **$ 13,107,509** |

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

## 1. Nature of operations

Melkior Resources Inc. (the ''Company''), incorporated under the *Business Corporations Act* (Canada), is a junior mining exploration company operating in Canada. The Company's operations include the acquisition and exploration of mineral properties in Canada. The address of the registered office is 1680 – 200 Burrard Street, Vancouver, BC, Canada, V6C 3L6, and its principal place of business is 400 – 725 Granville Street, Vancouver, British Columbia, V7Y 1G5. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "MKR", on the OTCQX Exchange in the United States under the symbol "MKRIF" and on the Frankfurt Stock Exchange under the symbol "MEK".

On January 24, 2018, at the Annual General and Special Meeting, the shareholders voted to approve the continuation of the Company into British Columbia under the *Business Corporations Act (British Columbia*) from federal jurisdiction. The continuation took effect on February 20, 2018.

## 2. Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

The Company has incurred a net loss during the six months ended February 28, 2021 of $621,013 (six months ended February 29, 2020 - $262,859) and has a deficit at February 28, 2021 of $40,510,111 (August 31, 2020 - $39,889,098), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage and, accordingly, has not yet commenced revenue-producing operations. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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 exploration and 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. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

## 3. Basis of presentation

### (a) Statement of compliance

The unaudited condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The unaudited condensed interim financial statements of the Company should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2020, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 27, 2021.

### (b) Basis of measurement

These unaudited condensed interim financial statements have been prepared under the historical cost basis, except for financial instruments measured at vair value. These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

### (c) Functional and presentation currency

The unaudited condensed interim financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

## 4. Significant accounting policies

The unaudited condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in note 4 to the audited financial statements for the year ended August 31, 2020.

## 5. Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

## 5. Critical accounting estimates and judgments (continued)

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

*(a) Impairment of exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

*(b) Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

*(c) Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

*(d) Going concern*

The assessment of the Company's ability to continue as a going concern requires significant judgment. The financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in note 2.

**(Expressed in Canadian Dollars)**

## 5. Critical accounting estimates and judgments (continued)

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

*Decommissioning liabilities*

Rehabilitation provisions are created based on the Company's internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at February 28, 2021, the Company has no known rehabilitation requirements and accordingly, no provision has been made.

*Fair value of investments in unquoted equity investment*

The Company has $300,000 investment in IR Battery Resources and Processing Inc., a private entity's shares. Management estimates cost approximates fair value as there is insufficient more recent information available to measure fair value. There are no indicators that cost might not be representative of fair value.

## 6. Sales tax receivable and other receivables

| | As at February 28, 2021 | As at August 31, 2020 |
|---|---|---|
| Sales tax receivable | **$ 40,969** | $ 14,886 |
| Subscription receivable (note 9) | **-** | 699,999 |
| Other receivable | **-** | 2,000 |
| | **$ 40,969** | $ 716,885 |

**(Expressed in Canadian Dollars)**

## 7. Marketable securities

All of the marketable securities held by the Company were acquired through current and prior year's property option and sales transactions with the below listed companies. The Company does not purchase shares of publicly-listed companies on the open market. As at February 28, 2021, the following securities were included in marketable securities:

| | Number of shares | Acquisition cost | Fair value adjustment | Fair value |
|---|---|---|---|---|
| Northcore Resources Inc. | 50,000 | $ 60,000 | $ (60,000) | $ - |
| CBLT Inc. | 1,000,000 | 100,000 | (30,000) | 70,000 |
| IR Battery Resource and Processing Inc. | 600,000 | 300,000 | - | 300,000 |
| | | **$ 460,000** | **$ (90,000)** | **$ 370,000** |

There were no activities during the six months ended February 28, 2021.

As at August 31, 2020, the following securities were included in marketable securities:

| | Number of shares | Acquisition cost | Fair value adjustment | Fair value |
|---|---|---|---|---|
| Northcore Resources Inc. | 50,000 | $ 60,000 | $ (60,000) | $ - |
| CBLT Inc. | 1,000,000 | 100,000 | (60,000) | 40,000 |
| IR Battery Resources and Processing Inc. | 600,000 | 300,000 | - | 300,000 |
| | | **$ 460,000** | **$ (120,000)** | **$ 340,000** |

During the year ended August 31, 2020:
- The Company sold 50,000 shares of Osisko Mining Inc. for proceeds of $152,961 and loss of $22,039.
- The Company recognized an unrealized gain of $25,000 from the change in the fair value of the marketable securities.

