# GENERATION MINING LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2019 AND FOR THE PERIOD FROM JANUARY 11 (INCORPORATION) TO DECEMBER 31, 2018**

**(Expressed in Canadian dollars)**

# GENERATION MINING LIMITED

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Generation Mining Limited (the "Company") are the responsibility of the management and Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

| | |
|---|---|
| “Jamie Levy” (signed) | “Brian Jennings” (signed) |
| President and Chief Executive Officer | Chief Financial Officer |

RSM

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Generation Mining Limited

*Opinion*

We have audited the consolidated financial statements of Generation Mining Limited, (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2019 and the period from January 11, 2018 (incorporation) to December 31, 2018, 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, 2019 and 2018, and consolidated financial performance and its consolidated cash flows for the year ended December 31, 2019 and the period from January 11, 2018 (incorporation) to December 31, 2018, 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.

*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 will 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 when it becomes available 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 the Management discussion and analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is 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 Octavio Cabral.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 9, 2020
Toronto, Ontario

## GENERATION MINING LIMITED

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
### (Expressed in Canadian dollars)

| | As at | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| ASSETS | | |
| CURRENT | | |
| Cash | $ 1,218,516 | $ 1,167,899 |
| Cash held in trust | 13,025 | - |
| Marketable securities (note 8) | 256,638 | 1,502,550 |
| Receivables (note 12) | 540,910 | 531,744 |
| Prepaid expenses and other | 20,662 | 49,226 |
| | $ 2,049,751 | $ 3,251,419 |
| NON-CURRENT | | |
| Restricted cash and cash equivalents (note 9) | 37,855 | - |
| Land, buildings and equipment (note 7) | 600,497 | - |
| Right-of-use asset (note 9) | 241,571 | - |
| | 879,923 | - |
| TOTAL ASSETS | $ 2,929,674 | $ 3,251,419 |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | $ 288,982 | $ 183,388 |
| Debt (note 15) | 180,516 | 163,405 |
| Lease liability (note 9) | 26,870 | - |
| | $ 496,368 | $ 346,793 |
| NON-CURRENT | | |
| Lease liability (note 9) | 223,173 | - |
| TOTAL LIABILITIES | $ 719,541 | $ 346,793 |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (note 11 a) | $ 11,636,743 | $ 3,237,812 |
| RESERVE FOR WARRANTS (note 11 b) | 4,521,479 | 839,007 |
| RESERVE FOR SHARE-BASED PAYMENTS (note 11 c) | 1,417,089 | 320,626 |
| DEFICIT | (15,365,178) | (1,492,819) |
| TOTAL SHAREHOLDERS' EQUITY | $ 2,210,133 | $ 2,904,626 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 2,929,674 | $ 3,251,419 |

Nature of operations (note 1)
Commitments and contractual obligations (note 6 and 14)
Subsequent events (note 16)

Approved on behalf of the Board of Directors on April 9, 2020

(signed) "*Jamie Levy*", Director

(signed) "*Paul Murphy*", Director

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

## GENERATION MINING LIMITED

### CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
**(Expressed in Canadian dollars)**

| | Year ended December 31, 2019 | January 11, 2018 to December 31, 2018 |
|---|---|---|
| EXPENSES | | |
| Acquisition, evaluation and exploration expenditures (note 6) | $ 9,672,344 | $ 2,680,261 |
| Share-based compensation | 1,101,000 | 320,626 |
| Professional fees | 450,826 | 251,517 |
| Management and corporate administration services | 421,956 | 237,700 |
| Shareholder and investor relations | 597,177 | 94,212 |
| Occupancy cost (note 9) | 111,423 | 62,274 |
| Interest | 39,227 | - |
| Operating loss | (12,393,953) | (3,646,590) |
| Gain (loss) on marketable securities and marketable securities receivable (note 8 and 12) | (1,608,017) | 625,191 |
| Gain on property option assignment (note 6 and 8) | - | 1,424,885 |
| | (14,001,970) | (1,596,514) |
| Deferred income tax recovery (note 13 and 14) | 129,611 | 103,695 |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR/PERIOD | $ (13,872,359) | $ (1,492,819) |
| Loss per share: | | |
| Basic and diluted loss per share | $ (0.21) | $ (0.04) |
| Weighted average number of common shares outstanding | 66,666,933 | 35,225,773 |

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

## GENERATION MINING LIMITED

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
**(Expressed in Canadian dollars)**

| | Capital stock | | Reserves for | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Warrants | Share-based payments | Accumulated deficit | Total Equity |
| Balance, January 11, 2018 | 1 | $ 1 | - | - | - | $ 1 |
| Issued pursuant to the Arrangement (note 1) | 15,969,934 | 1,533,114 | - | - | - | 1,533,114 |
| Cancellation of incorporation share (note 1) | (1) | (1) | - | - | - | (1) |
| Issued under property option agreements | 3,500,000 | 223,300 | - | - | - | 223,300 |
| Issued for cash under private placement | 26,000,000 | 2,600,000 | - | - | - | 2,600,000 |
| Flow through share premium | - | (103,695) | - | - | - | (103,695) |
| Fair value of warrants issued in private placement | - | (810,265) | 810,265 | - | - | - |
| Fair value of finders warrants issued in private placement | - | (74,493) | 74,493 | - | - | - |
| Share issue cost | - | (130,149) | (45,751) | - | - | (175,900) |
| Fair value of options granted | - | - | - | 320,626 | - | 320,626 |
| Net loss | - | - | - | - | (1,492,819) | (1,492,819) |
| Balance, December 31, 2018 | 45,469,934 | $ 3,237,812 | $ 839,007 | $ 320,626 | $ (1,492,819) | $ 2,904,626 |
| Issued under property acquisition agreement | 11,053,795 | $ 3,000,000 | - | - | - | $ 3,000,000 |
| Issued for cash under private placement | 28,572,000 | 8,000,160 | - | - | - | 8,000,160 |
| Fair value of warrants issued in private placement | - | (3,428,640) | 3,428,640 | - | - | - |
| Fair value of finders options issued in private placement | - | (720,014) | 720,014 | - | - | - |
| Share issue cost | - | (312,064) | (442,319) | - | - | (754,383) |
| Issued for cash under flow through private placement | 6,167,460 | 1,942,750 | - | - | - | 1,942,750 |
| Flow through share premium | - | (129,611) | - | - | - | (129,611) |
| Flow through share issue cost | - | (21,575) | - | - | - | (21,575) |
| Issued on exercise of finders warrants | 315,000 | 55,363 | (23,863) | - | - | 31,500 |
| Fair value of options granted | - | - | - | 1,101,000 | - | 1,101,000 |
| Issued on exercise of options | 53,500 | 12,562 | - | (4,537) | - | 8,025 |
| Net loss | - | - | - | - | (13,872,359) | (13,872,359) |
| Balance, December 31, 2019 | 91,631,689 | $ 11,636,743 | $ 4,521,479 | $ 1,417,089 | $ (15,365,178) | $ 2,210,133 |

