# ARIZONA SILVER EXPLORATION INC.

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED AUGUST 31, 2020 AND 2019

**(Expressed in Canadian Dollars)**

Smythe
CPA

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF ARIZONA SILVER EXPLORATION INC.

### *Opinion*

We have audited the consolidated financial statements of Arizona Silver Exploration Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at August 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated 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 consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1,152,490 during the year ended August 31, 2020 and, as of that date, had an accumulated deficit of $3,209,427. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, and remain alert for indications that the other information appears to be materially misstated.

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



Vancouver
1700 – 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

Langley
305 – 9440 202 St
Langley, BC V1M 4A6
T: 604 282 3600
F: 604 357 1376

Nanaimo
201 – 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Smythe LLP | smythecpa.com

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

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

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

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

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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 on the audit resulting in this independent auditors' report is Kevin Yokichi Nishi.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 21, 2020



**Vancouver**
1700 – 475 Howe St
Vancouver, BC V6C 2B3
**T:** 604 687 1231
**F:** 604 688 4675

**Langley**
305 – 9440 202 St
Langley, BC V1M 4A6
**T:** 604 282 3600
**F:** 604 357 1376

**Nanaimo**
201 – 1825 Bowen Rd
Nanaimo, BC V9S 1H1
**T:** 250 755 2111
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Smythe LLP | **smythecpa.com**

**ARIZONA SILVER EXPLORATION INC.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT AUGUST 31, 2020 AND 2019
(EXPRESSED IN CANADIAN DOLLARS)

| | Note | | August 31, 2020 | | August 31, 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | $ | 824,031 | $ | 54,397 |
| Receivables | | | 18,084 | | 70,976 |
| Prepaids | 3 | | 35,049 | | 24,280 |
| | | | 877,164 | | 149,653 |
| **Other assets** | | | | | |
| Exploration and evaluation assets | 4 and 9 | | 3,520,919 | | 2,548,950 |
| Reclamation bonds | 4 | | 46,498 | | 38,776 |
| **TOTAL ASSETS** | | **$** | **4,444,581** | **$** | **2,737,379** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 5 and 9 | $ | 139,714 | $ | 223,918 |
| Loans payable | 6 | | - | | 63,514 |
| | | | 139,714 | | 287,432 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 7 | | 6,124,797 | | 3,823,867 |
| Reserves | 7 | | 1,399,497 | | 683,017 |
| Subscription receivable | 7 | | (10,000) | | - |
| Deficit | | | (3,209,427) | | (2,056,937) |
| **TOTAL SHAREHOLDERS' EQUITY** | | | 4,304,867 | | 2,449,947 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$** | **4,444,581** | **$** | **2,737,379** |

Nature of operations (Note 1)
Subsequent events (Note 13)

**On behalf of the Board:**

*"Greg Hahn"* Director *"Mike Stark"* Director

See accompanying notes to the consolidated financial statements

**ARIZONA SILVER EXPLORATION INC.**
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED AUGUST 31, 2020 AND 2019
(EXPRESSED IN CANADIAN DOLLARS)

| | **Note** | **August 31, 2020** | **August 31, 2019** |
|---|---|---|---|
| **EXPENSES** | | | |
| Advertising and promotion | | $ 30,182 | $ - |
| Consulting fees | | 67,397 | 74,500 |
| Foreign exchange gain | | (7,507) | (3,133) |
| General exploration expenses | 9 | 9,238 | 17,278 |
| Interest | | 245 | - |
| Investor communications | | 7,345 | 31,972 |
| Management fees | 9 | 72,000 | 72,000 |
| Office facilities and administrative | | 23,270 | 25,883 |
| Professional fees | 9 | 45,139 | 46,957 |
| Share-based compensation | 7 and 9 | 831,085 | 129,509 |
| Transfer agent and filing fees | | 67,620 | 58,753 |
| Travel | | 6,476 | 7,395 |
| **NET LOSS AND COMPREHENSIVE LOSS** | | $ (1,152,490) | $ (461,114) |
| Basic and diluted loss per share | | $ (0.03) | $ (0.01) |
| Weighted average number of common shares outstanding | | 43,117,393 | 32,598,418 |

See accompanying notes to the consolidated financial statements

**ARIZONA SILVER EXPLORATION INC.**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED AUGUST 31, 2020 AND 2019
(EXPRESSED IN CANADIAN DOLLARS)