**(Expressed in Canadian Dollars)**

## 8. Exploration and evaluation assets

| | Quebec | | Ontario | | |
|---|---|---|---|---|---|
| | Urban | Val d'Or | Carscallen | Hemlo | Total |
| **Property acquisition costs** | | | | | |
| Balance, August 31, 2019 | $ 71,935 | $ - | $ 218,068 | $ 144,272 | $ 434,275 |
| Claim maintenance | - | - | 1,000 | 8,650 | 9,650 |
| Balance, February 29, 2020 | 71,935 | - | 219,068 | 152,922 | 443,925 |
| Balance, August 31, 2020 | 71,935 | 7,410 | 290,568 | 152,922 | 522,835 |
| Claim maintenance | - | 2,876 | - | - | 2,876 |
| Balance, February 28, 2021 | $ 71,935 | $ 10,286 | $ 290,568 | $ 152,922 | $ 525,711 |
| **Property exploration costs** | | | | | |
| Balance, August 31, 2019 | $ 2,188,972 | $ - | $ 7,388,624 | $ 275,148 | $ 9,852,744 |
| Assays | - | - | 20,075 | - | 20,075 |
| Camp | 15,898 | - | - | - | 15,898 |
| Consulting | - | - | 15,000 | - | 15,000 |
| Drilling | - | - | 134,135 | - | 134,135 |
| Geology and prospecting | 21,804 | - | 70,441 | 10,500 | 102,745 |
| Geophysics | - | - | - | 200 | 200 |
| Balance, February 29, 2020 | 2,226,674 | - | 7,628,275 | 285,848 | 10,140,797 |
| Balance, August 31, 2020 | 2,044,897 | 35,199 | 7,888,450 | 291,125 | 10,259,671 |
| Camp | 63,281 | 8,619 | 4,031 | - | 75,931 |
| Consulting | 10,000 | 3,750 | 1,890 | 920 | 16,560 |
| Drilling | 106,849 | 13,101 | 9,682 | - | 129,632 |
| Geochemistry | - | 20,000 | - | - | 20,000 |
| Geology and prospecting | - | 12,435 | - | - | 12,435 |
| Geophysics | - | 141,340 | - | - | 141,340 |
| Tax credits received | (28,944) | - | - | - | (28,944) |
| Balance, February 28, 2021 | $ 2,196,083 | $ 234,444 | $ 7,904,053 | $ 292,045 | $ 10,626,625 |
| **Total exploration and evaluation assets** | | | | | |
| August 31, 2020 | $ 2,116,832 | $ 42,609 | $ 8,179,018 | $ 444,047 | $ 10,782,506 |
| February 28, 2021 | $ 2,268,018 | $ 244,730 | $ 8,194,621 | $ 444,967 | $ 11,152,336 |

## 8. Exploration and evaluation assets (continued)

Quebec

### (a) Urban

During the year ended August 31, 2017, the Company acquired claims in the Urban area of Quebec through map staking. The Company has a 100% ownership in the claims and there is no net smelter return royalty (“NSR”).

During the year ended August 31, 2018, the Company acquired additional claims through staking.

### (b) Launay

The Company retains a 1.5% NSR on the Launay property, of which one-half may be purchased by Beaufield for $750,000.

### (c) Val d'Or (formerly Tiblemont)

The Company owns a 100% interest in three mineral claims in Tiblemont Township, Quebec. The Company owns a 100% interest in adjacent claims. On May 12, 2014, three claims were acquired for 20,000 common shares (valued at $8,000) and a 2% NSR with an optional buy back of 1% for $1,000,000. The Company wrote off capitalized costs of $16,746 during the year ended August 31, 2017.

In April 2020, the Company entered into a purchase agreement to sell 100% interest in the three claims for a single cash payment of $25,000.

In May 2020, the Company acquired 2 packages of claims.

Ontario

### (d) Carscallen

The Company holds a 100% interest in the Carscallen property, west of Timmins. Some claims are subject to a 1.5% NSR while another group of claims is subject to a 2% NSR, of which the Company may buy back one-half for $1,000,000.

In October and November 2010, the Company signed three agreements to acquire 100% interests in additional mining claims in consideration of $10,000 cash and two 2% NSR royalties, of which 1% can be repurchased for $500,000 each.

In October 2013, the Company signed a memorandum of understanding (“MOU”) with the Mattagami First Nations. As part of the MOU, the Company issued 20,000 common shares (valued at $8,000) on December 23, 2013. The Company will pay 2% of all exploration costs eligible for assessment credit to the Mattagami First Nation.

On April 7, 2016, the Company issued 21,000 common shares (valued at $8,400) for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm’s length party.

## 8. Exploration and evaluation assets (continued)

### (d) Carscallen (continued)

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking. One of the claims is subject to a 2% NSR.

