# CANADA CARBON INC.

**FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**
**(EXPRESSED IN CANADIAN DOLLARS)**

**Independent Auditor's Report**

To the Shareholders of Canada Carbon Inc.

**Opinion**

We have audited the financial statements of Canada Carbon Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity 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 Company as at December 31, 2021 and 2020 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

**Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. 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.

**Material uncertainty related to going concern**

We draw attention to Note 1 in the financial statements, which indicates that the Company had limited working capital and an accumulated deficit as at December 31, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of management and those charged with governance for the financial statements**

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

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

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

**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 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 judgement 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 risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

**McGovern Hurley LLP**

McGovern Hurley LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Toronto, Ontario
April 29, 2022

**CANADA CARBON INC.**
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

| As at | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | **$ 864,584** | $ 564,051 |
| Receivables (Note 7) | **19,813** | 6,536 |
| Prepaid expenses (Note 8) | **10,400** | 10,822 |
| **Total current assets** | **894,797** | 581,409 |
| **Exploration and evaluation assets** (Note 9) | **7,145,154** | 6,819,873 |
| **Drilling and reclamation deposits** (Note 10) | **5,000** | 5,000 |
| **Total assets** | **$ 8,044,951** | $ 7,406,282 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 12) | **$ 599,993** | $ 733,181 |
| Flow through premium liability (Note 13) | **211,486** | - |
| Restoration, rehabilitation and environmental obligations (Note 11) | **10,000** | 10,000 |
| **Total current liabilities** | **821,479** | 743,181 |
| Restoration, rehabilitation and environmental obligations (Note 11) | **30,000** | 30,000 |
| **Total liabilities** | **851,479** | 773,181 |
| **Shareholders' equity** | | |
| Capital stock (Note 13) | **34,638,199** | 33,587,224 |
| Reserves | **879,652** | 807,047 |
| Deficit | **(28,324,379)** | (27,761,170) |
| **Total shareholders' equity** | **7,193,472** | 6,633,101 |
| **Total liabilities and shareholders' equity** | **$ 8,044,951** | $ 7,406,282 |

**Nature and continuance of operations** (Note 1)
**Commitments and contingencies** (Notes 9 and 17)
**Subsequent event** (Note 18)

**On behalf of the Board:**

"Bruce Coventry", Director          "Greg Lipton", Director

**See accompanying notes to the financial statements**

**CANADA CARBON INC.**
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN CANADIAN DOLLARS)

| | **2021** | 2020 |
|---|---|---|
| **EXPENSES** | | |
| Management fees (Note 12) | **$ 212,182** | $ 242,972 |
| Consulting fees | **160** | 560 |
| Professional fees (Note 12) | **235,296** | 301,238 |
| Office, rent and miscellaneous | **26,353** | 31,195 |
| Shareholder communications and promotion | **20,614** | 42,012 |
| Share based compensation (Note 13) | **198,100** | 812 |
| Transfer agent and filing fees | **30,314** | 22,352 |
| Travel and accommodation | **2,629** | - |
| **Loss before other items** | **725,648** | 641,141 |
| **OTHER ITEMS** | | |
| Foreign exchange loss | **2,977** | 1,946 |
| Investment income | **-** | (537) |
| Gain from disposition of net smelter royalty | **-** | (225,000) |
| Flow-through premium liability recovery | **(39,921)** | (5,837) |
| **Net loss and comprehensive loss for the year** | **$ 688,704** | $ 411,713 |
| **Basic and diluted net loss per share** | **$ 0.01** | $ 0.00 |
| **Weighted average number of shares outstanding basic and diluted** | **123,984,199** | 116,947,571 |