| | Share capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Share Subscriptions Received in Advance | Reserves Share-Based Compensation | Reserves Other | Subscription Receivable | Deficit | Total |
| Balance at August 31, 2018 | 28,871,834 | $ 3,325,194 | $ 65,014 | $ 503,508 | $ 50,000 | $ - | $ (1,595,823) | $ 2,347,893 |
| Shares issued for cash | 5,597,320 | 528,763 | (65,014) | - | - | | - | 463,749 |
| Share issue costs | - | (30,090) | - | - | - | | - | (30,090) |
| Share-based compensation | - | - | - | 129,509 | - | | - | 129,509 |
| Net loss for the year | - | - | - | - | - | | (461,114) | (461,114) |
| Balance at August 31, 2019 | 34,469,154 | $ 3,823,867 | $ - | $ 633,017 | $ 50,000 | $ - | $ (2,056,937) | $ 2,449,947 |
| Shares issued for cash | 13,831,751 | 1,733,382 | - | - | - | (10,000) | - | 1,723,382 |
| Shares on exercise of stock options | 950,000 | 246,730 | - | (114,605) | - | - | - | 132,125 |
| Shares on exercise of warrants | 1,866,550 | 279,983 | - | - | - | - | - | 279,983 |
| Shares issued for property | 250,000 | 42,500 | - | - | - | - | - | 42,500 |
| Share issue costs | - | (1,665) | - | - | - | - | - | (1,665) |
| Share-based compensation | - | - | - | 831,085 | - | - | - | 831,085 |
| Net loss for the year | - | - | - | - | - | - | (1,152,490) | (1,152,490) |
| Balance at August 31, 2020 | 51,367,455 | $ 6,124,797 | $ - | $ 1,349,497 | $ 50,000 | $ (10,000) | $ (3,209,427) | $ 4,304,867 |

**ARIZONA SILVER EXPLORATION INC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2020 AND 2019
(EXPRESSED IN CANADIAN DOLLARS)

| | August 31, 2020 | August 31, 2019 |
|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| Net loss for the year | $ (1,152,490) | $ (461,114) |
| Adjustments for non-cash items: | | |
| Foreign exchange | 738 | - |
| Share-based compensation | 831,085 | 129,509 |
| Net change in non-cash working capital accounts | | |
| Decrease (increase) in receivables | 52,892 | (4,294) |
| Increase in prepaids | (10,769) | (14,830) |
| Decrease (increase) in accounts payable and accrued liabilities | (167,319) | 179,001 |
| Net cash used in operating activities | (445,863) | (171,728) |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Exploration and evaluation assets | (846,354) | (300,563) |
| Reclamation bond | (8,460) | (11,753) |
| Net cash used in investing activities | (854,814) | (312,316) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Shares issued for cash (net) | 1,721,717 | 433,659 |
| Options exercised | 132,125 | - |
| Warrants exercised | 279,983 | - |
| Proceeds from loans payable | 125,000 | 63,514 |
| Repayment of loans payable | (188,514) | - |
| Net cash provided by financing activities | 2,070,311 | 497,173 |
| Increase in cash during the year | 769,634 | 13,129 |
| CASH, BEGINNING OF YEAR | 54,397 | 41,268 |
| **CASH, END OF YEAR** | **$ 824,031** | **$ 54,397** |
| Interest paid | $ 246 | $ - |
| Income taxes paid | - | - |

Supplemental Disclosure with Respect to Cash Flow (Note 11)

See accompanying notes to the consolidated financial statements

## 1. NATURE OF OPERATIONS

Arizona Silver Exploration Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on May 12, 2011. On November 16, 2016 the Company changed its name from Damon Capital Corp. to Arizona Silver Exploration Inc. The Company is classified as a Tier 2 issuer, trading on the TSX Venture Exchange (the "Exchange") under the symbol AZS.

The Company is currently evaluating its exploration and evaluation assets and has not determined whether any of these properties contain reserves that are economically recoverable. The recoverability of amounts recorded for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves. The Company's future capital requirements depend on many factors, including costs of exploration and development of the exploration and evaluation assets, cash flow from operations, costs to complete additional exploration, and competition and global market conditions.

In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. To date there have been significant effects on the world's equity markets and the movement of people and goods has become restricted. Due to market uncertainty, the Company may be restricted in its ability to raise additional funding. The impact of these factors on the Company is not yet determinable; however, they may have a material impact on the Company's financial position, results of operations and cash flows in future periods.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### *Statement of compliance to International Financial Reporting Standards*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted, which is the functional currency of the Company and its subsidiaries. The consolidated financial statements were authorized for issuance on December 21, 2020 by the directors of the Company.

### *Changes in accounting policies*

Effective September 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16"). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases* ("IAS 17"). Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The adoption of IFRS 16 did not have any material impact on the Company's consolidated financial statements as the Company does not have significant leases.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Going concern assumption***

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended August 31, 2020, the Company incurred a net loss of $1,152,490 (2019 - $461,114) and, as of that date, had an accumulated deficit of $3,209,427 (2019 - $2,056,937). The Company remains reliant on external sources of financing to fund operations and meet the Company's obligations. These factors form a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to the adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

***Consolidation***

These consolidated financial statements include the accounts of the Company and its controlled wholly owned subsidiaries, Arizona Silver Corporation (incorporated in British Columbia) ("ASC"), 935548 Canada Corp. (incorporated in Canada), and Arizona Silver Exploration U.S. Inc. (incorporated in Arizona, United States). Inter-company transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

***Exploration and evaluation assets***

Upon acquiring the legal right to explore, all costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of an exploration and evaluation asset is impaired, that property is written down to its estimated net realizable value. An exploration and evaluation asset is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

***Significant accounting judgments, estimates and assumptions***

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances; however, actual outcomes can differ from these estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Significant accounting judgments, estimates and assumptions*** *(continued)*

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for share-based payments, and the recoverability and measurement of deferred tax assets and liabilities.