During the year ended August 31, 2018, the Company entered into three agreements for the purchase of six additional claims for the Carscallen property. The Company paid $12,500 and issued 10,000 common shares (valued at $7,000) as consideration. Two of the claims are subject to a 2% NSR.

During the year ended August 31, 2017, the Company paid $5,000 for a 100% interest in a claim located in the Carscallen Township. This claim is part of the Big Marsh property, where the Company has existing claims. The previous claims were deemed impaired during the year ended August 31, 2016.

The Company also holds a 100% interest in claims forming the Bristol property acquired through staking during the year ended August 31, 2017.

On May 6, 2020, the Company entered into an option agreement of 6 cell units (the "Carscallen Claims"). Pursuant to the option agreement, the Company can acquire 100% interest in the Carscallen Claims, subject to a 3% NSR, in consideration for:

- On signing, cash payment of $10,000 (paid);
- Upon TSX-V acceptance, issuance of 75,000 shares of the Company (issued, valued at $61,500);
- On the first anniversary, cash payment of $10,000 and issuance of $25,000 worth of shares issued at the weighted average price of the common shares for the 10 trading days immediately preceding; and
- On the second anniversary, cash payment of $10,000 and issuance of $25,000 worth of shares issued at the weighted average price of the common shares for the 10 trading days immediately preceding.

The Company may purchase one-half of the NSR at any time for the sum of $1,000,000.

On September 28, 2020, the Company completed a strategic partnership with Kirkland Lake Gold Ltd ("Kirkland"). Under the terms of the option agreement (the "Kirkland Option Agreement") between the Company and Kirkland, the Company granted Kirkland the right to earn-in up to a 75% interest in the Carscallen Project and acquire up to 1,250,000 units of the Company on a private placement basis (see note 9(b)).

Under the terms of the Kirkland Option Agreement, Kirkland has an option to earn a 50% interest in the Carscallen Project in consideration for completing $10 million in exploration expenditures over a period of 5 years (the "Phase 1 Expenditures"). Kirkland has a minimum commitment of $3 million during the first 2 years of the option period. Should Kirkland fail to incur the Phase 1 Expenditures during the option period, Kirkland's option to acquire the 50% interest shall expire.

Upon Kirkland completing the Phase 1 Expenditures and earning its 50% interest, the parties shall enter into a joint venture agreement to carry on operations with respect to the Carscallen Project (the "Joint Venture"). Upon the formation of a Joint Venture, Kirkland will have the right to earn an additional 25% interest in the Carscallen Project by incurring exploration expenditures of $100 million within the first 5 years of the formation of the Joint Venture. Any additional funds required beyond the $100 million will be contributed by the Joint Venture parties based on their proportional joint venture interests.

## 8. Exploration and evaluation assets (continued)

### (e) Hemlo

On May 12, 2017, the Company entered into an agreement to acquire a 100% interest in the Hemlo property. The Company paid $5,000 and issued 150,000 common shares (valued at $90,000) as consideration. The vendor holds a 3% NSR, of which one-third may be purchased by the Company for $1,000,000.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking.

On November 20, 2020, the Company announced the closing of an option and joint venture agreement with Barrick Gold Inc. ("Barrick"), a wholly-owned subsidiary of Barrick Gold Corporation. Under the terms of the option agreement entered into between the Company and Barrick (the "Barrick Option Agreement"), Melkior has granted Barrick the right to earn-in up to a 75% interest in the Hemlo Project located 20 kilometres east of Barrick's Hemlo Mine.

Under the terms of the Barrick Option Agreement, Barrick has an option to earn a 75% interest in the Property in consideration for completing $4 million in exploration expenditures over a period of 5 years. Barrick has a minimum commitment of $0.5 million during the first 2 years of the option period. Barrick will act as the operator of the Hemlo Project during the option period. All expenditures beyond the minimum commitment are optional. Should Barrick fail to incur the expenditures during the option period, Barrick's option to acquire the 75% interest shall expire.

Upon Barrick completing the expenditures and earning its 75% interest, the parties shall enter into a joint venture agreement to carry on operations with respect to the Hemlo Project. Funds required for further development will be contributed by the joint venture parties based on their proportional joint venture interests. Dilution of a shareholder's interest below 10% will result in the conversion of the interest to a NSR royalty of either 1% or 2% on certain claims dependent on pre-existing royalties.

## 9. Share capital

### (a) Authorized share capital

(i) an unlimited number of common shares without par value, voting and participating; and
(ii) an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the request of the Company at paid-up capital.

On February 26, 2020, the Company affected a 10-to-1 stock consolidation, which has been retrospectively applied in these financial statements.

