PEDRO RESOURCES LTD.

# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

## (EXPRESSED IN CANADIAN DOLLARS)

# Independent Auditor's Report

To the Shareholders of Pedro Resources Ltd.:

## Opinion

We have audited the consolidated financial statements of Pedro Resources Ltd. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit and cash flows for the year then ended, and 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 December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## 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 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 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 consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2021 and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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 Matter

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed unmodified opinion on those financial statements on May 3, 2021.

## Other Information

Management is responsible for the other information. The other information comprises 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's 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. We have nothing to report in this regard.

## 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 International Financial Reporting Standards, 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.

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

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 auditor's report is Patrycja Anna Kajda.

MNP LLP

Mississauga, Ontario | Chartered Professional Accountants

April 27, 2022 | Licensed Public Accountants

**Pedro Resources Ltd.**
**Consolidated Statements of Financial Position**
*(Expressed in Canadian dollars)*

| | Note | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **Assets** | | **$** | **$** |
| **Current Assets** | | | |
| Cash | | **167,901** | 3,194 |
| Taxes and other receivables | | **51,595** | 23,406 |
| Prepaid expenses | | **5,902** | 4,734 |
| **Total Assets** | | **225,398** | 31,334 |
| **Liabilities and Shareholders' Deficit** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | | **268,733** | 78,937 |
| Consideration payable – short-term | **7** | **150,370** | - |
| Due to related parties | **4, 9** | **20,000** | 106,133 |
| Total Current Liabilities | | **439,103** | 185,070 |
| **Non-Current Liabilities** | | | |
| Consideration payable – long-term | **7** | **275,161** | - |
| Total Non-Current Liabilities | | **275,161** | - |
| Total Liabilities | | **714,264** | 185,070 |
| **Shareholders' Deficit** | | | |
| Share capital | **8** | **9,411,730** | 8,005,913 |
| Contributed surplus and share-based payment reserve | **8** | **-** | 1,629,931 |
| Warrants reserve | **8** | **151,231** | - |
| Accumulated deficit | | **(10,051,827)** | (9,789,580) |
| Total Shareholders' Deficit | | **(488,866)** | (153,736) |
| **Total Liabilities and Shareholders' Deficit** | | **225,398** | 31,334 |

**Nature of Business and Going Concern** (Note 1) and **Subsequent Event** (Note 11)

| | | |
|---|---|---|
| ***Approved by the Board*** | ***"Brian Stecyk"*** | ***"Stuart Adair"*** |
| | ***Director*** *(Signed)* | ***Director*** *(Signed)* |

**Pedro Resources Ltd.**
**Consolidated Statements of Loss and Comprehensive Loss**
*(Expressed in Canadian dollars)*

| | Note | For the years ended December 31 2021 | 2020 |
|---|---|---|---|
| **Expenses** | | **$** | $ |
| Property acquisition | **7** | **1,414,317** | - |
| Exploration and development expenditures | | **210,618** | - |
| Consulting fees | **9** | **106,920** | 135,260 |
| General and administration | | **8,931** | 14,074 |
| Professional fees | | **95,519** | 31,338 |
| Regulatory and transfer agent fees | | **42,821** | 10,315 |
| Shareholder communications | | **1,838** | 8,325 |
| Bad debt expense | | **-** | 44,698 |
| Loss before finance items and other items | | **(1,880,964)** | (244,010) |
| Accretion expense | **7** | **(11,214)** | - |
| **Net loss and comprehensive loss for the year** | | **(1,892,178)** | (244,010) |
| **Loss per common share - basic and diluted** | | **(0.08)** | (0.01) |
| **Weighted average number of common shares outstanding – basic and diluted** | | **24,820,745** | 19,936,630 |

