

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

EXPRESSED IN CANADIAN DOLLARS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Atlantic Industrial Minerals Incorporated

Opinion

We have audited the consolidated financial statements of Atlantic Industrial Minerals Incorporated and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 29, 2020 and February 28, 2019, and the consolidated statements of operations and comprehensive loss, changes in deficiency and cash flows for the years 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 February 29, 2020 and February 28, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 of \$111,025 during the year ended February 29, 2020 and, as of that date, the Company's current liabilities exceeded its total assets by \$1,199,079. 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 Information

Management is responsible for the other information. The other information comprises the information included in the 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kevin Kwan.

Vancouver, Canada

July 24, 2020

"Morgan & Company LLP"

Chartered Professional Accountants

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

| As at | February 29 2020 | February 28 2019 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 610 | \$ 1,352 |
| Sales tax receivable | 21,476 | 8,536 |
| | 22,086 | 9,888 |
| Land (note 6) | 26,500 | 26,500 |
| | \$ 48,586 | \$ 36,388 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (notes 7,8,13) | \$ 789,584 | \$ 402,225 |
| Loans payable (notes 13) | 458,081 | 372,217 |
| | 1,247,665 | 774,442 |
| Long-term accounts payable and accrued liabilities (notes 8,13) | - | 350,000 |
| | 1,247,665 | 1,124,442 |
| DEFICIENCY | | |
| Share capital (note 9) | 1,968,510 | 1,968,510 |
| Deficit | (3,167,589) | (3,056,564) |
| | (1,199,079) | (1,088,054) |
| | \$ 48,586 | \$ 36,388 |

Nature of operations and going concern (note 1)

Approved by the Board of Directors

"Greg Isenor"
Director (Signed)

"J. Francois Lalonde"
Director (Signed)

See accompanying notes.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(expressed in Canadian dollars)

| Years ended | February 29 2020 | February 28 2019 |
|--|-----------------------------|-----------------------------|
| Expenses | | |
| Corporate and administrative (note 11) | \$ 70,637 | \$ 47,218 |
| Exploration and evaluation (notes 12,13) | 40,388 | - |
| Impairment of mineral property (note 12) | - | 1,005,449 |
| Expense recovery | - | (5,700) |
| | 111,025 | 1,046,967 |
| Net loss and comprehensive loss | \$ (111,025) | \$ (1,046,967) |
| Basic and diluted loss per share (note 14) | \$ (0.005) | \$ (0.043) |
| Weighted average number of common shares outstanding: | | |
| Basic and diluted | 24,633,449 | 24,633,449 |

See accompanying notes.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY

(expressed in Canadian dollars)

| | Share capital | | Investment | Deficit | Total |
|--|-------------------|---------------------|---------------------|-----------------------|-----------------------|
| | Number | Amount | Revaluation Reserve | | |
| Balance, February 28, 2018 | 24,633,449 | \$ 1,968,510 | \$ 277,000 | \$ (2,286,597) | \$ (41,087) |
| Reverse investment valuation reserve (note 10) | - | - | (277,000) | 277,000 | - |
| Net loss for the year | - | - | - | (1,046,967) | (1,046,967) |
| Balance, February 28, 2019 | 24,633,449 | 1,968,510 | - | (3,056,564) | (1,088,054) |
| Net loss for the year | - | - | - | (111,025) | (111,025) |
| Balance, February 29, 2020 | 24,633,449 | \$ 1,968,510 | \$ - | \$ (3,167,589) | \$ (1,199,079) |

See accompanying notes.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in Canadian dollars)

| Years ended | February 29 2020 | February 28 2019 |
|--|---------------------|---------------------|
| Operating activities | | |
| Net loss for the year | \$ (111,025) | \$ (1,046,967) |
| Adjustments to reconcile net loss to net cash used: | | |
| Impairment of mineral property | - | 1,005,449 |
| Expense recovery | - | (5,700) |
| | (111,025) | (47,218) |
| Changes in non-cash working capital items | | |
| Sales tax receivable | (12,940) | (5,158) |
| Accounts payable and accrued liabilities | 37,359 | 9,828 |
| | (86,606) | (42,548) |
| Investing activities | | |
| Mineral property expenditures | - | (18,546) |
| Financing activities | | |
| Loan proceeds received (note 13) | 102,364 | 59,334 |
| Loan payable repayments to related parties (note 13) | (16,500) | - |
| | 85,864 | 59,334 |
| Net change in cash | (742) | (1,760) |
| Cash, beginning of year | 1,352 | 3,112 |
| Cash, end of year | \$ 610 | \$ 1,352 |

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

1. NATURE OF OPERATIONS AND GOING CONCERN

Atlantic Industrial Metals Incorporated (the “Company”) is an exploration stage company involved in the business of acquiring, exploring and developing mineral properties in Canada. The address of the Company’s registered office is 1550 Bedford Highway, Suite 802, Bedford, Nova Scotia, B4A 1E6. The Company’s shares are listed on the NEX board of the TSX Venture Exchange under the trading symbol “ANL”.