**See accompanying notes to the financial statements**

**CANADA CARBON INC.**
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN CANADIAN DOLLARS)

| | **2021** | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the year | **$ (688,704)** | $ (411,713) |
| Items not affecting cash: | | |
| Share-based compensation (Note 13) | **198,100** | 812 |
| Gain from disposition of net smelter royalty | **-** | (225,000) |
| Flow-through liability recovery | **(39,921)** | (5,837) |
| Unrealized foreign exchange loss | **2,977** | 9 |
| | **(527,548)** | (641,729) |
| Change in non-cash working capital items: | | |
| (Increase) decrease in receivables | **(13,277)** | 69 |
| Decrease in prepaid expenses | **422** | 8,577 |
| Increase (decrease) in accounts payable and accrued liabilities | **273,391** | (448,001) |
| Net cash flows from operating activities | **(267,012)** | (1,081,084) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from private placements | **900,000** | 500,000 |
| Share issue costs | **(11,174)** | (6,613) |
| Proceeds from warrant and option exercises | **-** | 747,500 |
| Net cash flows from financing activities | **888,826** | 1,240,887 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from disposition of net smelter royalty | **-** | 225,000 |
| Exploration and evaluation assets | **(357,783)** | (149,633) |
| Quebec tax credits received | **36,502** | 13,339 |
| Net cash flows from investing activities | **(321,281)** | 88,706 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **-** | (9) |
| **Increase in cash** | **300,533** | 248,500 |
| **Cash, beginning of the year** | **564,051** | 315,551 |
| **Cash, end of the year** | **$ 864,584** | $ 564,051 |

**Supplemental disclosure with respect to cash flows** (Note 14)

**See accompanying notes to the financial statements**

**CANADA CARBON INC.**
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

| | | | *Reserves* | | | |
|---|---|---|---|---|---|---|
| | **Number of Shares** | **Capital Stock** | **Equity settled share-based payments reserve** | **Warrant reserve** | **Deficit** | **Total** |
| **Balance December 31, 2019** | **112,429,074** | **$ 32,362,228** | **$ 554,794** | **$ 415,443** | **$ (27,539,750)** | **$ 5,792,715** |
| Issued pursuant to private placement | 2,500,000 | 326,596 | - | 173,404 | - | 500,000 |
| Issued pursuant to surface access agreement | 40,000 | 10,400 | - | - | - | 10,400 |
| Exercise of warrants | 5,450,000 | 722,500 | - | - | - | 722,500 |
| Value of warrants exercised | - | 128,497 | - | (128,497) | - | - |
| Exercise of options | 250,000 | 25,000 | - | - | - | 25,000 |
| Value of options exercised | - | 16,322 | (16,322) | - | - | - |
| Value of expired options | - | - | (190,293) | - | 190,293 | - |
| Shares-based compensation | - | - | 812 | - | - | 812 |
| Issue costs | - | (4,319) | - | (2,294) | - | (6,613) |
| Net loss and comprehensive loss for the year | - | - | - | - | (411,713) | (411,713) |
| **Balance December 31, 2020** | **120,669,074** | **$ 33,587,224** | **$ 348,991** | **$ 458,056** | **$ (27,761,170)** | **$ 6,633,101** |
| Issued pursuant to settlement of debt | 2,155,558 | 409,556 | - | - | - | 409,556 |
| Issued pursuant to private placement | 6,419,436 | 900,000 | - | - | - | 900,000 |
| Flow through premium liability | - | (251,407) | - | - | - | (251,407) |
| Issued pursuant to surface access agreement | 40,000 | 4,000 | - | - | - | 4,000 |
| Value of expired options | - | - | (80,701) | - | 80,701 | - |
| Value of expired warrants | - | - | - | (44,794) | 44,794 | - |
| Shares-based compensation | - | - | 198,100 | - | - | 198,100 |
| Issue costs | - | (11,174) | - | - | - | (11,174) |
| Net loss and comprehensive loss for the year | - | - | - | - | (688,704) | (688,704) |
| **Balance, December 31, 2021** | **129,284,068** | **$ 34,638,199** | **$ 466,390** | **$ 413,262** | **$ (28,324,379)** | **$ 7,193,472** |

**See accompanying notes to the financial statements**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Carbon Inc. (hereafter the "Company") was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V").

The Company's principal business is the acquisition, exploration and evaluation of mineral properties. In fiscal 2012 the Company positioned itself as a carbon science company focused on graphite. The Company is in the exploration and evaluation stage on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 5213 Durie Road, Mississauga, Ontario, L5M 2C6.

The financial statements were approved by the Board of Directors on April 29, 2022.

The Company is in the process of exploring its exploration and evaluation assets. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts and political uncertainty.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, quarantine periods and social distancing, have caused material disruption to businesses and supply chains globally. Global equity markets have experienced significant volatility. Despite the easing of travel restrictions and improvements in the global economy, the duration of the pandemic and its impact on the Company in future periods cannot be reliably estimated. The Company continues to monitor the business environment to ensure minimal disruption to business operations and continues to operate all aspects of its business as intended as of the current date.