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

## GENERATION MINING LIMITED

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### (Expressed in Canadian dollars)

| | Year ended December 31, 2019 | January 11, 2018 to December 31, 2018 |
|---|---|---|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Net loss for the period | $ (13,872,359) | $ (1,492,819) |
| Add items not affecting cash: | | |
| Mineral properties transferred from Arrangement | - | 1,216,848 |
| Share-based compensation | 1,101,000 | 320,626 |
| Deferred income tax recovery | (129,611) | (103,695) |
| Shares issued for property acquisition | 3,000,000 | 223,300 |
| Interest accrued but not paid | 17,111 | 13,011 |
| Unrealized loss (gain) on marketable securities and marketable securities receivable | 1,608,017 | (625,191) |
| Gain on property option assignment | - | (1,424,885) |
| Depreciation of right of use asset | 27,608 | - |
| Depreciation of buildings and equipment | 29,538 | - |
| Changes in non-cash working capital: | | |
| Receivables | (371,271) | (34,218) |
| Prepaid expenses and other | 28,564 | (38,992) |
| Accounts payable and accrued liabilities | 105,594 | 183,388 |
| Cash used in operations | (8,455,809) | (1,762,627) |
| CASH USED IN INVESTING ACTIVITIES | | |
| Acquisition of land, buildings and equipment | (630,035) | - |
| GIC investment | (37,855) | - |
| Cash used in investing activities | (667,890) | - |
| CASH PROVIDED BY FINANCING ACTIVITIES: | | |
| Proceeds from issuance of shares | 8,000,160 | - |
| Share issue cost | (754,383) | - |
| Proceeds from issuance of flow through shares | 1,942,750 | 2,600,000 |
| Flow through share issue cost | (21,575) | (175,900) |
| Proceeds from exercise of finders warrants | 18,475 | - |
| Proceeds from exercise of options | 8,025 | - |
| Cash transferred from Arrangement | - | 456,425 |
| Cash from property option assignment | - | 50,000 |
| Repayment of lease liability | (19,136) | - |
| Cash provided by financing activities | 9,174,316 | 2,930,525 |
| INCREASE IN CASH | 50,617 | 1,167,898 |
| CASH AT BEGINNING OF YEAR/PERIOD | 1,167,899 | 1 |
| CASH AT END OF YEAR/PERIOD | 1,218,516 | $ 1,167,899 |

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

**(Expressed in Canadian dollars)**

## 1. NATURE OF OPERATIONS:

Generation Mining Limited ("Generation Mining" or the "Company") is an exploration and development company with various property interests throughout Canada. The Company was incorporated on January 11, 2018 under the Business Corporations Act (Ontario). On May 28, 2019, the Company incorporated a wholly owned subsidiary, Generation PGM Inc. ("Generation PGM"), to operate the Marathon property joint venture ("Marathon Property") (note 6). The Company's registered office is located at 100 King Street West, Suite 7010, Toronto, Ontario M5X 1B1. The Company's shares are listed on the Canadian Securities Exchange (the "CSE") under the symbol GENM.

On December 15, 2017, Pine Point Mining Limited ("Pine Point") entered into an arrangement agreement (the "Agreement") with Osisko Metals Incorporated ("Osisko Metals") pursuant to which Osisko Metals acquired, by way of court approved plan of arrangement (the "Arrangement"), all of the issued and outstanding common shares of Pine Point, including common shares that became outstanding after the date of the execution of the Arrangement but before the effective time of the Arrangement upon the exercise of outstanding share options and warrants of Pine Point.

Under the Arrangement, Pine Point shareholders received, in exchange for each of their existing common shares of Pine Point: (i) 0.271 of a common share of Osisko Metals, (ii) 0.0677 of a common share purchase warrant of Osisko Metals, and (iii) one common share of Generation Mining; consolidated on a 10:1 basis under the Arrangement. The Company was formed for the sole purpose of participating in the Arrangement and had not carried on any active business other than in connection with the Arrangement and related matters. On February 16, 2018, Pine Point shareholders approved the Arrangement which was subsequently finalized on February 23, 2018. Pine Point shareholders received in aggregate 15,969,934 common shares of Generation Mining valued at $0.096 per share for a total consideration of $1,533,114.

Pursuant to the Arrangement all exploration assets owned by Pine Point other than the Pine Point Project located in the Northwest Territories, as well as certain other assets and liabilities of Pine Point, were transferred to Generation Mining. The properties included the Darnley Bay Anomaly and Darnley Bay Diamond in the Northwest Territories, Davidson and Nak in British Columbia, Lac Lessard in Quebec and Clear Lake in Alberta.

| | |
|---|---|
| Total value of mineral properties acquired | $ 1,216,848 |
| Cash acquired | 456,425 |
| Other assets | 10,425 |
| Less: liabilities assumed | (150,584) |
| Consideration: shares issued | $ 1,533,114 |

The shares of Generation Mining were distributed to Pine Point shareholders under the terms of the Arrangement, the Company became a reporting issuer in British Columbia, Alberta, Nova Scotia, Northwest Territories, Yukon and Nunavut, and its shares became eligible for trading on the CSE on May 9, 2018. The primary business objective of the Company is to explore and further develop its mineral properties, and to continue to increase its property portfolio.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in future profitable mining operations. The Company's continued existence is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to explore and develop potential ore reserves or by way of entering into joint venture arrangements, future profitable production, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

## 1. NATURE OF OPERATIONS (continued):

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

## 2. BASIS OF PREPARATION:

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These annual consolidated financial statements were authorized and approved for issue by the Board of Directors on April 9, 2020.

### Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Generation PGM Inc. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Company's subsidiary is wholly owned and all inter-company balances, transactions, including income and expenses arising from inter-company transaction are eliminated in preparing the consolidated financial statements.

### Basis of Measurement

The financial statements are prepared on the historical cost basis except for certain assets and liabilities which are measured at their fair values, as explained in the relevant accounting policies.

### Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

### Use of Judgement

The preparation of these financial statements requires management to make judgements and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant judgements include incremental borrowing rate on the lease liability, accounting for acquisitions and accounting for the joint venture. On an ongoing basis, management evaluates its judgements in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements.

## 3. SIGNIFICANT AND FUTURE ACCOUNTING POLICIES:

**Significant Accounting Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires that management make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these financial statements include, but are not limited to, the valuation of equity instruments and income taxes. Actual results could differ from management's best estimates.

a) Fair value of equity instruments

The Company used the Black-Scholes option pricing model to determine the fair value of warrants and options issued. Option pricing models require the use of highly subjective estimates and assumptions including the expected volatility used. In the absence of a volatility of the Company's share price, the Company has used the volatility of the share prices of comparable Canadian junior mining companies as a proxy to estimate the Company's share price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

b) Income taxes

The interpretation of existing tax laws or regulations in Canada where the Company's operations are located requires the use of judgement. Differing interpretation of these laws or regulations could result in an increase in the Company's taxes, or other government charges, duties or impositions. In addition, the recoverability of deferred income tax assets, including expected periods of reversal of temporary differences and expectations of future taxable income, are assessed by management at the end of each reporting period.

c) Determination of going concern assumption

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 3. SIGNIFICANT AND FUTURE ACCOUNTING POLICIES (continued):

### Joint Operations

The Company conducts its exploration and development activities independently, as well as jointly with others through joint operations. All the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations in accordance with the joint arrangement or agreement. The Company acquired a 51 per cent interest in the Marathon property (note 6) on July 10, 2019.

### Land, Buildings and Equipment

On the initial recognition, land, building and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition. Land, buildings and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. When parts of an item of land, buildings and equipment have different useful lives, they are accounted for as separate items of land, buildings and equipment. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying cost amount and are recognized net within other income in the statement of profit or loss.

Depreciation is recognized in profit or loss and buildings and equipment are amortized over their estimated useful lives using the following methods:

| | |
|---|---|
| Buildings | 10 years straight-line |
| Vehicles | 2-5 years straight-line |

### Leases

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* which requires the recognition of lease contracts, with exceptions for certain short-term leases and leases of low-value assets, on a lessee's statement of financial position as a 'right-of-use asset' and a lease liability reflecting future lease payments. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. The interest payments associated with these leases are charged directly to the statement of comprehensive income (loss).

The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications. Variable lease payments not included in the initial measurement of the lease liability are charged directly to the statement of comprehensive income (loss).

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets would be depreciated on a straight-line basis over the term of the lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits in banks that are readily convertible to known amounts of cash and with original maturities of three months or less.

### Mineral Properties: Acquisition Cost, Exploration and Evaluation Expenditures

Acquisition cost, exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources are charged to the statement of loss and comprehensive loss as incurred. Currently, all acquisition costs, exploration and evaluation expenditures are expensed as incurred. The Company may occasionally enter into transfer-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures that would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the transferee on its behalf. Any cash consideration received from the agreement is recorded to the acquisition cost, exploration and evaluation expenditures in the statement of loss and comprehensive loss.

### Income Taxes

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

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are recorded to recognize tax benefits only to the extent, based on available evidence, that it is probable that they will be realized. The following temporary differences are not provided for: goodwill not deductible for tax purposes; and the initial recognition of assets or liabilities that affect neither accounting nor taxable loss.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates expected to be applied to temporary differences which may reverse, based on tax laws, enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note (see note 11(c)).

For options to employees that do not immediately vest, the fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counter party renders the service.

For those options that expire after vesting, the recorded value is transferred to retained earnings (deficit).

### Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

### Share Issuance Costs

Professional, consulting, regulatory fees and other costs that are directly attributable to the issuance of shares are charged to capital stock when the related shares are issued, net of any tax effects. Transaction costs of abandoned equity transactions are recognized in the statement of comprehensive income (loss).

### Flow-through Shares

Upon the issuance of flow-through shares, the Company records the initial proceeds to capital stock, net of any flow-through premium. The liability on the statement of financial position represents the premium of the financing price in excess of the market share price on the date of the flow-through share financing. The liability pertaining to the premium is recognized in the statement of comprehensive income (loss) as deferred income tax recovery upon renunciation of the tax benefit of the expenditures to investors. The Company renounces the tax benefits of the expenditures to investors upon filing the necessary paperwork to renounce with the tax authorities.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### Warrants

Proceeds from unit placements are allocated between shares and warrants issued by calculating the value of the warrants using the Black-Scholes option pricing model with the residual being allocated to shares. The fair value of the share component is credited to share capital and the value of the warrant component is credited to reserve for warrants account. Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in the reserve for warrants account is recorded as an increase to capital stock. For those warrants that expired unexercised, the recorded value is transferred to retained earnings (deficit).

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income (loss), net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### Reclamation Obligations

A legal or constructive obligation to incur restoration, rehabilitation, and environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive.

The fair value of the liability for a reclamation obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

### Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). Two criteria are used to determine how financial assets should be classified and measured: (a) the Company's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial assets. The Company's investments are classified as FVTPL and any realized and unrealized gains and losses arising from changes in the fair value of the financial instruments are included in the statement of comprehensive income (loss).

## 3. SIGNIFICANT AND FUTURE ACCOUNTING POLICIES (continued):

### Financial Instruments (continued)

All other financial assets and financial liabilities including cash, receivables, accounts payable and accrued liabilities and debt are recognised as amortized cost less and loss allowance for expected credit losses if applicable.

The Company's financial instruments are classified and subsequently measured as follows:

| Asset / liability | Classification | Measurement model |
|---|---|---|
| Cash | Amortized cost | Amortized cost |
| Restricted cash and cash equivalents | Amortized cost | Amortized cost |
| Receivables | FVTPL | Fair value |
| Marketable securities | FVTPL | Fair value |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Debt | Amortized cost | Amortized cost |

*Financial instruments recorded at fair value*

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

• Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
• Level 2 – valuation techniques based on inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or standard valuation techniques derived from observable market inputs;
• Level 3 – valuation techniques using inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instruments fair value.

The Company's marketable securities and shares receivable are classified as Level 2. There have been no transfers between levels.

### Future Accounting Changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretation Committee that are not yet effective for the relevant reporting periods. Updates that are not applicable or are not consequential to the Company have been excluded there from. The Company is in the process of evaluating the impact on its financial statements.