*Valuation of exploration and evaluation assets* – Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, evaluation of permitting and environmental issues and local support for the project. Property under lease has attributes of an option agreement and accordingly the Company capitalizes annual lease payments and exploration and evaluation costs required under the lease agreement.

*Share based compensation* – The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can significantly change the fair value estimate and the Company's earnings and equity reserves.

*Deferred income taxes* - Judgement is required in determining whether deferred tax assets are recognized in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable income in future periods, in order to utilize deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the consolidated statements of financial position could be impacted. The Company has not recorded any deferred tax assets.

***Provisions***

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

***Income (loss) per share***

The Company computes the dilutive effect of options, warrants and similar instruments whereby the dilutive effect on income or loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive. Basic income or loss per common share is calculated using the weighted average number of shares outstanding during the period. Shares held in escrow, other than where their release is subject to the passage of time, are excluded from basic income or loss per common share until escrow conditions have been removed.

***Share capital***

The Company issues common shares and share purchase warrants from time to time, which are classified in the financial statements as equity instruments. The residual value method is used to calculate the fair value of the warrant component in unit offerings, whereby the residual of the private placement proceeds after deducting the fair value of the share component is assigned as the fair value of the warrants.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

### *Share-based compensation*

Share-based compensation to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued. If it is determined the fair value of the goods or services cannot be reliably measured, they are recorded at the fair value of the equity instruments granted. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration shall be based on the number of equity instruments that eventually vest.

### *Financial instruments*

The following table shows the classification of the Company's financial instruments under IFRS 9 *Financial Instruments*:

| **Financial Asset/Liability** | **Classification** |
|---|---|
| Cash | Fair value through profit and loss ("FVTPL") |
| Receivables | Amortized cost |
| Reclamation bonds | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Loans payable | Amortized cost |

Financial assets

*Recognition and measurement*

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

*Classification*

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

*Amortized cost*

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

*Fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at FVTOCI is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Financial instruments*** *(continued)*

*Fair value through profit or loss ("FVTPL")*

A financial asset measured at FVTPL is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

*Derecognition*

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

*Recognition and measurement*

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

*Classification*

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

*Amortized cost*

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

*Fair value through profit or loss*

A financial liability measured at FVTPL is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

*Derecognition*

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, 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 the consolidated statement of income (loss).

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Financial instruments** (continued)*

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statement of income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

***Foreign currency translation***

The Company's reporting currency and the functional currency of all its operations is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates. The functional currency determination was conducted through an analysis of consideration factors identified in IAS 21 *The Effect of Changes in Foreign Exchange Rates*.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the financial position reporting date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

***Related party transactions***

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resource or obligations between related parties.

***Income taxes***

Current income tax:

Current income tax assets and liabilities for the reporting period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided for based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

(EXPRESSED IN CANADIAN DOLLARS)

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Income taxes** (continued)*

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 3. PREPAIDS

| | August 31, 2020 | August 31, 2019 |
|---|---|---|
| Insurance | $ 11,713 | $ 10,723 |
| Advertising and promotion | 12,153 | 6,242 |
| Regulatory fees | 7,383 | 7,315 |
| Other | 3,800 | - |
| | $ 35,049 | $ 24,280 |

## 4. EXPLORATION AND EVALUATION ASSETS

*Property lease and option agreement, Ramsey Mine area, La Paz County Arizona*
A property lease and option agreement with a company located in Colorado for the Ramsey Mine area located in La Paz County in Arizona.

This agreement calls for the following payments:

| Amount (USD) | Due Date |
|---|---|
| $10,000 | Due on execution of agreement (Paid) |
| $10,000 | Due within 12 months from date of agreement (November 25, 2015) (Paid) |
| $2,500 | Due within 30 days of signing an agreement with a third party to explore the property (Paid) |
| $15,000 | 24 months from date of agreement (November 25, 2016) (Paid) |

The following lease payments are due for the lease and option to remain in effect:

| Amount (USD) | Due Date |
|---|---|
| $20,000 | 36 months from date of agreement (November 25, 2017) (Paid) |
| $25,000 | 48 months from date of agreement (November 25, 2018) (Paid) |
| $25,000 | On each anniversary date of the agreement until claims are in production |

ASC has the option to acquire a 100% interest in the Ramsey Property prior to production by paying USD$500,000.

This agreement is subject to a 2% net smelter royalty (“NSR”) which can be purchased from the lessor for USD$1,000,000.

*Certain surface and mineral rights, Ramsey Mine area, La Paz County Arizona*
ASC entered into another property lease and option agreement with a company located in Arizona in February 2015, amended in February 2016, for certain surface and mineral rights located in the Ramsey Mine area in La Paz County in Arizona.