These financial statements have been prepared with the assumption 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. As at December 31, 2021, the Company had a working capital of $73,318 and an accumulated deficit of $28,324,379 compared to a working capital deficit of $161,772 and an accumulated deficit of $27,761,170 as at December 31, 2020. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 2. STATEMENT OF COMPLIANCE

These financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). IFRS includes IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs")

## 3. BASIS OF PRESENTATION

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

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the year. Actual results could differ from these estimates.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

**Cash**
Cash includes balances with major financial institutions in business accounts.

**Financial assets**
Financial assets are classified as either financial assets at Fair Value Through Profit or Loss ("FVTPL"), amortized cost, or Fair Value Through other Comprehensive Income ("FVTOCI"). The Company determines the classification of its financial assets at initial recognition.

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss. Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest." The cash and cash equivalents and receivables are classified as financial assets and measured at amortized cost.

Financial assets measured at FVTOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVTOCI or FVTPL.

**Financial liabilities**
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities (continued)**

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's accounts payable and accrued liabilities do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

**Transaction costs**
Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

**Subsequent measurement**
Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

**Derecognition**
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

**Expected credit loss impairment model**
The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due. The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

**Impairment of non-financial assets**
At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss.

**Foreign currency translation**
The Canadian dollar is the functional and reporting currency of the Company. All monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the statement of financial position date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Exploration and evaluation assets**

All of the Company's exploration and evaluation property interests are in the exploration and evaluation phase. The Company records its interests in exploration and evaluation properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the reserves available on the related property following commencement of production.

The cost of exploration and evaluation properties includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company qualifies for mineral exploration assistance programs associated with the exploration of properties located in Quebec. Recoverable amounts are offset against exploration and evaluation assets when the Company has complied with the terms and conditions of the program and the recovery is reasonably assured.

The Company reviews capitalized costs on its exploration and evaluation properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable, the Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

**Restoration, rehabilitation and environmental obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of an exploration and evaluation property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the risk free rate and the amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate. Discounting has not been performed on the obligations as at December 31, 2021 and 2020 as the effect of the time value of money was not material.

**Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. A provision for onerous contacts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

**Share-based payment transactions**

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based payment transactions (continued)**

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

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

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

**Flow-through shares**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investors.

The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow through shares. A liability is recognized for the premium paid by the investors and is reversed into the statement of loss when the eligible expenditures are incurred. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company has indemnified the subscribers of flow-through share offerings against any tax related amounts that became payable by the shareholder as a result of the Company not meeting its commitments.

**Income taxes**

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income taxes (continued)**

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not set up.

**Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The diluted loss per share calculation excludes any potential conversion of stock options and share purchase warrants that would decrease the loss per share. During the years ended December 31, 2021 and 2020, all of the outstanding stock options and warrants were anti-dilutive and were excluded from the diluted loss per share calculation.

**Revenue**

Revenue from the sale of royalties is recorded upon transfer of title to the royalty interest and collection of payment is reasonably assured.

**Use of estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation assets, valuation of restoration, rehabilitation and environmental obligations, inputs used for share-based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

*Assets' carrying values and impairment charges*

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting year.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Use of estimates (continued)

*Capitalization of exploration and evaluation costs*
Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

*Impairment of exploration and evaluation assets*
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

*Estimation of decommissioning and restoration costs and the timing of expenditures*
The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

*Income, value added, withholding and other taxes*
The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

*Share-based payments*
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

*Commitments and contingencies*
See Note 17.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards and interpretations adopted**

***Amendment to IAS 16 - Property, Plant and Equipment***
In 2020, the IASB published Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16) ("IAS 16 amendments") which applies to annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Company has elected to early adopt these IAS 16 amendments effective January 1, 2021, and has applied the IAS 16 amendments retrospectively with no material impact on the Company's financial statements.

These IAS 16 amendments prohibit the deduction from the cost of an item of property, plant and equipment any net proceeds received from the sale of items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the Company recognizes the proceeds from the sale of such items, and the cost of producing those items in statement of loss and comprehensive loss.

**New standards and interpretations not yet adopted**

The standards and interpretations that are issued, but not yet effective. The Company intends to adopt these standards, if applicable, when they become effective, and is currently evaluation their impact on the Company's financial statements.

***Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)***
The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

– clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period" ;
– clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
– make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishments of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. There is currently a proposal in place to extend effective date for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

***Reference to the Conceptual Framework – Amendments to IFRS 3***
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards and interpretations not yet adopted (continued)**

***Definition of Accounting Estimates – Amendments to IAS 8***
In February 2021, the IASB issued amendments to IAS 8, in which it introduced a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, and apply to changes in accounting policies and accounting estimates that occur on or after the start of that period. Earlier application is permitted.

***Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2***
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023, with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

***Amendments to IAS 12 Income taxes***
Deferred Tax related to Assets and Liabilities arising from a Single Transaction clarifies the accounting for deferred tax on transactions such as leases and decommissioning obligations by removing the initial recognition exemption for transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual periods beginning on or after January 1, 2023.

## 5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of its properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

## 5. CAPITAL MANAGEMENT (continued)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2021. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As at December 31, 2021, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

## 6. FINANCIAL RISK FACTORS

There have been no significant changes in the risks, objectives, policies and procedures during the years ended December 31, 2021 and 2020. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The receivables primarily relate to sales tax due from the Federal and Provincial Governments. The Company has no significant concentration of credit risk arising from operations. Cash is held at a Canadian financial institution from which management believes the risk of loss to be low. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Additional funding will be required to get the Miller project through the feasibility stage; however, management believes it will be able to obtain the necessary funding.

Market risk
(a) Interest rate risk
The Company has cash balances and no interest-bearing debt, therefore, interest rate risk is minimal.

(b) Foreign currency risk
The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. The Company holds negligible cash balances in US dollars.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Title risk
Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next twelve month period.

(EXPRESSED IN CANADIAN DOLLARS)

## 7. RECEIVABLES

The receivables balance is comprised of the following items:

| | ***December 31, 2021*** | *December 31, 2020* |
|---|---|---|
| Sales tax due from federal and provincial governments | **$ 19,813** | $ 6,536 |
| Total | **$ 19,813** | $ 6,536 |

## 8. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

| | ***December 31, 2021*** | *December 31, 2020* |
|---|---|---|
| Insurance | **$ 10,400** | $ 8,875 |
| Investor information/promotion | **-** | 1,947 |
| Total | **$ 10,400** | $ 10,822 |

## 9. EXPLORATION AND EVALUATION ASSETS

At December 31, 2021, expenditures incurred on exploration and evaluation assets were as follows:

| | **Asbury Graphite Property, Quebec** | **Miller Property, Quebec** | **December 31, 2021** |
|---|---|---|---|
| Acquisition costs: | | | |
| Balance, beginning of year | **$ 654,379** | **$ 395,414** | **$ 1,049,793** |
| Additions during the year | **2,203** | **4,000** | **6,203** |
| Balance, end of year | **656,582** | **399,414** | **1,055,996** |
| | | | |
| Deferred exploration costs: | | | |
| Balance, beginning of year | **554,509** | **5,215,571** | **5,770,080** |
| Assays | **-** | **9,822** | **9,822** |
| Community consultations | **-** | **110,370** | **110,370** |
| Geologists, consultants and other labour | **33,743** | **123,665** | **157,408** |
| Surveys and studies | **-** | **9,358** | **9,358** |
| Thermal processing | **-** | **16,862** | **16,862** |
| Field supplies and equipment rental | **2,570** | **7,384** | **9,954** |
| Travel, meals and accommodation | **10,831** | **9,524** | **20,355** |
| Admin and other expenses | **784** | **(15,835)** | **(15,051)** |
| Additions during the year | **47,927** | **271,150** | **319,078** |
| Balance, end of year | **602,436** | **5,486,721** | **6,089,158** |
| | | | |
| Total exploration and evaluation assets | **$ 1,259,019** | **$ 5,886,135** | **$ 7,145,154** |

(EXPRESSED IN CANADIAN DOLLARS)