*New Accounting Pronouncement*

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information. The Company has elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of the initial application would be accounted for in the same way as short-term leases. As all existing leases were short-term leases, there was no impact to the financial statements caused by the initial recognition of IFRS 16.

(Expressed in Canadian dollars)

## 4. FINANCIAL RISK FACTORS AND FAIR VALUE

The Company manages its exposure to a number of different financial risks arising from operations as well as from the use of financial instruments, including market risks (foreign currency exchange rate and interest rate), credit risk and liquidity risk, through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility. Financial risks are primarily managed and monitored through operating and financing activities. The Company does not use derivative financial instruments. The financial risks are evaluated regularly with due consideration to changes in key economic indicators and to up-to-date market information. The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

**Credit Risk**

Credit risk is the financial risk of non-performance of a contracted counter party. The Company's credit risk is primarily attributable to cash and receivables. The Company reduces its credit risk by maintaining its cash with a Canadian chartered bank. The Company’s maximum exposure to credit risk as at December 31, 2019 is the carrying value of cash and receivables.

**Liquidity Risk**

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations in full. The Company's main source of liquidity is its cash and marketable securities. These funds are primarily used to finance working capital, exploration expenditures, capital expenditures, and acquisitions. The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash. As at December 31, 2019, the Company has current assets of $2,049,751 (December 31, 2018 - $3,251,419) to cover current liabilities of $496,368 (December 31, 2018 - $346,793). The current assets include restricted cash, marketable securities, receivables and prepaid expenses and other which are not available to pay current liabilities (note 8 and 12). The Company also manages liquidity risk on the basis of expected maturity dates. The following table analyze financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

| | Debt | Lease liability | Accounts payable and accrued liabilities | Total |
|---|---|---|---|---|
| Less than 1 year | $ 180,186 | $ 110,496 | $ 288,982 | $ 597,664 |
| 1-5 years | - | 441,984 | - | 441,984 |
| More than 5 years | - | 92,080 | - | 92,080 |
| Balance at December 31, 2019 | $ 180,186 | $ 644,560 | $ 288,982 | $ 1,113,728 |

**Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rate, foreign exchange rates, and commodity and equity prices affecting its cash, interest bearing investments, receivables and marketable securities.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates. The Company has no significant exposure to foreign currency exchange risk as it has no significant transaction balances denominated in a foreign currency.

## 4. FINANCIAL RISK FACTORS AND FAIR VALUE (continued):

### Market risk (continued)

*Interest Rate Risk*
Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate fair value risk to the extent that a portion of the debt is at a fixed interest rate.

*Other Price Risk*
Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The Company is exposed to fluctuations in market prices of its marketable securities and shares receivable from a quoted mining exploration company. The fair value of these financial instruments represents the maximum exposure to price risk.

If the quoted price of these instruments had changed by 10% as at December 31, 2019, comprehensive loss would have changed by approximately $80,000.

### Fair Value

The carrying value of cash, accounts payable, accrued liabilities and debt are considered to be representative of their fair value due to their short-term nature. Marketable securities and a portion of receivables are recorded at fair value as of December 31, 2019 and classified as Level 2 in the fair value hierarchy as they are recorded at fair value by reference to market quoted prices less adjustments for any restrictions.

## 5. CAPITAL MANAGEMENT:

The Company manages its capital structure and makes adjustments to it, based on the funds required and available to the Company, in order to support the acquisition, exploration and development of mineral properties. As at December 31, 2019, the Company's capital consists of shareholder's equity in the amount of $2,210,133 (December 31, 2018 - $2,904,626). The Board of Directors does not establish quantitative return on capital criteria for the Company, but rather relies on the expertise of the Company's management to sustain future development of the business. In this relatively formative stage of the Company's existence, it is likely that primary emphasis will continue to be placed on equity instruments, as funded debt is currently not available to the Company.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

## 6. MINERAL PROPERTIES AND AGREEMENTS:

**Marathon, Ontario**: On July 10, 2019, the Company, through Generation PGM , completed the acquisition of a 51% initial interest in the Marathon PGM deposit near Marathon, Ontario and entered into a joint venture agreement with Stillwater Canada Inc. ("Stillwater") with respect to the property ("Marathon Property"). The Company paid $3,000,000 in cash and issued 11,053,795 common shares of the Company at a deemed price of $0.2714 per common share (totalling $3,000,000), for a total consideration of $6,000,000. The Company has the right to increase its interest in the Marathon Property to 80% by spending $10,000,000 in exploration, evaluation and development expenditures and preparing a preliminary economic assessment ("PEA") within four years of closing. Subsequent to year end, the Company filed a PEA (note16). During this four-year second earn-in period, the Company must sole-fund all expenditures in respect of the Marathon Property and related activities. Once the Company has increased its total interest in the Marathon Property to 80%, the parties will jointly fund future exploration expenditures on an 80/20 pro rata basis to maintain their respective interests in the joint venture, subject to normal dilution provisions. Upon completion of a definitive feasibility study and making a positive commercial production decision, Stillwater Canada Inc. will have 90 days to exercise an option to increase its interest in the joint venture to 51% by agreeing to fund 31% (if it has maintained a minimum 20% interest) of the total capital cost estimated by the feasibility study. The Company is currently the operator of the joint venture (unless its interest in the joint venture reduces to a minority interest) and has assumed all liabilities of the Marathon Property. At December 31, 2019, the Company has incurred $3,903,234 in exploration and evaluation expenditures and $5,519,640 in acquisition costs on the Marathon Property.

**Darnley Bay Anomaly, Northwest Territories**: The Company holds 100% of the rights to a mineral concession covering the Inuvialuit Settlement Region's lands where the Inuvialuit hold the mineral and surface rights. The area hosts potential base metal and diamond exploration targets. The Company has an agreement regarding exploration and development with the Inuvialuit Regional Corporation which requires cash payments of $50,000 per year commencing in 2020, or when the TSX-Venture Exchange composite index reaches 1500, and minimum exploration expenditures of $1,000,000 per year commencing in 2020 and cumulative exploration expenditures of $6.3 million by 2025.

**Darnley Bay Diamond, Northwest Territories**: The property consists of jointly held mineral leases on the Parry Peninsula northeast of Paulatuk in the Inuvialuit Settlement Region's lands where the Inuvialuit hold the surface rights and the Crown holds the mineral rights. The focus is on diamond exploration. The Company and Diadem Resources Ltd. continue to advance exploration through a joint venture agreement where Diadem is currently responsible for all expenditures relating to the project.