(EXPRESSED IN CANADIAN DOLLARS)

## 4. EXPLORATION AND EVALUATION ASSETS (continued)

This agreement calls for the following payments:

| **Amount (USD)** | **Due Date** |
|---|---|
| $10,000 | Due on execution of agreement (Paid) |
| $11,000 | Due March 23, 2016 (Paid) |

The following lease payments are due for the lease and option to remain in effect:

| **Amount (USD)** | **Due Date** |
|---|---|
| $12,000 | Second anniversary date of agreement, February 23, 2017 (Paid) |
| $13,000 | Third anniversary date of agreement (February 23, 2018) (Paid) |
| $14,000 | Fourth anniversary date of agreement (February 23, 2019) (Paid) |
| $15,000 | Fifth anniversary date of agreement (February 23, 2020) (Paid) |
| $20,000 | Sixth anniversary date of agreement (February 23, 2021) |
| $25,000 | Seventh anniversary date of agreement (February 23, 2022) |
| $30,000 | Eighth anniversary date of agreement (February 23, 2023) |
| $35,000 | Ninth anniversary date of agreement (February 23, 2024) |
| $40,000 | Tenth anniversary date of agreement (February 23, 2025) |
| $50,000 | Annually on each subsequent anniversary date of this agreement until option is exercised prior to commercial production |

ASC has the option to acquire 100% interest in the Ramsey Property prior to production by paying USD$500,000.

This agreement is subject to a 2% NSR which can be purchased from lessor for USD$500,000.

*Additional claims, Ramsey Mine area, La Paz County* Arizona
During the year ended August 31, 2017, the Company staked additional lode mining claims at the Ramsey Silver Project, located in La Paz County, Arizona.

*Property lease and option agreement, Sycamore Canyon, Graham County Arizona*
The Company entered into a property lease and option agreement with Summit Minerals Partnership on March 1, 2018 for certain surface and mineral rights located in the Sycamore Canyon property in Graham County, Arizona.

The following lease payments are due for the lease and option to remain in effect:

| **Amount (USD)** | **Due Date** |
|---|---|
| $10,000 | Execution of agreement (Paid) |
| $11,000 | First anniversary date of agreement (March 1, 2019) (Paid) |
| $12,000 | Second anniversary date of agreement (March 1, 2020) (Paid) |
| $13,000 | Third anniversary date of agreement (March 1, 2021) |
| $14,000 | Fourth anniversary date of agreement (March 1, 2022) |

The Company has the option to acquire a 100% interest in the Sycamore Canyon Property by making the above lease payments prior to the fifth anniversary of the agreement, and by paying an additional USD$40,000.

This agreement is subject to a 2% NSR which the Company may purchase half of the 2% NSR from the lessor at any time until 90 days following completion of a feasibility study for USD$500,000.

(EXPRESSED IN CANADIAN DOLLARS)

## 4. EXPLORATION AND EVALUATION ASSETS (continued)

*Property lease and option agreement, Philadelphia Group Property, Mohave Country, Arizona*
During the year ended August 31, 2019, the Company entered into a property lease with option to purchase on 11 unpatented lode mining claims that cover a majority of the old workings and potential strike extension of the former operating Arabian-Philadelphia Mine. In addition, the Company has staked three additional lode mining claims to cover the southern strike extension of the vein and host structure that was not covered by the leased claim group.

The following lease payments are due for the lease to remain in effect:

| Amount (USD) | Due Date |
|---|---|
| $15,000 | Execution of agreement (Paid) |
| $17,000 | First anniversary date of agreement (February 7, 2020, Paid) |
| $19,000 | Second anniversary date of agreement (February 7, 2021) |
| $21,000 | Third anniversary date of agreement (February 7, 2022) |
| $23,000 | Fourth anniversary date of agreement (February 7, 2023) |
| $25,000 | Annually on each subsequent anniversary date of this agreement until option is exercised prior to commercial production |

This agreement is subject to a 2% NSR which the Company may purchase half of the 2% NSR from the lessor at any time until commencement of mine construction on the Philadelphia Group Property for USD$500,000.

The Company has the exclusive right and option to terminate the lease and instead acquire a 100% interest in and to the Philadelphia Group Property after making any of the above lease/option payments and prior to the commencement of mine construction by paying the lessor USD$500,000 cash.

On April 3, 2019, the Company received all federal and state permits to drill the Philadelphia property and the drilling contractor has been secured. The Company has staked additional claims to the North of the current location.

On January 29, 2020, the Company entered into a Purchase and Sale agreement completely replacing and superseding the Lease and Option agreement entered into in February 2019. Under the terms of the Purchase and Sale agreement, the Company must make a cash payment of USD$20,000 (paid) and issue 250,000 common shares of the Company (issued and valued at $42,500) to own the property 100% outright with no further annual lease payments or buyout expenditures (Notes 7 and 11). The Seller will retain a 1% NSR royalty (Note 13). The Purchase and Sale agreement was closed on February 15, 2020.