**9. EXPLORATION AND EVALUATION ASSETS (continued)**

At December 31, 2020, expenditures incurred on exploration and evaluation assets were as follows:

| | Asbury Graphite Property, Quebec | Miller Property, Quebec | December 31, 2020 |
|---|---|---|---|
| Acquisition costs: | | | |
| Balance, beginning of year | $ 654,379 | $ 385,014 | $ 1,039,393 |
| Additions during the year | - | 10,400 | 10,400 |
| Balance, end of year | 654,379 | 395,414 | 1,049,793 |
| | | | |
| Deferred exploration costs: | | | |
| Balance, beginning of year | 554,509 | 5,069,421 | 5,623,930 |
| Assays | - | 1,853 | 1,853 |
| Community consultations | - | 31,732 | 31,732 |
| Geologists, consultants and other labour | - | 84,786 | 84,786 |
| Excavation, drilling and transportation | - | 8,838 | 8,838 |
| Thermal processing | - | 23,138 | 23,138 |
| Admin and other expenses (recovery) | - | (4,197) | (4,197) |
| Additions during the year | - | 146,150 | 146,150 |
| Balance, end of year | 554,509 | 5,215,571 | 5,770,080 |
| | | | |
| Total exploration and evaluation assets | $1,208,888 | $ 5,610,985 | $ 6,819,873 |

**Miller Property, Quebec, Canada**

The Company acquired the property in 2013. Certain claims are subject to net production and net smelter royalties between 1.5% and 2%. Certain of these royalties can be reduced to 1% at any time through the Company making payments of $1,000,000.

In September 2013, the Company entered into a surface access rights agreement ("Agreement") with two landholders with respect to the Miller graphite property. The Agreement provided the Company with surface access for an initial of five years and allowed the Company to carry out regular graphite prospecting and exploration programs on the property. The Agreement granted the Company an exclusive and irrevocable option ("Option") to acquire or lease all or part of the property necessary for the extraction of mineral substances. If the Company exercised the Option prior to the expiry of the five-year term, the term of the Agreement would extend through the period of commercial production. Pursuant to the Agreement, the Company would issue 40,000 shares to the landholders for the first year, and for every subsequent year until commercial production, or pay $5,000 cash at the option of the landholder. If the Company began commercial production, the annual payments would cease and the landholders will be entitled to a 2.5% production royalty.

During 2018, the initial Agreement expired and a new surface access agreement (“New Agreement”), with the same terms as the original Agreement, was signed. Pursuant to the terms of the New Agreement, the Company issued 40,000 shares valued at $5,600 in December 2018, 40,000 common shares valued at $2,000 in September 2019 and 40,000 common shares valued at $10,400 in October 2020 and 40,000 common shares valued at $4,000 in September 2021. For each subsequent year, the Company is required to issue an additional 40,000 common shares or pay $5,000 in cash until commercial production commences.

(EXPRESSED IN CANADIAN DOLLARS)

## 9. EXPLORATION AND EVALUATION ASSETS (continued)

**Asbury Graphite Property, Quebec, Canada**
In 2012, the Company acquired claims subject to a net production royalty of 0.75% for a period of 10 years after the start of graphite production.

During 2021, the Company acquired additional claims surrounding its existing claims on the former Asbury Mine.

**Rare Earth Claims, British Columbia, Canada**
In March 2010, the Company entered into an acquisition agreement to acquire a 100% interest in the Carbonatite Syndicate Rare Earth Claim Group. The Company obtained a $5,000 reclamation bond in relation to the drilling permits for the Rare Earth property. All the mining claims have expired and the capitalized costs were written off in prior years. See Notes 10 and 11.

In September 2020, the Company sold its net smelter royalty in the Red Chris South property for cash consideration of $225,000. The Red Chris property claims were previously sold in May 2013.

During the year ended December 31, 2021, the Company received Quebec tax credits in the amount of $32,060 (2020 - $13,339) which were recorded as an offset against exploration and evaluation assets.

## 10. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

| *Property* | ***December 31, 2021*** | *December 31, 2020* |
|---|---|---|
| Rare Earth (Note 11) | **$ 5,000** | $ 5,000 |
| **Total** | **$ 5,000** | $ 5,000 |

## 11. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

In 2020, the Company has recorded an obligation of $10,000 for the Rare Earth property. The restoration costs are expected to be incurred in 2022. See Note 9. The Company has also recorded an obligation of $30,000 for the Miller graphite property to reclaim disturbance caused by the work programs. The restoration costs are expected to be incurred in 2042.