## 9. Share capital (continued)

### (b) Issued

During the six months ended February 28, 2021

On September 28, 2020, pursuant to the terms of the Kirkland option agreement, the Company closed a subscription by Kirkland of 1,250,000 units of the Company at $0.80 per unit on a private placement basis for total gross proceeds of $1 million. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle Kirkland to purchase one additional common share of the Company at a price of $1.20 per share for a period of 2 years from the date of issue.

During the six months ended February 28, 2021, a total of 550,000 stock options were exercised at $0.20 per share for aggregate gross proceeds of $110,000. As a result, $76,732 was transferred from contributed surplus to share capital.

During the year ended August 31, 2020

On May 22, 2020, the Company issued 75,000 common shares (valued at $61,500) for the acquisition of Carscallen Claims (see note 8(d)).

On August 28, 2020, the Company closed a non-brokered flow-through private placement and issued 608,695 flow-through shares at $1.15 per share for gross proceeds of $699,999, received subsequent to August 31, 2020. The flow-through premium paid by investors was calculated as $0.29 per share. Accordingly, $176,522 was recorded as flow-through share liabilities. The Company incurred cash share issuance cost of $54,000.

### (c) Stock options

The Company maintains a stock option plan (the “Plan”) pursuant to which options to purchase common shares may be granted for its eligible directors, officers and employees of the Company, as well as persons providing ongoing services to the Company.

The number of shares to be delivered upon the exercise of all options granted under the amended plan shall not exceed 10% of the aggregate number of common shares of the Company issued and outstanding.

Unless indicated otherwise by the Board at the time of grant, one-sixth of options granted shall vest every three months from the date of the grant.

In the event that an optionee ceases to be an eligible person prior to the expiry date of their respective options, the options shall expire 12 months after the termination date or on the expiry date, whichever comes first (except for persons providing investor relations activities who will remain subject to a 30-day expiry period). In the event of termination with cause, the options of an eligible person shall expire on the date of notice of termination.

The purchase price of the common shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors upon grant of each such option, but such price shall not be less than the market price at closing of transactions the day prior to the grant or any other regulations by the TSX-V. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination, not later than upon the tenth anniversary of the grant of the option.

**(Expressed in Canadian Dollars)**

## 9. Share capital (continued)

### (c) Stock options (continued)

The total number of options granted to any one individual in any 12-month period will not exceed 5% of the issued common shares. The total number of options granted to a consultant in any 12-month period will not exceed 2% of the issued common shares at the time of grant. The total number of options granted to persons providing investor relations activities in any 12-month period will not exceed 2% of the issued common shares at the time of grant. These options must vest in stages over a 12-month period from the date of grant with no more than 25% of the options vesting in any three-month period.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of changes of the Company's common share purchase options is presented below for the periods ended February 28, 2021 and 2020:

| | Number of stock options | Weighted average exercise price |
|---|---|---|
| Balance, August 31, 2019 | 460,000 | $ 1.33 |
| Issued (i) | 1,025,000 | 0.20 |
| Forfeited | (10,000) | 1.50 |
| Balance, February 29, 2020 | 1,475,000 | 0.54 |
| Balance, August 31, 2020 | 1,815,000 | $ 0.53 |
| Issued (ii) | 900,000 | 0.70 |
| Forfeited | (70,000) | 1.50 |
| Exercised | (550,000) | 0.20 |
| Balance, February 28, 2021 | 2,095,000 | $ 0.53 |

(i) On February 27, 2020, the Company granted 1,025,000 stock options to certain directors and officers of the Company exercisable at a price of $0.20 per common share. The options vest immediately and expire in five years. The grant date fair value of $143,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.15, expected dividend yield of 0%, expected volatility of 165%, which is based on historical volatility of the Company's share price, risk-free rate of return of 1.14% and an expected maturity of five years. For the three and six months ended February 28, 2021, $nil was expensed to share-based payment (three and six months ended February 29, 2020 - $143,000).

(ii) On February 22, 2021, the Company granted 900,000 stock options to certain directors of the Company exercisable at $0.70 per common share. The options vest immediately and expire in five years. The grant date fair value of $524,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.65, expected dividend yield of 0%, expected volatility of 146%, which is based on historical volatility of the Company's share price, risk-free rate of return of 0.67% and an expected maturity of 5 years. For the three and six months ended February 28, 2021, $524,000 was expensed to share-based payments.