Going Concern

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurances that future exploration activities will result in the discovery of economically recoverable mineral deposits. The success and continuation of the Company as a going concern is dependent upon the Company’s ability to arrange financing, which in part, depends on prevailing market conditions, acquiring or discovering economically viable mineral properties, exploration success, and securing title and beneficial interest in its properties.

Further funds will be required for the Company to continue as a going concern, fulfil its obligations and fund its activities. The Company does not produce revenues from its exploration activities or have a regular source of cash flow. There can be no assurance that the Company will be able to obtain sufficient financing in the future or at favourable terms.

At February 29, 2020, the Company had a working capital deficiency of \$1,225,579 (February 28, 2019 - \$764,554), incurred losses for the current year of \$111,025 (February 28, 2019 - \$1,046,967), and has an accumulated deficit of \$3,167,589 (February 28, 2019 - \$3,056,564).

These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, due to uncertainties surrounding a number of factors, such as, but not limited to, the ability to raise additional funds, ability to acquire mineral properties, exploration results, prices of underlying commodities, investor sentiment and financial market conditions, it is not possible to predict if this assumption will prove to be accurate. These factors indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not include the necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

COVID-19

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. Its impact on global economies has been far-reaching and business around the world are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and significant declines. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of the COVID-19 pandemic, nor its impact on the financial position and results of the Company in future periods. The Company is proceeding with its exploration activities as long as the work environment remains safe.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

Basis of Consolidation and Presentation

These consolidated financial statements include the accounts of the Company and its two wholly-owned Canadian incorporated subsidiaries, Glencoe Resources Inc. and Great Bras d'Or Springs Inc. All significant inter-company transactions and balances have been eliminated on consolidation.

These consolidated financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss. These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements, in conformity with IFRS, requires the Company's management to make certain estimates and judgements that they consider reasonable and realistic. These estimates and judgements are based on historical experience, future expectations, economic conditions and other factors. Despite regular reviews, changes in circumstances and assumptions may result in changes in these estimates and judgements, which could materially impact the reported amount of the Company's assets, liabilities, equity or earnings. By their nature, estimates and judgements are subject to measurement uncertainty and actual results could vary from estimates.

Significant estimates relate to:

- establishment of provisions; and,
- recognition of deferred tax assets.

Significant judgements relate to:

- ability to continue as a going concern; and,
- choice of accounting policy for exploration and evaluation expenditures.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise noted.

Adoption of IFRS 2 - Share-based Payments

In June 2016, the IASB issued an amendment to IFRS 2 addressing (i) certain issues related to the accounting for cash-settled awards, and (ii) the accounting for equity-settled awards that include a "net settlement" feature in respect of employee withholding taxes. The adoption of IFRS 2 had no impact on the Company's consolidated financial statements.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 - Leases

This standard 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 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 Company includes the estimated extension of a lease in the lease term in assessing the present value of future lease payments. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

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 in accordance with the Company's accounting policy for property, plant and equipment. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has no leases and for future leases has elected to apply the available exemptions for short-term leases and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss.

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 adoption of IFRS 16 had no impact on the Company's consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. As at February 29, 2020 and February 28, 2019, the Company had no cash equivalents.

Exploration and Evaluation

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition cost of mineral properties, property payments and evaluation activities. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Flow-Through Shares

The Company will, from time to time, issue flow-through common shares to finance a portion of its Canadian exploration programs. Pursuant to the terms of the flow-through share subscription agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors, subject to a renoucement process.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

Proceeds received from the issuance of flow-through shares are to be spent on Canadian resource property exploration expenditures prior to the end of calendar year following the year of issuance.

Renouncement may occur prospectively (the flow-through shares are issued, renouncement then occurs and eligible expenditures are incurred subsequently) or retrospectively (the flow-through are issued, eligible expenditures are then incurred and renouncement occurs subsequently). On issuance, the Company bifurcates the flow-through share into (1) a flow-through share premium, equal to the estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a liability, and (2) share capital. If the renouncement is prospective, the obligation is fulfilled when eligible expenditures are incurred. Under the retrospective approach the obligation to renounce is fulfilled when the paperwork to renounce is filed. Once the obligation is fulfilled, the liability is reduced and the balance is charged to the statement of operations and comprehensive income (loss).