The following is an analysis of the restoration, rehabilitation and environmental obligations:

| | |
|---|---|
| Balance, December 31, 2019 and 2020 | $ 40,000 |
| Additions | - |
| Balance, December 31, 2021 | $ 40,000 |

## 12. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them. The Company entered into the following transactions with related parties:

| | | | ***Year Ended December 31,*** | |
|---|---|---|---|---|
| | Nature of transactions | Notes | **2021** | 2020 |
| R. Bruce Duncan | Management | a | **$ -** | $ 189,139 |
| Directors | Management | b | **$ 36,000** | $ 36,000 |
| Ellerton Castor | Management | c | **$ 51,110** | $ - |
| Olga Nikitovic | Management/Professional fees | d | **$ 239,583** | $ 193,000 |
| Aird & Berlis | Professional fees | e | **$ 22,932** | $ 9,347 |

(EXPRESSED IN CANADIAN DOLLARS)

## 12. RELATED PARTY TRANSACTIONS (continued)

a) The fees for R. B. Duncan, former CEO, were included in management fees. Mr. Duncan passed away on November 12, 2020. In March 2021, 2,155,558 common shares valued at $409,556 were issued to the estate of R. Bruce Duncan for amounts owing at the time of his passing. As at December 31, 2021 $nil (2020 - $409,556) was included in accounts payable and accrued liabilities.

b) Fees for independent directors are included in management fees. As at December 31, 2021, $70,000 (2020 - $42,000) was included in accounts payable and accrued liabilities.

c) Mr. Castor assumed the role of CEO in December 2021. As at December 31, 2021, $10,459 (2020 - $nil) was included in accounts payable and accrued liabilities.

d) Ms. Nikitovic assumed the role of interim CEO in November 2020 in addition to her CFO role until December 2021. Her salary is split between management fees and professional fees effective December 1, 2020. As at December 31, 2021, $386,967 (2020 - $234,167) was included in accounts payable and accrued liabilities.

e) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Legal fees of $11,759 (2020 - $6,501) are included in professional fees and $11,174 (2020 - $2,846) are included in share issuance costs. As at December 31, 2021, $8,147 (2020 - $nil) was included in accounts payable and accrued liabilities.

All related party amounts included in accounts payable are unsecured, non-interest bearing and payable on demand.

*Compensation of key management personnel*

| | | ***Year ended December 31*** | |
|---|---|---|---|
| | Notes | **2021** | 2020 |
| Directors, management/professional fees | a | **$ 326,693** | $ 418,139 |
| Share-based payments | b | **162,200** | - |
| | | **$ 488,893** | $ 418,139 |

a) The Company does not pay any health or post-employment benefits. The salaries represent the fees for the CEO, CFO and directors which are included in the transactions above.
b) Share-based payments include the fair value of options issued for services granted to key management and directors.

## 13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

### Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at December 31, 2021, the Company had 129,284,068 common shares outstanding (December 31, 2020 – 120,669,074).

i) In March 2021, 2,155,558 common shares valued at $409,556 based on the quoted price of shares at the time of issue, were issued to the estate of R. Bruce Duncan for amounts owing at the time of his passing.

ii) In July 2021, the Company closed a non-brokered flow-through private placement in which it issued 2,941,176 flow-through shares for gross proceeds for approximately $500,000. A flow-through premium liability of $147,059 was recognized with respect to this financing.

iii) On September 24, 2021, the Company issued 40,000 shares valued at $4,000 based on the quoted price of shares at the time of issue, pursuant to the Surface Access Agreement for the Miller Property.

(EXPRESSED IN CANADIAN DOLLARS)

## 13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

### Capital Stock

iv) In October 2021, the Company closed a non-brokered flow-through private placement in which it issued 3,478,260 flow-through shares for gross proceeds for approximately $400,000. A flow-through premium liability of $104,348 was recognized with respect to this financing.

v) In February 2020, 250,000 options were exercised for gross proceeds of $25,000.

vi) During 2020, 5,450,000 warrants were exercised for gross proceeds of $722,500.

vii) In October 2020, the Company issued 40,000 common shares valued at $10,400 based on the quoted price of the shares at the time of issue, pursuant to the Miller Project Surface Access Agreement.

viii) In November 2020, the Company closed a non-brokered private placement in which it issued 2,500,000 units for gross proceeds of $500,000 of which $173,404 was allocated to warrants. Each unit consisted of one common share and one common share purchase warrant exercisable at $0.26 for three years.