*See accompanying notes to the audited consolidated financial statements*

**Pedro Resources Ltd.**
**Consolidated Statements of Changes in Shareholders' Deficit**
*(Expressed in Canadian dollars)*

| | Common Shares | Share Capital | Share-based payment reserve | Contributed Surplus | Warrants Reserve | Accumulated Deficit | Total Shareholders' Equity (Deficit) |
|---|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ | $ |
| **Balance at December 31, 2019** | **19,936,630** | **8,005,913** | **308,906** | **1,321,025** | **-** | **(9,545,570)** | **90,274** |
| Comprehensive loss for the year | - | - | - | - | - | (244,010) | (244,010) |
| **Balance at December 31, 2020** | **19,936,630** | **8,005,913** | **308,906** | **1,321,025** | **-** | **(9,789,580)** | **(153,736)** |
| Fair value of shares issued for property acquisition (Note7) | 8,000,000 | 1,000,000 | - | - | - | - | 1,000,000 |
| Private placement (Note 8) | 3,878,000 | 581,700 | - | - | - | - | 581,700 |
| Cost of share issue (Note 8) | | (24,652) | - | - | - | - | (24,652) |
| Fair value of warrants issued | - | (141,134) | - | - | 141,134 | - | - |
| Fair value of broker warrants issued | - | (10,097) | - | - | 10,097 | - | - |
| Transfer on expiry of stock options | - | - | (308,906) | - | - | 308,906 | - |
| Transfer on expiry of warrants | - | - | - | (1,321,025) | - | 1,321,025 | - |
| Comprehensive loss for the year | - | - | - | - | - | (1,892,178) | (1,892,178) |
| **Balance at December 31, 2021** | **31,814,630** | **9,411,730** | **-** | **-** | **151,231** | **(10,051,827)** | **(488,866)** |

**Pedro Resources Ltd.**
**Consolidated Statements of Cash Flows**
*(Expressed in Canadian dollars)*

| | Note | For the years ended December 31 2021 | 2020 |
|---|---|---|---|
| | | $ | $ |
| **Operating activities** | | | |
| Net loss for the year | | **(1,892,178)** | (244,010) |
| Items not affecting cash: | | | |
| Shares issued for property acquisition | | **1,000,000** | - |
| Accretion expense | | **11,214** | - |
| Bad debt expense | | **-** | 44,698 |
| Net changes in non-cash working capital items: | | | |
| Taxes and other receivables | | **(28,189)** | (4,193) |
| Prepaid expenses | | **(1,168)** | (1,494) |
| Accounts payable and accrued liabilities | | **88,663** | 47,268 |
| Consideration payable | **7** | **414,317** | - |
| **Cash (used in) operating activities** | | **(407,341)** | (157,731) |
| **Investing activities** | | | |
| Due from related parties | **4, 9** | **-** | (44,698) |
| **Cash (used in) investing activities** | | **-** | (44,698) |
| **Financing activities** | | | |
| Proceeds from private placements | **8** | **581,700** | - |
| Cost of share issue | **8** | **(24,652)** | - |
| Advance from related parties | **4, 9** | **15,000** | 24,728 |
| **Cash provided by financing activities** | | **572,048** | 24,728 |
| **Increase (decrease) in cash** | | **164,707** | (177,701) |
| **Cash, beginning of year** | | **3,194** | 180,895 |
| **Cash, end of year** | | **167,901** | 3,194 |

## 1. Nature of Business and Going Concern

Pedro Resources Ltd. (the "Company") is a publicly traded company actively engaged in the acquisition, exploration and development of mineral properties. The address of the Company's corporate office and principal place of business is Suite 2200, HSBC Building, 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

On July 14, 2021, the Company acquired all of the issued and outstanding shares of Voisey's Bay West Nickel & Cobalt Corp. ("Voisey's Bay") by way of a share purchase agreement with Voisey's Bay and the shareholders of Voisey's Bay. Voisey's Bay is a private company formed under the laws of Ontario, whose sole asset at the time of acquisition was a 100% interest in 13 prospective mineral licenses, comprising 721 claims (18,025 hectares), 4.5 km south of Vale's Voisey's Bay Mine in the province of Newfoundland and Labrador, Canada. As consideration for the acquisition, the Company issued an aggregate of 8,000,000 common shares in the capital of the Company to the vendors and cash payments of $155,000 payable on each of the first three anniversaries of the closing of the Transaction.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on a going concern basis which assumes the Company will be able to meet its obligations and continue its operations for the next 12 months. During the year ended December 31, 2021, the Company incurred a net loss and comprehensive loss of $1,892,178 (2020 – $244,010) and, at December 31, 2021, had a shareholders' deficit of $488,866 (2020 – $153,736) and had a working capital deficit of $213,705 (2020 – $153,736).