**Davidson, British Columbia**: The Company has an option to acquire a 100% interest in a property hosting a molybdenum-tungsten deposit. The option agreement was signed on April 1, 2016 and payments totalling $350,000 were made as at December 31, 2019. There is an ongoing commitment of $100,000 payable on each anniversary of the agreement until commercial production is achieved or the agreement is terminated. Upon commercial production, the vendor will be entitled to a net smelter return royalty of 3%.

## 6. MINERAL PROPERTIES AND AGREEMENTS (continued):

**Clear Lake, Yukon Territory**: On May 24, 2016, the Company entered into an option agreement to earn a 100% interest in a zinc-lead-silver property. Total payments and work commitments of $23,320 were made during the period from January 11, 2018 to October 1, 2018. On October 1, 2018, the Company entered into an Assignment, Assumption and Amending Agreement ("Clear Lake Assignment Agreement") with Eastern Zinc Corp. ("Eastern Zinc") and the optionor of the Clear Lake property to assign the exclusive right and option to acquire a 100% interest in the property to Eastern Zinc. Pursuant to the agreement, Eastern Zinc paid $50,000 in cash and issued 4,200,000 common shares of Eastern Zinc to the Company. An additional $50,000 in cash and 1,670,000 common shares of Eastern Zinc were due to the Company on October 1, 2019 which was extended to April 1, 2020. Eastern Zinc split its common shares on three shares for one existing share basis on October 15, 2018. All common share amounts noted herein reflect the stock split. At December 31, 2019, the Company held 12,600,000 common shares of Eastern Zinc valued at $256,638 and an additional 5,010,000 common shares receivable valued at $85,421(notes 8, 12 and 16).

**Nak**, **British Columbia**: The Company has an option to earn a 100% interest in a copper-gold project. The option agreement was signed on August 30, 2016 and is subject to a 2% royalty of which 62.5% can be purchased from the optionor for $1.5 million. There has been $60,000 in cash paid to the optionor as at December 31, 2019. Future cash payments consist of: $30,000 on August 30, 2020, $60,000 on August 30, 2021, $25,000 on completion of 1,500 metres of drilling, $25,000 on completion of an additional 3,000 metres of drilling on or before December 31, 2022, and $125,000 and a minimum 250,000 common shares (or cash equivalent) in the capital of the Company upon completion of a additional 7,000 metres of drilling on or before December 31, 2022. Pursuant to the option agreement the Company is required to spend $500,000 on the property prior to August 31, 2019. As at December 31, 2019 the Company has incurred $37,600 in work commitments, there was an amount of $12,500 waived by the optionor and there is a work commitment balance of $449,900. The vendor and the Company are currently in discussions regarding possible amendments to the option agreement for payment and work commitment terms.

**Rawdon Zinc (formerly Kennetcook), Nova Scotia**: On March 16, 2018, the Company entered into a Claims Acquisition Agreement to acquire a 100% interest in an exploration property with the potential to host lead-zinc-silver-copper mineralization in central Nova Scotia. Pursuant to the agreement, the Company issued 3,000,000 common shares valued at $191,400 to the optionor (note 10). At December 31, 2019, the Company held seven mineral licenses covering an area of 6,444 hectares.

**Alberta Zinc, Alberta**: On May 10, 2018, the Company entered into an option agreement to acquire a 100% interest in the Alberta Zinc project. The Company paid $10,000 and issued 500,000 common shares valued at $31,900 to the vendor upon signing the agreement and committed to a minimum of $100,000 in expenditures on the property which was fulfilled as at December 31, 2019. A further payment of $50,000 (in cash or shares) was required on May 10, 2019 which was subsequently extended to May 10, 2020. There is an additional $200,000 due to the optionor prior to May 10, 2020. The property is subject to a 2% gross metals royalty, of which the Company can purchase half at any time for $1 million.

(Expressed in Canadian dollars)

## 6. MINERAL PROPERTIES AND AGREEMENTS (continued):

**Mineral Property Expenditures:**

Below are the cumulative mineral property expenditures during the period from incorporation to December 31, 2018 and the year ended December 31, 2019:

| | December 31, 2018 | Acquisition | Exploration and Evaluation | December 31, 2019 |
|---|---|---|---|---|
| Darnley Bay Anomaly | 552,135 | - | 24,806 | 576,941 |
| Davidson | 181,289 | 100,000 | 33,191 | 314,480 |
| Nak | 28,013 | 15,000 | 24,586 | 67,599 |
| Clear Lake | 23,320 | - | - | 23,320 |
| Rawdon Zinc | 524,899 | - | 26,018 | 550,917 |
| Alberta Zinc | 153,757 | - | 25,869 | 179,626 |
| Marathon | - | 5,519,640 | 3,903,234 | 9,422,874 |
| Total expenditures in the period | $ 1,463,413 | $ 5,634,640 | $ 4,037,704 | $ 11,135,757 |
| Mineral properties acquired | 1,216,848 | - | - | 1,216,848 |
| Total cumulative mineral property expenditures | $ 2,680,261 | $ 5,634,640 | $ 4,037,704 | $ 12,352,605 |

## 7. LAND, BUILDINGS AND EQUIPMENT:

| | Land and buildings [1] | Vehicles | Total |
|---|---|---|---|
| Cost | | | |
| As at December 31, 2018 | $ - | $ - | $ - |
| Additions | 600,965 | 29,070 | 630,035 |
| As at December 31, 2019 | $ 600,965 | $ 29,070 | $ 630,035 |
| Accumulated depreciation | | | |
| As at December 31, 2018 | $ - | $ - | $ - |
| Depreciation expense | 22,271 | 7,267 | 29,538 |
| As at December 31, 2019 | $ 22,271 | $ 7,267 | $ 29,538 |
| Net book value | | | |
| As at December 31, 2018 | $ - | $ - | $ - |
| As at December 31, 2019 | $ 578,694 | $ 21,803 | $ 600,497 |

[1] The land, buildings and equipment were acquired through the acquisition of the Marathon property and are recorded in proportion to the Company's interest in the joint operation.

(Expressed in Canadian dollars)

## 8. MARKETABLE SECURITIES:

Pursuant to the Clear Lake Assignment Agreement of the Clear Lake option agreement dated October 1, 2018, the Company holds 12,600,000 common shares of Eastern Zinc (note 6). As at December 31, 2019, the Company holds 18.3% (December 31, 2018 - 20.6%) of the outstanding common shares of Eastern Zinc and accounts for the common shares of Eastern Zinc as a portfolio investment at fair value.