*Property lease and option agreement, Silverton, Nye County Nevada*
The Company entered into a property assignment agreement with Greg Hahn Consulting LLC (“Assignor”), a related party, on August 15, 2020 for certain mining claims located in Nye County, Nevada.

The Assignor is a party to an agreement dated on August 7, 2019 with Precious Metals LLC, an unrelated party, (the “Silverton Agreement”) related to seventy-seven unpatented mining claims. In consideration of USD$36,344 (paid), the Assignor assigned, transferred and conveyed to the Company the entire right, title and interest in and to the Silverton Agreement. In addition, the Company assumed all of the Assignor’s obligations and liabilities under the Silverton Agreement.

(EXPRESSED IN CANADIAN DOLLARS)

## 4. EXPLORATION AND EVALUATION ASSETS (continued)

Pursuant to the Silverton Agreement, the following lease payments are due for the lease to remain in effect:

| **Amount (USD)** | **Due Date** |
|---|---|
| $10,000 | October 2019 (paid) |
| $15,000 | October 2020 (paid on October 14, 2020) |
| $20,000 | October 2021 |
| $25,000 | October 2022 |
| $25,000 | Each anniversary year perpetually thereafter |

All payments pursuant to the Silverton Agreement have been paid to Precious Metals LLC.

The lease provides an option to buy the property outright for a one-time cash payment of USD$1,250,000 with a retained 2% NSR to the underlying owner of the claims and a retained 1% NSR to the assignor of the lease. The Company further has the right to buy out the royalty interest completely for USD$1,250,000 and USD$500,000, respectively.

### Reclamation bond

As at August 31, 2020, the reclamation bond consists of a bond in the amount of $27,266 (USD$20,906) (2019 - $27,795 (USD$20,906)) related to the Ramsey Silver property and $19,232 (USD$14,320) (2019 - $10,981 (USD$8,260)) related to the Philadelphia property which are held by the United States Department of the Interior Bureau of Land Management.

From the acquisition date of November 18, 2016 to August 31, 2020, the Company incurred the following expenditures on the properties.

(EXPRESSED IN CANADIAN DOLLARS)

## 4. EXPLORATION AND EVALUATION ASSETS (continued)

| | August 31, 2020 -$- | Current Expenditures -$- | August 31, 2019 -$- |
|---|---|---|---|
| **Arizona Properties** | | | |
| Ramsey Silver | | | |
| Acquisition, lease, option and historical data | 856,187 | 19,890 | 836,297 |
| Claim renewals | 178,984 | 37,210 | 141,774 |
| Consulting geological | 195,631 | 6,318 | 189,313 |
| Drilling, geophysics, fieldwork and assays | 1,109,624 | 101,746 | 1,007,878 |
| Site office, travel | 65,304 | 4,951 | 60,353 |
| | 2,405,730 | 170,115 | 2,235,615 |
| Sycamore Canyon | | | |
| Acquisition, lease, option and historical data | 43,477 | 16,073 | 27,404 |
| Claim renewals | 24,228 | 8,813 | 15,415 |
| Consulting geological | 104,100 | 12,303 | 91,797 |
| Drilling, geophysics, fieldwork and assays | 28,106 | - | 28,106 |
| Site office, travel | 28,518 | 7,998 | 20,520 |
| | 228,429 | 45,187 | 183,242 |
| Philadelphia Group | | | |
| Acquisition, lease, option and historical data | 111,457 | 91,507 | 19,950 |
| Claim renewals | 5,750 | 5,750 | - |
| Consulting geological | 175,339 | 153,420 | 21,919 |
| Drilling, geophysics, fieldwork and assays | 508,357 | 426,516 | 81,841 |
| Site office, travel | 35,423 | 29,040 | 6,383 |
| | 836,326 | 706,233 | 130,093 |
| **Nevada Property** | | | |
| Silverton | | | |
| Acquisition, lease, option and historical data | 48,000 | 48,000 | - |
| Site office, travel | 2,434 | 2,434 | - |
| | 50,434 | 50,434 | - |
| | 3,520,919 | 971,969 | 2,548,950 |

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | August 31, 2020 | August 31, 2019 |
|---|---|---|
| Accounts payable | $ 124,414 | $ 172,618 |
| Accrued liabilities | 15,300 | 51,300 |
| | $ 139,714 | $ 223,918 |

## 6. LOANS PAYABLE

During the year ended August 31, 2019, the Company received $50,000 and $13,514 (USD $10,000) from various related parties (Note 9).

The $50,000 loan is unsecured, bears interest at 4.45% per annum and due on demand. The loan was repaid, including interest of $152, during the year ended August 31, 2020.

The USD$10,000 loan is unsecured, non-interest bearing and due on demand. The loan was repaid during the year ended August 31, 2020.

On December 30, 2019, the Company received $125,000 from the Chief Executive Officer (Note 9). The loan is unsecured, bears interest at 3.4% and due on demand. The loan was repaid, including interest of $94, during the year ended August 31, 2020.