### Share Purchase Warrants

At December 31, 2021, the following warrants were outstanding.

| Expiry Date | Exercise Price $ | Number of Warrants | Remaining contractual life (years) |
|---|---|---|---|
| April 12, 2022 (i) | 0.30 | 2,500,000 | 0.28 |
| April 26, 2022 (i) | 0.30 | 3,430,000 | 0.32 |
| June 18, 2022 | 0.13 | 1,550,000 | 0.46 |
| November 3, 2023 | 0.26 | 2,000,000 | 1.84 |
| November 4, 2023 | 0.26 | 500,000 | 1.84 |
| | | 9,980,000 | 0.71 |

i) The expiry date of 5,930,000 warrants that were to expire in April 2020 was extended by one year to April 2021. In January 2021, the warrants were extended by one year to April 2022.

The following is a summary of the warrant transactions for the year ended December 31, 2021 and year ended December 31, 2020.

| | **Year ended December 31, 2021** | | **Year ended December 31, 2020** | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted Average Exercise Price $** | **Number of Warrants** | **Weighted Average Exercise Price $** |
| Balance, beginning of year | **11,380,000** | **0.25** | 14,330,000 | 0.21 |
| Warrants issued | **-** | **-** | 2,500,000 | 0.26 |
| Warrants exercised | **-** | **-** | (5,450,000) | 0.13 |
| Warrants expired | **(1,400,000)** | **0.18** | - | - |
| Balance, end of year | **9,980,000** | **0.27** | 11,380,000 | 0.25 |

(EXPRESSED IN CANADIAN DOLLARS)

## 13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Share Purchase Warrants (continued)**

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued during the year ended December 31, 2020.

| | 2020 |
|---|---|
| Share price | $0.235 |
| Risk-free interest rate | 0.27% |
| Expected dividend yield | 0.00% |
| Expected stock volatility | 109% |
| Expected life | 3.0 years |

**Stock options**

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding capital stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

As at December 31, 2021, the following incentive stock options were outstanding:

| | | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|---|
| Expiry Date | Exercise Price $ | Number of Options Outstanding | Weighted average remaining contractual life (years) | Number of Options Vested | Weighted average remaining contractual life (years) |
| August 4, 2022 | 0.19 | 1,700,000 | 0.59 | 1,700,000 | 0.59 |
| June 8, 2023 | 0.10 | 350,000 | 1.44 | 350,000 | 1.44 |
| November 12, 2023 | 0.15 | 100,000 | 1.87 | 100,000 | 1.87 |
| July 18, 2024 | 0.10 | 1,000,000 | 2.55 | 1,000,000 | 2.55 |
| December 18, 2026 | 0.10 | 2,759,000 | 4.98 | 2,759,000 | 4.98 |
| | | 5,909,000 | 3.04 | 5,909,000 | 3.04 |

The following is a summary of stock option transactions for the years ended December 31, 2021 and 2020.

| | Year ended December 31, 2021 | | Year ended December 31, 2020 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Balance, beginning of year | 4,050,000 | 0.15 | 5,300,000 | 0.16 |
| Options granted | 2,759,000 | 0.01 | - | - |
| Options exercised | - | - | (250,000) | 0.10 |
| Options expired (forfeited) | (900,000) | 0.14 | (1,000,000) | 0.245 |
| Balance end of year | 5,909,000 | 0.14 | 4,050,000 | 0.15 |

(EXPRESSED IN CANADIAN DOLLARS)

## 13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (continued)

**Stock options (continued)**

Share based compensation for the year ended December 31, 2021 of $198,100 (2020: $812) has been charged to share based compensation expense with a corresponding amount being recorded in the equity settled share-based payments reserve.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options issued during the year ended December 31, 2021. No options were issued in 2020.

| | 2021 |
|---|---|
| Share price | $0.085 |
| Risk-free interest rate | 1.25% |
| Expected dividend yield | 0.00% |
| Expected stock volatility | 126% |
| Expected life in years | 5.0 years |

## 14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended December 31, 2021 consisted of:
a) The issuance of shares to settle debt of $409,556.
b) The issuance of 40,000 shares valued at $4,000 pursuant to the Surface Access Agreement for the Miller Property.

Significant non-cash investing and financing transactions for the year ended December 31, 2020 consisted of:
a) An increase in accrued exploration and evaluation assets of $9,856.
b) The issuance of 40,000 shares valued at $10,400 pursuant to the Surface Access Agreement for the Miller Property.