As of December 31, 2019, the Eastern Zinc common shares were valued at $256,638 based on a 30-day volume weighted average price (December 31, 2018 - $1,502,550). A loss of $1,245,912 for the year ended December 31, 2019 (December 31, 2018, a gain of $494,550) was included in the statement of comprehensive loss for the change in the fair value.

## 9. RIGHT-OF-USE ASSET AND LEASE LIABILITY:

On May 1, 2019, the Company entered into an office lease. Accordingly, the Company recognized a right-of-use asset as follows:

| Right-of-use asset | December 31, 2019 |
|---|---|
| Opening balance | - |
| Addition | 269,179 |
| Depreciation | (27,608) |
| | $ 241,571 |

At the commencement date of the lease, the lease liabilities were measured at the present value of the lease payments. The lease payments are discounted using an interest rate of 15%, which is the Company's incremental borrowing rate. The continuity of lease liabilities is outlined below:

| | December 31, 2019 |
|---|---|
| Opening balance | - |
| Addition | 269,179 |
| Accretion of interest | 22,583 |
| Payments | (41,719) |
| Total lease liability | $ 250,043 |
| Less: current portion | (26,870) |
| Non-current portion of lease liability | $ 223,173 |

Occupancy cost in the statement of loss and comprehensive loss includes $27,608 depreciation on the right of use asset, $35,310 on short term leases and $33,735 of variable lease payments related to additional rent.

As required under the lease agreement, the Company has $37,855 of funds held in GICs as security for the lease.

## 10. RELATED PARTY TRANSACTIONS:

Key management of the Company includes its directors, Chief Executive Officer and Chief Financial Officer. Compensation to key management is paid in the form of cash and share-based payments (note 11 c).

During the year ended December 31, 2019, key management of the Company charged consulting fees in the amount of $460,000 (December 31, 2018 - $201,925) included in management and corporate administration services on the statements of loss and comprehensive loss.

On March 16, 2018, two directors of the Company acted as vendors in the Claims Acquisition Agreement for the Rawdon Zinc (formerly Kennetcook) property, through companies under their control. Under the terms of the Claims and Acquisition Agreement, each director received 750,000 common shares of the Company.

On July 16, 2019, the Company granted 2,800,000 stock options to key management (May 11, 2018 - 2,400,000). The options are exercisable at $0.30 for a five year period up to July 16, 2024. The fair value of the options is $902,322 (2018 - $236,148) which have been expensed as stock-based compensation in the year.

As at December 31, 2019, accounts payable include $29,484 (December 31, 2018 - $30,955) due to a director of the Company.

## 11. CAPITAL STOCK:

a) Common shares:

The Company's authorized share capital consists of an unlimited number of common shares.

On January 11, 2018, the Company issued one issuer share.

On February 23, 2018, as a result of the Arrangement agreement, the issuer share was cancelled and each of the common shares of Pine Point were exchanged for one common share of the Company which were consolidated on a 10:1 basis resulting in a total of 15,969,934 common shares issued to shareholders of Pine Point. The issued shares were independently valued at $0.096 per share.

On April 9, 2018, the Company issued an aggregate of 3,000,000 common shares to the vendors of the Rawdon Zinc (Kennetcook) Property pursuant to the Claims Acquisition Agreement dated March 16, 2018.

On April 20, 2018, the Company completed a non-brokered private placement through the issuance of 22,550,000 units at a price of $0.10 per unit, and the issuance of 2,450,000 flow-through common shares at a price of $0.10 per flow-through share for aggregate proceeds of $2,500,000. Each unit consists of one common share and one-half of one common shares purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.20 until April 20, 2020. Cash commissions to finders were paid on 6% of the proceeds raised and finder's warrants were issued representing 6% of the securities purchased. Each finder's warrant entitles the holder to purchase one common share at $0.10 per common share until April 20, 2020.

## 11. CAPITAL STOCK (continued):

a) Common shares (continued):

On April 25, 2018, the Company completed a second tranche of its non-brokered private placement raising additional proceeds of $100,000 through issuance of 500,000 units at a price of $0.10 per unit, and the issuance of 500,000 flow-through common shares at a price of $0.10 per flow-through share. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.20 until April 25, 2020. Cash commissions to finders were paid on 6% of the proceeds raised and finder's warrants were issued representing 6% of the securities purchased. Each finder's warrant entitles the holder to purchase one common share at $0.10 per common share until April 25, 2020.

On May 14, 2018, the Company issued 500,000 common shares to the vendor of the Alberta Zinc property pursuant to the option agreement dated March 10, 2018.

On June 5, 2019, the Company completed an $8,000,160 private placement of 28,572,000 subscription receipts at a price of $0.28 per subscription receipt. Each subscription receipt was automatically convertible into one unit (a "Unit") of the Company in connection with the acquisition of the initial 51% interest of the Marathon Property. Each Unit was comprised of one common share and one-half of one share purchase warrant. Each full warrant entitled the holder to purchase one common share for a period of 24 months after escrow release conditions were satisfied at a price of $0.45. The gross proceeds of the private placement, less 50% of the underwriters' fees and all of the expenses of the private placement, were initially held in escrow.

On July 9, 2019, upon confirmation that the escrow release conditions were satisfied, the Company received the private placement proceeds held in escrow, less 50% of the underwriters' fees and the expenses. The 28,572,000 outstanding subscription receipts were converted into an aggregate of 28,572,000 common shares and 14,286,000 common share purchase warrants, each such warrant exercisable for one common share at a price of $0.45 per share until July 9, 2021. The Company paid a cash commission on 7% of the gross proceeds of the private placement and issued compensation options equal to 7% of the total number of subscription receipts issued pursuant to the private placement and conditional upon the satisfaction of escrow release conditions. Each compensation option is exercisable to purchase one Unit at the issue price of $0.28 for a period of 24 months from the escrow release date. The total share issue cost was $754,383.

On July 10, the Company issued 11,053,795 common shares at a deemed price of $0.2714 per common share (totalling $3,000,000) for the acquisition of 51% of the Marathon property.