The Company's continuation as a going concern is dependent upon successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. There is no assurance that the Company will continue to be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19 have significantly disrupted business activities throughout the world. The Company's business relies, to a certain extent, on the free movement of goods, services, and capital within Canada, which has been significantly restricted as a result of the COVID-19 pandemic. Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the continuing impact of COVID-19, including any responses to it, will be on the economy and the Company's business in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

## 2. Basis of Presentation

(i) Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

(ii) Principles of Consolidation

These consolidated financial statements include the accounts of Pedro Resources Ltd. and its wholly-owned subsidiary, Voisey’s Bay. All intercompany balances and transactions have been eliminated upon consolidation.

(iii) Basis of Measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The principal accounting policies and critical estimates and judgements used when compiling these consolidated financial statements are set out below. These consolidated financial statements were approved by the Board of Directors on April 27, 2022.

## 3. Significant Accounting Policies

### a) Critical Accounting Estimates, Judgements and Assumptions

The preparation of the consolidated financial statements 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 the 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.

Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements were as follows:

(i) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to determine the fair value of options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine the fair value of an option: risk-free interest rate, exercise price, market price at the date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company’s control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense.

(ii) Valuation of warrants:

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued using the relative fair value method as part of the Company’s private placements. The Black-Scholes model requires six key inputs to determine a value for a warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company’s control. For example, a longer expected life of the warrant or a higher volatility number used would result in an increase in the warrant value.

## 3. Significant Accounting Policies (Cont'd)

### a) Critical Accounting Estimates, Judgments, and Assumptions (cont'd)

The significant areas of judgment considered by management in preparing the consolidated financial statements are as follows:

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and the consolidated financial statements continue to be prepared on a going concern basis. However, management does not believe the Company has sufficient cash on hand to meet the Company's operating expenditures beyond December 31, 2022, which may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

(ii) Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

(iii) Asset Acquisition:

The assessment of whether an acquisition meets the definition of a business, or whether assets are acquired is an area of key judgment. If deemed to be a business combination, applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition-date fair value. Any excess of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The acquisition of a business generally has three elements:

- Input – an economic resource that creates outputs when one or more processes are applied to it;
- Process – a system, standard, protocol, convention or rule that when applied to an input or inputs, creates
- Outputs – the result of inputs and processes applied to those inputs.

The acquisition of Voisey's Bay during the year is accounted for in these consolidated financial statements as an asset acquisition since the process and output elements of a business combination were not present at the acquisition date.

### b) Loss per common share

Basic loss per common share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The computation of diluted loss per common share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per common share. The calculation proved to be anti-dilutive for the years ended December 31, 2021 and 2020.

### c) Stock-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company's Board of Directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted. 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.

### 3. Significant Accounting Policies (Cont'd)

#### d) Stock-based compensation (Cont'd)

The fair value of options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured taking into account the terms and conditions upon which the share purchase options were granted. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

#### e) Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of loss for the period. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### f) Rehabilitation Provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed, or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of loss and comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. When applicable for closed sites, changes to estimated costs are recognized immediately in the consolidated statement of loss and comprehensive loss. As at December 31, 2021 and December 31, 2020, the provision was $nil.

#### g) Financial Assets and Liabilities

IFRS 9 – Financial instruments ("IFRS 9") includes guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI") based on the business model in which they are held and the characteristics of their contractual cash flows.

## 3. Significant Accounting Policies (Cont'd)

### g) Financial Assets and Liabilities (Cont'd)

Financial assets
Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets classified as FVTPL are measured at fair value with changes in fair value on those items recognized in net loss and comprehensive loss. Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI.

ii. Amortized Cost

Financial assets classified as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The Company's cash and taxes and other receivables are classified as financial assets measured at amortized cost.

iii. Financial assets recorded at FVTOCI

Financial assets are recorded at FVTOCI when the change in fair value is attributable to changes in the Company's credit risk. The Company did not hold any financial assets measured at FVTOCI as at December 31, 2021 and December 31, 2020.

Financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities measured at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective yield basis is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Company's accounts payable and accrued liabilities, and due to related party approximate their amortized cost.

ii. Financial liabilities recorded at FVTPL

Financial liabilities are classified as FVTPL if they do not fall into the amortized cost category 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.

**3. Significant Accounting Policies (Cont'd)**

**g) Financial Assets and Liabilities (Cont'd)**

Recognition and measurement
Instruments classified as FVTPL are measured at fair value with gains and losses arising from the changes in fair value of the securities presented in the statement of loss and comprehensive loss as the net unrealized gains or losses in the period they arise. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive loss.

Determination of fair values
The determination of fair value requires judgement and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of securities based on quoted trading prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period.

Derecognition of financial liabilities
The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire. 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 loss and comprehensive loss.

Impairment of financial assets
Financial assets not measured at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. Evidence of impairment could include significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amounts of the Company's financial assets are reviewed at each reporting date to determine if there is any indication of impairment. As of December 31, 2021 and December 31, 2020, the fair values of the financial assets classified at amortized cost approximated their carrying value due to their short-term nature.

Financial instruments recorded at fair value
Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

**h) Valuation of Private Placement Units Issued**

The Company follows the relative fair value method with respect to the measurement of common shares and warrants issued as private placement units. The proceeds from the issuance of units are allocated between share capital and warrants. Unit proceeds are allocated to shares and warrants using the Black-Scholes option pricing model and the share price at the time of financing. If and when the warrants are exercised, the applicable relative fair value recognized in warrants is transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital. For those warrants that expire unexercised on maturity, the recorded value is transferred to deficit.

## 3. Significant Accounting Policies (Cont'd)

### i) Deferred taxes

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

### j) New Accounting Standards and Amendments

Certain pronouncements have been issued by the IASB that are effective for annual periods beginning on or after January 1, 2021. The Company has assessed the amendments and determined that there is no material impact on the accounting and presentation of the consolidated financial statements.

Certain pronouncements have been issued by the IASB that are applicable for accounting periods after December 31, 2021. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

## 4. Due to Related Parties

The amount due to related parties represents funds received from a company with common directors and funds received from a shareholder. The amounts are non-interest bearing and have no fixed terms of repayment. During the year ended December 31, 2021, there was a net change in due to related parties balance of $81,133 resulting from $101,133 being reclassified from due to related parties to accounts payable and $15,000 being advanced by a shareholder.

## 5. Capital Management

The capital structure of the Company consists of shareholders' equity or deficit. The Company's objectives when managing capital are to ensure sufficient liquidity for operations and adequate funding for growth and capital expenditures while maintaining an efficient balance between debt and equity.

The Company makes adjustments to its capital structure upon approval from its Board of Directors, in light of economic conditions and the Company's working capital requirements. There were no changes in the Company's approach to capital management during 2021. The Company does not presently utilize any quantitative measures to monitor its capital. There are no external restrictions on capital.

## 6. Financial Instruments

The Company is exposed in varying degrees to a variety of financial instrument related risk. The Company's Board of Directors approves and monitors its 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:

a. Fair Values

For the Company's financial instruments, including cash, other receivables, due to related parties, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their immediate or short-term maturity.

b. Currency Risk

The Company currently does not have any significant exposure to foreign currency risk.

c. Credit Risk

Credit risk arises from cash held with banks and financial institutions, and credit exposure to clients or tax authorities, including outstanding receivables. The maximum exposure to credit risk is equal to the carrying

**(Expressed in Canadian dollars, unless otherwise noted)**

**6. Financial Instruments (Cont'd)**

value of the financial assets. To reduce credit risk, cash is held at major financial institutions.

d. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company tries to ensure that there are sufficient funds to meet its short-term business requirements, considering its anticipated cash flows from operations and its holdings of cash. Currently, the Company's main source of funding is from the issuance of equity securities for cash, primarily through private placements. As at December 31, 2021, the Company had cash of $167,901 (December 31, 2020 - $3,194), accounts payable and accrued liabilities of $268,733 (December 31, 2020 - $78,937) and due to related parties of $20,000 (December 31, 2020 - $106,133).