## 15. INCOME TAXES

a) A reconciliation of income taxes at the statutory rate of 26.5% (2020 – 26.5%) is as follows:

| | **2021** | 2020 |
|---|---|---|
| Loss for the year before income taxes | **$(688,704)** | $(411,713) |
| Expected income tax (recovery) | **$ (183,000)** | $ (110,000) |
| Share based compensation | **52,000** | |
| Flow-through renunciation | **41,000** | |
| Expenses not deductible for income tax purposes | **56,000** | 1,000 |
| Change in deferred tax assets not recognized | **34,000** | 109,000 |
| Total income tax (recovery) | **$ -** | $ - |

(EXPRESSED IN CANADIAN DOLLARS)

## 15. INCOME TAXES (continued)

b) Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

| | **2021** | 2020 |
|---|---|---|
| Exploration and evaluation assets | **$ 11,456,000** | $ 11,607,000 |
| Non-capital loss carry-forwards | **8,484,000** | 8,105,000 |
| Other | **184,000** | 203,000 |
| Total | **$ 20,124,000** | $ 19,916,000 |

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $8,484,000. Subject to certain restrictions, the Company also has resource expenditures of approximately $18,601,000 available to reduce taxable income in Canada in future years

The non-capital losses if not used, will expire as follows:

| | |
|---|---|
| 2026 | $ 849,000 |
| 2027 | 669,000 |
| 2028 | 605,000 |
| 2029 | 234,000 |
| 2030 | 170,000 |
| 2033 | 100,000 |
| 2034 | 406,000 |
| 2035 | 774,000 |
| 2036 | 790,000 |
| 2037 | 788,000 |
| 2038 | 1,193,000 |
| 2039 | 849,000 |
| 2040 | 678,000 |
| 2041 | 349,000 |
| | $ 8,484,000 |

## 16. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent segment amounts.

## 17. COMMITMENTS AND CONTINGENCIES

The Company is obliged to spend $900,000 by December 31, 2022 as part of the flow-through funding agreement for shares issued in July and October 2021. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow-through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments

As of December 31, 2021, the Company has fulfilled approximately $153,000 of the total commitment. For the year ended December 31, 2021, the Company has recorded amortization of flow-through premium liability of $39,921 (year ended December 31, 2020 - $5,837) in the statements of loss and comprehensive loss.

## 17. COMMITMENTS AND CONTINGENCIES (continued)

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. See Note 11.

**Marrelli Service Support Inc. - CFO and service consulting agreement**
The Company is obligated to pay a termination notice for consulting service of $3,750 for 24 months from the effective date of the termination notice, if the termination notice is provided within the first two calendar years.

**Executive compensation**
The Company entered into employment agreement with it senior executive which contain clauses requiring additional payments to be made upon the occurrence of certain events such as change of control, as well as termination commitment of USD$250,000. As the triggering event has not occurred, the contingent payment has not been provided for in these financial statements

## 18. SUBSEQUENT EVENT

On April 12, 2022, the Company announced a non-brokered private placement of up to 16,000,000 units (the "Unit") at a price of $0.075 per unit for aggregate gross proceeds of up $1,200,000 (the "Offering"). Each Unit shall comprised of one common share (the "Common Share" and one common share purchase warrant (the "Warrant"). Each Warrant shall entitle to acquire one Common Share at a price of $0.9375 for a period of 60 months from the date of issuance. In connection with the Offering the Company may pay finder's fees. The finder's fees may consist of a cash fee equal to 6% of the gross proceeds raised under the Offering and compensation options (the "Compensation Option"). Each Compensation Option may be acquired at the issue price and will consist of one Common Share and one common share purchase warrant (the "Compensation Unit Warrant"). Each Compensation Unit Warrant shall entitle to acquire one Common Share at a price of $0.9375 for a period of 36 months form the date of issuance.

On April 28, 2022, the Company announced the closing of the first tranche of the Offering of 11,640,000 Unit at a price of $0,075 per unit for aggregate gross proceeds of $872,900. Each Unit is comprised of one Common Share and one Warrant. Each Warrant entitles the holder to acquire one Common Share at a price of $0,09375 for a period of 60 months from the date of issuance. In connection with the Offering the Company paid finder's fees of a cash fee equal to 6% of the gross proceeds raised under the Offering and the issuance of common share purchase warrants (the "Broker Warrant") equal to 6% of the Unit sold under the Offering. Each Broker Warrant entitles the holder to acquire one Common Share at a price of $0,09375 for a period of 36 months from the date of issuance.