On August 29, 2019, the Company completed the first tranche of a non-brokered private placement through the issuance of 5,750,000 flow-through common shares at a price of $0.315 per flow-through share for gross proceeds of $1,811,250. On September 6, 2019, the Company completed a second tranche of the non-brokered private placement raising additional proceeds of $131,500 through issuance of 417,460 flow-through common shares on the same terms. The aggregate gross proceeds were $1,942,750. A cash commission of $1,575 was paid to a finder. The total share issue cost was $21,575. Flow-through funds must be used for qualifying exploration expenditures. A liability of $1,942,750 was incurred on the flow-through shares issued which the Company renounced to the flow through shareholders in 2019 and recognized $129,611 in the statement of loss and comprehensive loss as a deferred tax recovery.

During the year ended December 31, 2019, the Company issued 315,000 common shares upon the exercise of 315,000 warrants issued on April 20, 2018 at $0.10. The Company received proceeds of $31,500 from the warrant exercise (2018 - nil). In addition, the Company issued 53,500 common shares upon the exercise of 53,500 options at $0.15 for proceeds in the amount of $8,025 (2018 - nil).

(Expressed in Canadian dollars)

## 11. CAPITAL STOCK (continued):

b) Warrants:

The following table summarizes warrants that have been issued and exercised during the period from incorporation to December 31, 2018 and the year ended December 31, 2019:

| | Number of warrants | Exercise price | Expiry date |
|---|---|---|---|
| Balance, January 11, 2018 | - | | |
| Warrants issued [(1)] | 11,275,000 | $0.20 | April 20, 2020 |
| Finders warrants issued [(1)] | 1,299,000 | $0.10 | April 20, 2020 |
| Warrants issued [(2)] | 250,000 | $0.20 | April 25, 2020 |
| Finders warrants issued [(2)] | 30,000 | $0.10 | April 25, 2020 |
| Outstanding, December 31, 2018 | 12,854,000 | $0.19 [(4)] | |
| Warrants issued [(3)] | 14,286,000 | $0.45 | July 9, 2021 |
| Finders options [(3)] | 2,000,040 | $0.28 | July 9, 2021 |
| Warrants exercised | (315,000) | $0.10 | |
| Outstanding, December 31, 2019 | 28,825,040 | $0.33 [(4)] | |

[(1)] ***Pursuant to the private placement completed on April 20, 2018:***

- 11,275,000 common share purchase warrants were issued. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.20 until April 20, 2020.
- 1,299,000 finders warrants were issued. Each finders warrant entitles the holder to purchase one common share at $0.10 per common share until April 20, 2020.
- The fair value of the common share purchase warrants and finders warrants have an estimated grant date fair value of $792,693 and $74,943 respectively which was estimated using the Black Scholes option pricing model and the following assumptions:

| | | | |
|---|---|---|---|
| Risk-free interest rate | 1.93% | Expected volatility [(a)] | 202% |
| Dividend yield | nil | Expected life-units | 2 years |

[(a)] Based on the volatility of comparable companies.

[(2)] ***Pursuant to the private placement completed on April 25, 2018:***

- 250,000 common share purchase warrants were issued. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.20 until April 25, 2020.
- 30,000 finders warrants were issued. Each finder's warrant entitles the holder to purchase one common share at $0.10 per common share until April 25, 2020.
- The fair value of the common share purchase warrants and finders warrants have an estimated grant date fair value of $17,571 and $1,681 respectively which was estimated using the Black Scholes option pricing model and the following assumptions:

| | | | |
|---|---|---|---|
| Risk-free interest rate | 1.93% | Expected volatility [(a)] | 202% |
| Dividend yield | nil | Expected life-units | 2 years |

[(a)] Based on the volatility of comparable companies.

(Expressed in Canadian dollars)**

## 11. CAPITAL STOCK (continued):

b) Warrants (continued):

**[3]** ***Pursuant to the private placement completed on July 9, 2019:***

- 14,286,000 common share purchase warrants were issued. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.45 until July 9, 2021.
- 2,000,040 finders options were issued. Each finders option entitles the holder to purchase a unit consisting of a common share and a half unit until July 9, 2021.
- The fair value of the common share purchase warrants and finders options have an estimated grant date fair value of $3,428,640 and $720,014 respectively which was estimated using the Black Scholes option pricing model and the following assumptions:

| | | | |
|---|---|---|---|
| Risk-free interest rate | 1.64% | Expected volatility [a] | 193% |
| Dividend yield | nil | Expected life-units | 2 years |

[a] Based on a combination of historical volatility and that of comparable companies.

**[4]** ***Weighted average exercise price***

During the year ended December 31, 2019, a total of 315,000 (2018 - nil) finders warrants were exercised at $0.10. The fair value of warrants exercised in the year is $23,863. The weighted average price of the common shares on the warrant exercise dates was $0.27.

c) Stock Option Plan:

On May 9, 2018, the Company adopted an incentive Stock Option Plan (the "Plan"). Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The total number of common shares that may be reserved for issuance may not exceed ten percent of outstanding common shares at the grant date and may not exceed five percent for any one person in any 12-month period. The exercise price of an option may not be lower than the discounted market price of the common shares on the Canadian Securities Exchange. The options are non-transferable. Outstanding options may be adjusted by the Board in certain events, as to exercise price and number of common shares, to prevent dilution or enlargement.

The following table summarizes options that have been granted and exercised during the period from incorporation to December 31, 2018 and the year ended December 31, 2019:

| | Grant / Exercise date | Number of options | Exercise price | Expiry date |
|---|---|---|---|---|
| Balance, January 11, 2018 | | - | | |
| Options granted [1] | May 11 | 3,000,000 | $0.10 | May 11, 2023 |
| Options granted [2] | November 21 | 300,000 | $0.15 | November 21, 2020 |
| Outstanding, December 31, 2018 | | 3,300,000 | $0.10 [7] | |
| Options granted [3] | July 16 | 3,700,000 | $ 0.30 | July 6, 2024 |
| Options granted [4] | August 7 | 200,000 | $ 0.30 | August 7, 2024 |
| Options granted [5] | September 6 | 200,000 | $ 0.35 | September 6, 2024 |
| Options exercised [6] | August 14 | (15,500) | $ 0.15 | |
| Options exercised [6] | August 30 | (24,500) | $ 0.15 | |
| Options exercised [6] | September 11 | (10,000) | $ 0.15 | |
| Options exercised [6] | September 16 | (3,500) | $ 0.15 | |
| Outstanding, December 31, 2019 | | 7,346,500 | $0.30 [7] | |

**(Expressed in Canadian dollars)**

## 11. CAPITAL STOCK (continued):

c) Stock Option Plan (continued):