**7. Mineral Properties**

**Voisey's Bay Acquisition**

On July 14, 2021, the Company acquired (the "Transaction") all of the issued and outstanding common shares in the capital of Voisey's Bay. The Transaction was carried out by way of a share purchase agreement dated November 27, 2020 between the Company, Voisey's Bay and the shareholders of Voisey's Bay (collectively, the "Vendors"). Voisey's Bay is a private company formed under the laws of Ontario, whose sole asset at the time of acquisition was a 100% interest in 13 prospective mineral licenses, comprising 721 claims (18,025 hectares) (the "Property"), 4.5 km south of Vale's Voisey's Bay Mine in the province of Newfoundland and Labrador, Canada (the "Vale's Property").

As consideration for the Transaction, the Company issued an aggregate of 8,000,000 common shares in the capital of the Company (the "Consideration Shares") at a fair value of $0.125 per Consideration Share to the vendors and cash payments of $155,000 payable on each of the first three anniversaries of the closing of the Transaction. The cash consideration payable was recorded in the consolidated statements of financial position using a discount rate of 6%, totaling $414,317 on initial recognition. All securities issued pursuant to the Transaction were subject to a statutory hold period of four months and one day from the issuance thereof, as applicable, in accordance with applicable securities laws.

In connection with the Transaction, the Company granted a 2.5% net smelter returns royalty ("NSR") in favour of a syndicate, subject to the ability of the Company to purchase 1.5% of the NSR (resulting in the remaining NSR being 1%) for a purchase price of $1,500,000 at any time before fifth anniversary of the date hereof. The acquisition of Voisey's Bay has been accounted for as an asset acquisition (see note 3a(iii)).

Consideration payable at December 31, 2021 was as follows:

| | | |
|---|---|---|
| Balance at January 1, 2021 | $ | - |
| Initial recognition | | **414,317** |
| Accretion expense | | **11,214** |
| Balance at December 31, 2021 | $ | **425,531** |

| | | **December 31, 2021** |
|---|---|---|
| Short-term portion of consideration payable | $ | **150,370** |
| Long-term portion of consideration payable | | **275,161** |
| Balance at December 31, 2021 | $ | **425,531** |

**(Expressed in Canadian dollars, unless otherwise noted)**

## 8. Shareholders' Deficit

### a. Share Capital

The Company's authorized share capital includes an unlimited number of Class "A" common shares having no par value. At December 31, 2021, 31,814,630 common shares (December 31, 2020 – 19,936,630) were issued and outstanding. Please refer to the consolidated statements of changes in shareholders' deficit for movements in share capital during the years ended December 31, 2021 and December 31, 2020.

On September 13, 2021, the Company closed a non-brokered private placement financing for gross proceeds of $581,700. The Company issued 3,878,000 units (each, a "Unit") at a price of $0.15 per Unit. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.30 for a period of two (2) years from the closing of the Offering. As part of the financing, the Company paid $14,817 cash commissions and $9,835 in other transaction related costs and issued 96,780 broker warrants. Each broker warrant entitles the holder thereof to purchase one Common Share at a price of $0.30 for a period of two (2) years from the closing of the offering. The fair value of the warrants and broker warrants issued under the financing was $0.10.

### b. Share purchase options

In fiscal 2011, the Company adopted a stock option plan ("SOP") pursuant to which the Company is able to grant to directors, officers, employees and service providers options to purchase common shares of the Company. The maximum number of options which may be outstanding at any point in time is 10% of the Company's then outstanding common shares. Generally, options granted will have a maximum term of ten years and a vesting period determined by the Company's Board of Directors.

### c. Share-based payment reserve

The share-based payment reserve records items recognized as share-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised or are cancelled, the amount recorded is transferred to the accumulated deficit.

### d. Stock Options outstanding

The following is a summary of stock option movements during the years ended December 31, 2021 and 2020:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Number of Options** | **Weighted Avg Exercise Price** | | **Number of Options** | **Weighted Avg Exercise Price** | |
| Balance at January 1 | 370,000 | $ | 0.19 | 401,000 | $ | 0.19 |
| Expired | (370,000) | $ | 0.19 | (31,000) | $ | 0.17 |
| Balance at December 31 | - | | - | **370,000** | $ | 0.19 |

| | Number of Options Outstanding | | | |
|---|---|---|---|---|
| **Expiry Date** | **2021** | **2020** | **Exercise Price** | |
| April 6, 2021 | - | 270,000 | $ | 0.20 |
| June 12, 2021 | - | 100,000 | $ | 0.17 |
| Outstanding at December 31 | - | 370,000 | $ | 0.19 |

**(Expressed in Canadian dollars, unless otherwise noted)**

## 8. Shareholder's Deficit (Cont'd)

### e. Warrants

The Company has issued warrants as part of equity financings. The fair value of warrants issued was $151,231 and is recognized upon issuance as an equity reserve until expiration or exercise.