**(Expressed in Canadian Dollars)**

## 9. Share capital (continued)

### (c) Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of February 28, 2021:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) |
|---|---|---|---|---|
| May 31, 2021 | 1.00 | 0.25 | 160,000 | 160,000 |
| April 22, 2023 | 0.35 | 2.15 | 50,000 | 50,000 |
| January 10, 2024 | 1.50 | 2.87 | 100,000 | 100,000 |
| February 27, 2025 | 0.20 | 4.00 | 475,000 | 475,000 |
| June 25, 2023 | 0.80 | 2.32 | 410,000 | 410,000 |
| February 22, 2026 | 0.70 | 4.99 | 900,000 | 900,000 |
| | 0.66 | 3.71 | 2,095,000 | 2,095,000 |

### (d) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Balance, August 31, 2019, February 29, 2020 and August 31, 2020 | 2,000,000 | $ 0.85 |
| Issued | 1,250,000 | 1.20 |
| Balance, February 28, 2021 | 3,250,000 | $ 0.98 |

The following warrants were outstanding and exercisable as of February 28, 2021:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of warrants outstanding | Number of warrants exercisable |
|---|---|---|---|---|
| June 8, 2023 (i) | 0.85 | 2.27 | 2,000,000 | 2,000,000 |
| September 28, 2022 | 1.20 | 1.58 | 1,250,000 | 1,250,000 |
| | 0.98 | 2.01 | 3,250,000 | 3,250,000 |

(i) In January 2021, the Company extended the expiry date of the 2,000,000 warrants from June 8, 2021 to June 8, 2023.

**(Expressed in Canadian Dollars)**

## 9. Share capital (continued)

### (e) Finders' warrants

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Balance, August 31, 2019 | 75,321 | $ 0.85 |
| Expired | (46,154) | 0.70 |
| Balance, February 29, 2020, August 31, 2020 and February 28, 2021 | 29,167 | $ 1.10 |

The following finders' warrants were outstanding and exercisable as of February 28, 2021:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of warrants outstanding | Number of warrants exercisable |
|---|---|---|---|---|
| April 2, 2021 (i) | 1.10 | 0.09 | 29,167 | 29,167 |

(i) Subsequent to February 28, 2021, 29,167 finders' warrants expired unexercised.

**(Expressed in Canadian Dollars)**

## 10. Related party transactions

The Company's related parties include companies controlled by officers and close family members of directors and key management, 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 Company's key management personnel are members of the Board of Directors (of which the president of the Company is a member), as well as the chief financial officers and the corporate secretary. Key management compensation is as follows:

| | Three Months Ended February 28, 2021 | Three Months Ended February 28, 2020 | Six Months Ended February 28, 2021 | Six Months Ended February 28, 2020 |
|---|---|---|---|---|
| Consulting and management fees (i) | **$ 18,750** | $ - | **$ 37,500** | $ - |
| Professional fees (ii) | **9,463** | 7,690 | **18,298** | 15,326 |
| Regulatory fees (ii) | **10,997** | 5,113 | **15,711** | 9,669 |
| Total short-term compensation | **39,210** | 12,803 | **71,509** | 24,995 |
| Share-based payments | **524,000** | 143,000 | **524,000** | 143,000 |
| Total key management compensation | **$ 563,210** | $ 155,803 | **$ 595,509** | $ 167,995 |

As at February 28, 2021, the balance due to related parties amounted to $4,110 (August 31, 2020 - $30,787) and was recorded in accounts payable and accrued liabilities.

(i) Management fees to the Company's CEO are paid pursuant to a 2020 consulting agreement under which Silverwater Capital Corp., a company controlled by the Company's CEO, receives a monthly fee of $5,000. The Company can terminate the agreement with three months' notice.

(ii) During the three and six months ended February 28, 2021, the Company paid professional fees and regulatory fees of $20,460 and $34,009, respectively (three and six months ended February 29, 2020 - $12,803 and $24,995, respectively) to Marrelli Support Services Inc. ("MSSI"), DSA Corporate Services Inc. ("DSA Corp") and DSA Filing Services Limited ("DSA Filing"), together known as the "Marrelli Group", for:

- Eric Myung, an employee of Marrelli Group, to act as the CFO of the Company;
- Bookkeeping services;
- Regulatory filing services;
- Corporate secretarial services.

## 11. Commitments and contingencies

In connection with the flow-through share financing in August 2020, the Company has committed to incur qualifying Canadian Exploration Expenditures (as such term is defined in the Income Tax Act (Canada)) of a total of $699,999 by December 31, 2021. If the Company does not incur the required qualifying expenditures, it will be required to indemnify the holders of the flow-through shares for any tax and other costs payable by them as a result of the Company not making the required expenditures.

As at February 28, 2021, the Company is required to incur qualifying exploration expenditures exceeding approximately $480,600 by December 31, 2021.