The fair value of options granted under the Plan is measured on the date of grant using the Black-Scholes pricing model and expensed to net income (loss) using the following inputs and assumptions at the measurement date:

| | May 11, 2018[1] | November 21, 2018[2] | July 16, 2019[3] | August 7, 2019[4] | September 6, 2019[5] |
|---|---|---|---|---|---|
| Number of options | 3,000,000 | 300,000 | 3,700,000 | 200,000 | 200,000 |
| Exercise price ($) | 0.10 | 0.15 | 0.30 | 0.30 | 0.35 |
| Market Price ($) | 0.10 | 0.11 | 0.27 | 0.27 | 0.30 |
| Expected volatility (%)* | 214 | 196 | 212 | 212 | 185 |
| Risk-free interest rate (%) | 2.21 | 2.23 | 1.51 | 1.20 | 1.49 |
| Expected life (years) | 5 | 2 | 5 | 5 | 2 |
| Dividend yield (%) | - | - | - | - | - |
| Fair value of options | $ 295,183 | $ 25,443 | $ 999,000 | $ 54,000 | $ 48,000 |

***Based on the volatility of comparable companies.

[6] During the year ended December 31, 2019, a total of 53,500 options were exercised at $0.15 (2018 - nil). The fair value of options exercised during the year is $4,537. The weighted average price of the common shares on the option exercise dates was $0.29.

**[7]** Weighted average exercise price

## 12. RECEIVABLES:

The Company's receivables arise from two main sources: harmonized sales tax ("HST") due from the Canadian government and amounts receivable pursuant to the Clear Lake Assignment Agreement.

Pursuant to the Clear Lake Assignment Agreement with Eastern Zinc Inc., $50,000 in cash and 1,670,000 common shares of Eastern Zinc were due to the Company on October 1, 2019 which was subsequently extended to April 1, 2020 (note 16). The additional cash consideration is recorded as a receivable and the shares to be received are recorded at fair value. As at December 31, 2019, the shares receivable were valued based on the 30-day volume weighted average price less a 16.29% discount for a value of $85,421 (December 31, 2018 - $447,526). The loss on the shares receivable for the fair value adjustment in year ended December 31, 2019 was $362,105 and in 2018, there was a gain of $130,641.

The amounts receivable are as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| HST receivable | 405,489 | 34,218 |
| Eastern Zinc shares receivable | 85,421 | 447,526 |
| Eastern Zinc cash | 50,000 | 50,000 |
| Total | $ 540,910 | $ 531,744 |

**(Expressed in Canadian dollars)**

## 13. INCOME TAXES:

a) At December 31, 2019 the Company has non-capital losses of $791,211 that can be used to reduce future taxable income and expire in 2038.

The movement in deferred tax in the statement of financial position and the Company's deferred tax assets and liabilities are as follows:

| | 2019 | 2018 |
|---|---|---|
| Non-capital losses carry forwards | $ 627,174 | $ 209,671 |
| Marketable securities | 260,449 | (165,676) |
| Share issue costs | 193,171 | 44,322 |
| Mineral property | 2,817,671 | 632,094 |
| Deferred tax assets not recognized | (3,898,465) | (720,411) |
| Net asset | $ - | $ - |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the benefits.

b) The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

| | 2019 | 2018 |
|---|---|---|
| Statutory rate applied to loss for the year before income taxes of 26.5% for 2019 | $ (3,710,522) | $(423,076) |
| Effects of: | | |
| Non-deductible expenses and other | 732,379 | (241,933) |
| Share issue costs and other | (199,911) | (55,402) |
| Flow-through shares premium | (129,611) | (103,695) |
| Change in deferred tax assets not recognized and other | 3,178,054 | 720,411 |
| Deferred income recovery | $ (129,611) | $ (103,695) |

## 14. COMMITMENTS AND CONTRACTUAL OBLIGATIONS:

On February 20, 2019, the Company co-signed a lease for office space commencing on May 1, 2019 for a term of six years and six months. The Company has a monthly commitment of $10,687 for its share of the basic and additional rent. Commitments pursuant to various property option agreement are outlined under notes 6 and 16.

The Company has indemnified the subscribers of flow-through share offerings against any tax related amounts that become payable by the shareholder should the Company not meet its expenditure commitments.

## 15. DEBT:

Debt consists of unsecured debt plus accrued interest owing to a former officer of Darnley Bay Resources Limited (renamed Pine Point Mining Limited) and assigned to the Company on February 23, 2018. The debt bears interest at 10% and is repayable in monthly blended principal and interest payments of $1,000. Payments were suspended on March 30, 2012, however the Company continues to accrue interest.

## 16. SUBSEQUENT EVENTS:

a) On January 31, 2020, Eastern Zinc provided notice of termination pursuant to the underlying option agreement subject to the Clear Lake Assignment Agreement.

b) On February 5, 2020, there were 500,000 options granted exercisable at $0.65 for five years and on March 18, 2020, there were 750,000 options granted exercisable at $0.45 for five years.

c) On February 13, 2020, the Company closed a bought deal private placement of 19,231,250 units and a concurrent non-brokered private placement of 1,346,153 units, for an aggregate of 20,577,403 units at a price of $0.52 per unit for aggregate total gross proceeds of $10,700,250. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at $0.75 for a period of 24 months.

   The underwriters received cash compensation of 6% of the gross proceeds on 9,615,864 units, and 4% of the gross proceeds on 9,615,386 units. There was no commission paid on the non-brokered private placement of 1,346,153 units. In addition, the underwriters received compensation options equal to 6% on 9,615,864 units and 4% on 9,615,386 units. There were no compensation options issued on the non-brokered private placement of 1,346,153 units. Each compensation option is exercisable into one common share of the Company for a period of 24 months from closing at an exercise price of $0.52.

d) On February 19, 2020, the Company filed a Preliminary Economic Assessment of the Marathon Property.

e) During the period from January 1 to April 9, 2020, there were 1,014,000 finders warrants exercised at $0.10, 10,500,000 warrants exercised at $0.20, 634,488 finders options exercised at $0.28 and 4,876,857 warrants exercised at $0.45 for total proceeds of $4,573,642.

f) During the period from January 1, to April 9, 2020, there were 46,500 options exercised at $0.15, 100,000 options exercised at $0.10 and 100,000 exercised at $0.30 for total proceeds of $46,975.

g) On April 1, 2020, the Company granted a six-month extension (to October 1, 2020) to Eastern Zinc on the receivable $50,000 and 1,670,000 common shares due to the Company in relation to the Clear Lake Assignment Agreement.

h) Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.