As at August 31, 2020, the Company has a loans payable balance of $Nil (2019 - $50,000 and $13,514 (USD$10,000).

## 7. SHARE CAPITAL AND RESERVES

The authorized share capital consists of an unlimited number of common shares without par value.

As at August 31, 2020, the total common shares outstanding are 51,367,455 (2019 – 34,469,154).

On November 20, 2018, the Company closed a private placement for gross proceeds of $231,846 by issuing 2,898,075 shares at a price of $0.08 per share.

On February 13, 2019, the Company closed a private placement for gross proceeds of $296,917 by issuing 2,699,245 shares at a price of $0.11 per share. Share issue costs of $30,090 were incurred related to this private placement.

On January 3, 2020, the Company closed a non-brokered private placement of 6,827,617 units for gross proceeds of $682,762 at a price of $0.10 per unit. Each unit is comprised of one common share and one-half of one warrant exercisable into a common share for $0.15 per share for a period of two years. Share issue costs of $1,665 were incurred related to this private placement.

On January 22, 2020, the Company issued 25,000 common shares for gross proceeds of $3,000 pursuant to the exercise of stock options with an exercise price of $0.12.

On February 3, 2020, the Company issued 250,000 common shares valued at $42,500 related to the purchase and sale agreement of the Philadelphia property (Notes 4 and 11).

On February 21, 2020, the Company issued 125,000 common shares for gross proceeds of $20,000 pursuant to the exercise of stock options with an exercise price of $0.16.

On February 24, 2020, the Company issued 800,000 common shares for gross proceeds of $109,125 pursuant to the exercise of stock options with an exercise price between $0.12 and $0.195.

On March 3, 2020, the Company closed the first tranche of a non-brokered private placement of 6,580,400 units for gross proceeds of $987,060 at a price of $0.15 per unit. Each unit is comprised of one common share and one-half of one warrant exercisable into a common share for $0.22 per share for a period of five years. As at August 31, 2020, the Company has a subscription receivable of $10,000 included in receivables.

## 7. SHARE CAPITAL AND RESERVES (continued)

On March 5, 2020, the Company closed the second and final tranche of a non-brokered private placement of 423,734 units for gross proceeds of $63,560 at a price of $0.15 per unit. Each unit is comprised of one common share and one-half of one warrant exercisable into a common share for $0.22 per share for a period of five years.

During the year ended August 31, 2020, the Company issued 1,866,550 common shares for gross proceeds of $279,983 pursuant to the exercise of warrants with an exercise price of $0.15.

### Stock options

On June 28, 2019, the Company adopted a 10% rolling stock option plan which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the TSX Venture Exchange ("TSX-V") requirements, grant options to directors, officers, employees, and consultants of the Company, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Options granted vest at the discretion of the Board of Directors.

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The forfeiture rate assumption is based on historical results, which is estimated to be nil, and the annualized volatility is based on the Company's historical share prices.

On March 13, 2019, the Company granted options entitling eligible participants to purchase 127,250 common shares, in whole or in part on or before March 13, 2024 at an exercise price of $0.165 per share. Accordingly, the Company recorded the estimated grant date fair value of $19,160 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.165; exercise price of $0.165; expected life of 5 years; expected volatility of 151%; risk free interest rate of 1.67%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

On July 8, 2019, the Company granted incentive stock options to purchase a total of 1,050,000 common shares at an exercise price of $0.12 per share for a period of five years to directors, management and a consultant of the Company. Accordingly, the Company recorded the estimated grant date fair value of $110,349 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.115; exercise price of $0.12; expected life of 5 years; expected volatility of 153%; risk free interest rate of 1.58%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

On January 29, 2020, the Company granted incentive stock options to purchase a total of 125,000 common shares at an exercise price of $0.16 per share for a period of five years to a director of the Company. Accordingly, the Company recorded the estimated grant date fair value of $17,721 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.16; exercise price of $0.16; expected life of 5 years; expected volatility of 140%; risk free interest rate of 1.33%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

(EXPRESSED IN CANADIAN DOLLARS)

## 7. SHARE CAPITAL AND RESERVES (continued)

**Stock options** (continued)

On February 24, 2020, the Company granted incentive stock options to purchase a total of 2,175,000 common shares at an exercise price of $0.175 per share for a period of five years to directors, management and consultants of the Company. Accordingly, the Company recorded the estimated grant date fair value of $347,970 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.18; exercise price of $0.175; expected life of 5 years; expected volatility of 140%; risk free interest rate of 1.22%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

On July 30, 2020, the Company granted incentive stock options to purchase 200,000 common shares at an exercise price of $0.22 per share for a period of one year to a consultant of the Company. Accordingly, the Company recorded the estimated grant date fair value of $9,861 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.155; exercise price of $0.22; expected life of one year; expected volatility of 110%; risk free interest rate of 0.22%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

On August 31, 2020, the Company granted incentive stock options to purchase a total of 1,475,000 common shares at an exercise price of $0.355 per share for a period of five years to directors, management and consultants of the Company. Accordingly, the Company recorded the estimated grant date fair value of $455,533 in connection to these options.