The following table summarizes warrant movements during the years ended December 31, 2021 and 2020:

| | Number outstanding | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|
| Balance at January 1, 2020 and 2021 | 1,858,000 | $0.50 | June 10, 2021 |
| Issued | 2,035,780 | $0.30 | September 13, 2023 |
| Expired | (1,858,000) | $0.50 | - |
| **Balance – December 31, 2021** | **2,035,780** | **$0.30** | |

The fair value of the warrants issued in 2021 was estimated using a relative fair value attribution of the Black-Scholes model for pricing options using the following weighted average assumptions:

| | September 13, 2021 |
|---|---|
| Risk-free interest rate | 0.41% |
| Expected stock volatility | 173% |
| Expected life | 2 years |
| Dividend yield | 0% |

## 9. Key Management Personnel and Related Party Transaction

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors as well as corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer and/or their companies.

Key management personnel compensation for the years ended December 31, 2021 and 2020 was as follows:

| | | **2021** | | 2020 |
|---|---|---|---|---|
| Short term compensation | **$** | **60,000** | $ | 92,500 |

During the year ended December 31, 2021, there was a net decrease in due to related parties balance of $81,133 resulting from $101,133 being reclassified from due to related parties to accounts payable and $15,000 being advanced by a shareholder.

**(Expressed in Canadian dollars, unless otherwise noted)**

## 10. Income Taxes

(a) Income Tax Expense

Major items causing the Company's income tax rate to vary from the Canadian statutory rate of approximately are as follows:

| | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| | $ | $ |
| Statutory tax rate | 26.5% | 26.5% |
| Loss before income taxes | (1,892,178) | (244,010) |
| Expected income tax recovery | (501,430) | (63,421) |
| Non-deductible expenses | 377,770 | - |
| Share issuance costs booked directly to equity | (9,210) | - |
| Change in tax benefits not recognized | 132,870 | 63,421 |
| Income tax | - | - |

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries, branches and associates and interests in joint arrangements accounted for in these consolidated financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately $1,465,000 at year-end (2020 – $0).

(b) Unrecognized Deferred Income Taxes

The following deferred tax assets are not recognized in the consolidated financial statements due to the unpredictability of future income:

| | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| | $ | $ |
| Non-capital losses carried forward | 3,547,360 | 786,000 |
| Resource pools – mineral properties | 1,661,700 | - |
| Equipment, intangibles and other assets | - | 1,000 |
| Share issue costs | 27,800 | 2,000 |
| | 5,236,860 | 789,000 |
| | - | - |

**(Expressed in Canadian dollars, unless otherwise noted)**

## 10. Income Taxes (Cont'd)

(b) Deferred Income Taxes (cont'd)

The Canadian operating tax loss carry forwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian operating losses expire as follows:

| Year | | Amount |
|---|---|---|
| 2030 | $ | 14,000 |
| 2031 | | 284,000 |
| 2032 | | 240,000 |
| 2033 | | 188,000 |
| 2034 | | 168,000 |
| 2035 | | 142,000 |
| 2036 | | 233,910 |
| 2037 | | 440,500 |
| 2038 | | 537,970 |
| 2039 | | 797,000 |
| 2040 | | 239,000 |
| 2041 | | 262,980 |
| | $ | 3,547,360 |

## 11. Subsequent event

On March 3, 2022, the Company granted 2,500,000 stock options to certain directors, officers, employees and consultants of the Company. The stock options entitle the holders to purchase the same number of common shares of the Company at a price of $0.15 per share for a period of five years. 50% of the options shall vest immediately on the date of grant and the remaining 50% will vest on September 3, 2022.