The grant date fair value of the options granted above was based on the following assumptions: share price at grant date of $0.345; exercise price of $0.355; expected life of 5 years; expected volatility of 145%; risk free interest rate of 0.37%; expected dividend yield rate of 0%; and forfeiture rate of 0%.

The number of stock options outstanding and exercisable at August 31, 2020 and 2019 are as follows:

| | August 31, 2020 | | | August 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Options outstanding, beginning of year | 2,477,250 | $ | 0.13 | 1,647,182 | $ | 0.24 |
| Options granted | 3,975,000 | | 0.24 | 1,177,250 | | 0.12 |
| Options expired/cancelled | (325,000) | | 0.17 | (347,182) | | 0.17 |
| Options exercised | (950,000) | | 0.14 | - | | - |
| Options outstanding, end of the year | 5,177,250 | $ | 0.24 | 2,477,250 | $ | 0.13 |
| Options exercisable, end of the year | 5,177,250 | $ | 0.24 | 2,477,250 | $ | 0.13 |

As at the year ended August 31, 2020, the weighted average remaining contractual life of the outstanding exercisable stock options is 3.96 years (2019 - 3.72 years).

During the year ended August 31, 2020, the weighted average market price of shares issued from stock options exercised is $0.18 (2019 - $nil).

(EXPRESSED IN CANADIAN DOLLARS)

## 7. SHARE CAPITAL AND RESERVES (continued)

**Stock options** (continued)

The stock options outstanding by expiry are as follows at August 31, 2020 and 2019:

| | August 31, 2020 | | August 31, 2019 | |
|---|---|---|---|---|
| **Expiry date** | **Number of options** | **Exercise price** | **Number of options** | **Exercise price** |
| July 30, 2021 | 200,000 | $ 0.22 | - | $ - |
| December 15, 2021 | 325,000 | 0.30 | 375,000 | 0.30 |
| March 22, 2022 | 50,000 | 0.30 | 50,000 | 0.30 |
| September 7, 2022 | 275,000 | 0.30 | 275,000 | 0.30 |
| March 2, 2023 | 325,000 | 0.195 | 600,000 | 0.195 |
| March 13, 2024 | 127,250 | 0.165 | 127,250 | 0.165 |
| July 8, 2024 | 225,000 | 0.12 | 1,050,000 | 0.12 |
| February 24, 2025 | 2,175,000 | 0.175 | - | - |
| August 31, 2025 | 1,475,000 | 0.355 | - | - |
| Options exercisable, end of the year | 5,177,250 | | 2,477,250 | |

**Warrants**

The changes in warrants during the year ended August 31, 2020 and 2019 are summarized as follow:

| | August 31, 2020 | | August 31, 2019 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| Warrants outstanding, beginning of year | - | $ - | - | $ - |
| Warrants granted | 6,915,876 | 0.19 | - | - |
| Warrants exercised | (1,866,550) | 0.15 | - | - |
| Warrants outstanding, end of the year | 5,049,326 | $ 0.20 | - | $ - |

Details of warrants outstanding and exercisable at August 31, 2020 are as follows:

| Date of expiry | Exercise price | Number of warrants | Weighted Average Remaining Contractual life, years |
|---|---|---|---|
| September 30, 2020* | $0.15 | 1,547,259 | 0.08 |
| March 5, 2025 | $0.22 | 3,502,067 | 4.51 |
| | | 5,049,326 | 3.15 |

*Pursuant to the terms of the private placement, the Company elected to accelerate the expiry date of these warrants from January 3, 2022 to September 30, 2020.

## 8. FINANCIAL RISK MANAGEMENT

The Company is exposed to minimal financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company's cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high quality financial institution as determined by rating agencies.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

As at August 31, 2020, the Company has $139,714 (2019 - $223,918) in current liabilities that are due within 90 days.

***Currency risk***

The Company operates in Canada and the United States. The Company has foreign exchange risk with respect to its USD accounts payable and loan payable. As at August 31, 2020, the exposure to USD accounts payable was USD$66,910 ($73,565) (2019 – USD$65,347 ($86,879)) and loan payable of $Nil (2019 – USD$10,000 ($13,514)). A 10% change in the foreign exchange results would result in an impact of $6,700.

***Interest rate risk***

The Company is not currently exposed to significant interest rate risk.

***Capital Management***

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity and loans as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not exposed to externally imposed capital requirements and there were no changes in the Company's capital management during the course of the year.

(EXPRESSED IN CANADIAN DOLLARS)

## 8. FINANCIAL RISK MANAGEMENT (continued)

***Classification of financial instruments***

***Fair value***

The fair value of the Company's financial assets and liabilities, other than cash, approximates the carrying amount due to the short-term nature of receivables, accounts payable and accrued liabilities and loans payable.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 –Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets measured at fair value as at:

| **August 31, 2020** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Cash | $ 821,251 | $ - | $ - |

| **August 31, 2019** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Cash | $ 54,397 | $ - | $ - |

## 9. RELATED PARTY TRANSACTIONS

Amounts due to related parties consist of charges accrued for office administration and management fees. These amounts are due to directors, officers, or companies controlled by directors or officers. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

The following amounts due to related parties are included in account payables and accrued liabilities:

| | **August 31, 2020** | **August 31, 2019** |
|---|---|---|
| Directors and corporations controlled by directors of the Company | $ 3,031 | $ 55,163 |
| A corporation controlled by VP Exploration of the Company | 15,650 | 75,954 |
| A corporation controlled by the CFO of the Company | - | 18,400 |
| | $ 18,681 | $ 149,517 |

For the year ended August 31, 2020, there was a receivables balance of $11,456 (2019 - $1,355) owed by a corporation controlled by directors of the Company.

(EXPRESSED IN CANADIAN DOLLARS)

## 9. RELATED PARTY TRANSACTIONS (continued)

The Company incurred the following transactions with directors/officers of the Company and corporations that are controlled by directors/officers of the Company. The Company has identified all directors/officers as its key management personnel.

| | | August 31, 2020 | | August 31, 2019 |
|---|---|---|---|---|
| Professional fees to the CFO | $ | 26,000 | $ | 36,000 |
| Management fees to the CEO | | 72,000 | | 72,000 |
| Capitalized fees on long-term assets to the VP Exploration | | 82,794 | | 65,216 |
| General exploration expenses to the VP Exploration | | 6,318 | | 17,278 |
| Share-based compensation | | 599,090 | | 119,000 |
| | $ | 786,202 | $ | 309,494 |

As at August 31, 2020, there are loans payable of $Nil and $Nil (2019 - $50,000 and USD$10,000 ($13,514)) owing to the Chief Executive Officer and VP Exploration of the Company, respectively (Note 6). The loans were repaid, including interest of $152, during the year ended August 31, 2020.

The Company entered into a property assignment agreement with Greg Hahn Consulting LLC (“Assignor”), a corporate controlled by the VP of Exploration of the Company, on August 15, 2020 for certain mining claims. The Company reimbursed the Assignor USD$ 36,344 (2019 - $nil) for lease and mineral property maintenance fees paid on behalf of the Company.

On December 30, 2019, the Company received $125,000 from the Chief Executive Officer which was unsecured, bears interest at 3.4% and due on demand (Note 6). The loan was repaid, including interest of $94, during the year ended August 31, 2020.

## 10. INCOME TAXES

The reconciliation of income taxes at statutory rates with the reported taxes is as follows.

| | | August 31, 2020 | | August 31, 2019 |
|---|---|---|---|---|
| Loss for the year before income taxes | $ | (1,152,490) | $ | (461,114) |
| Statutory Tax Rate | | 27% | | 27% |
| Expected income tax recovery | $ | (311,000) | $ | (125,000) |
| Items not deducted for tax purposes | | 225,000 | | 36,000 |
| Share issue costs | | 69,000 | | 9,000 |
| Change in unrecognized deductible temporary differences | | 17,000 | | 80,000 |
| Total income tax recovery | $ | - | $ | - |

The Company has not recognized any deferred tax assets or liabilities as of August 31, 2020 and 2019.

(EXPRESSED IN CANADIAN DOLLARS)

## 10. INCOME TAXES (continued)

The nature of the unrecognized temporary differences and unused tax loss carry forwards are as summarized below:

| | August 31, 2020 | August 31, 2019 |
|---|---|---|
| Non-capital loss carry-forwards | $ 1,822,000 | $ 1,145,000 |
| Share issue costs | 46,000 | 63,000 |

The non-capital losses, if not utilized, will expire through to 2040. Potential tax benefits which may arise as a result of these losses and other tax assets have not been recognized in these financial statements as it is not probable that they will be utilized in the near future.

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOW

The Company's significant non-cash investing and financing transactions during the year ended August 31, 2020 was the issuance of 250,000 common shares valued at $42,500 related to the Purchase and Sale Agreement of the Philadelphia Group property (Notes 4 and 7).

The Company's significant non-cash investing and financing transactions during the year ended August 31, 2019 were share subscriptions of 812,675 with a value of $65,014 for the November 20, 2018 private placement were received prior to August 31, 2018, and $83,115 of exploration and evaluation assets included in accounts payable.

## 12. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment, being the acquisition and exploration of mineral properties. As at August 31, 2020 and 2019 all the Company's non-current assets were located in the United States of America.

## 13. SUBSEQUENT EVENTS

In November 2020, the Company bought out the existing 1% NSR on the Philadelphia property for USD$50,000 (Note 4).

Subsequent to the year ended August 31, 2020, the Company issued 25,000 common shares for gross proceeds of $4,875 pursuant to the exercise of stock options with an exercise price of $0.195.

Subsequent to the year ended August 31, 2020, the Company issued 1,547,259 common shares for gross proceeds of $232,089 pursuant to the exercise of warrants with an exercise price of $0.15.