Foreign Currency Translation

Foreign currency transactions are initially recorded in the entity's functional currency at the transaction date exchange rate. At each reporting date, monetary assets and liabilities that are denominated in a foreign currency are translated into the functional currency using the end of the reporting period exchange rate. All foreign currency adjustments are recognized in the statement of operations and comprehensive income.

Impairment of Non-financial Assets

The Company's non-financial assets (land and mineral properties) are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. In assessing value in use, 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. Impairment losses are recognized in the statement of operations and comprehensive income/loss.

Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of amortization and depletion) that would have been determined had no impairment loss been recognized.

Interest

The Company classifies interest received and interest paid as an operating cash flow within the statement of cash flows.

Land

Land is stated at historical cost less accumulated impairment losses. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Loss per Share

The computation of loss per share and diluted loss per share amounts are based upon the weighted average number of shares outstanding during the year. Diluted loss per share is calculated based on the assumed conversion, exercise or contingent issuance of "in the money" securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share, at the weighted average market price during the period.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized in the consolidated statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to discharge the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restoration and Environmental Obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are recognized in accordance with the Company's accounting policy for exploration and evaluation assets.

Share-based Payments

The Company accounts for share-based payments using the fair value based method. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche of options issued to employees and others providing similar services is determined by using the Black-Scholes option pricing model. The fair value of each tranche of options issued to non-employees is determined by the fair value of the goods or services received. If the fair value of goods or services received cannot be reliably measured, then the Black-Scholes option pricing model is used.

The fair value of stock options, adjusted for expected forfeitures, is recognized as share-based payments expense over each tranche's vesting period with an offsetting credit charged to contributed surplus. The applicable contributed surplus is transferred to share capital if and when, the stock options are exercised. The fair value of stock options remains in contributed surplus on expiry of options. Any consideration paid on the exercise of stock options is credited to share capital.

Share Issue Costs

Share issue costs are recorded as a reduction of share capital.

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants

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 contributed surplus.

In situations where warrants are issued as consideration for goods and services received and some or all of the goods or services received cannot be specifically identified or reliably measured, then these warrants are measured at the fair value of the share-based payment. The fair value of the share-based payment is determined using the Black-Scholes option pricing model.

5. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: to safeguard its ability to continue as a going concern; and, to have sufficient capital to fund the exploration and development of its mineral properties and the acquisition of other mineral properties for the benefit of its shareholders.

The Company considers its capital structure to consist of shareholders' equity. In order to maintain its capital structure, the Company is dependent on equity funding and loans from related parties. Funding through equity instruments is comprised of common shares, warrants and incentive stock options. The Board of Directors does not established quantitative targets on its capital criteria for management, however, it relies on management to review its capital management methods and requirements on an ongoing basis and make adjustments, accordingly, to sustain future development of the business.

There were no changes in the Company's management of its capital during the current period. The Company is not subject to any externally imposed capital requirements.

6. LAND

The Company owns a spring water resource property in Victoria County, Cape Breton, Nova Scotia. There are currently no plans to develop this property.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | February 29 2020 | February 28 2019 |
|---------------------------|---------------------|---------------------|
| Trade payables | \$ 253,170 | \$ 234,161 |
| Accrued liabilities | 36,572 | 28,572 |
| Related parties (note 13) | 499,842 | 139,492 |
| | \$ 789,584 | \$ 402,225 |

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

8. LONG-TERM ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

On June 24, 2014, the Company entered into an agreement (subsequently amended on February 1, 2017) with a Company director and a former director to defer payment of \$300,000 of consulting and professional fees and defer property payments of \$50,000 related to the acquisition of the Company's former Kewstoke Carbonate property. The payment of the aggregate debt of \$350,000 was deferred until the earlier of either: (a) the Company completing aggregate equity financings of not less than \$750,000; or, (b) June 14, 2020.

As at February 29, 2020, the aggregate debt of \$350,000 was reclassified as a current liability. In addition, the debt is unsecured and non-interest bearing.

9. SHARE CAPITAL

Authorized

Unlimited common shares

Stock Options

Under the terms of the Company's stock option plan ("Plan"), the Company is authorized to issue up to a maximum of 10% of the issued common shares with an exercise period not to exceed ten years. The term, exercise price and vesting conditions of the options are fixed by the Company's Board of Directors at the time of grant.

There were no options outstanding or issued during the years ended February 29, 2020 or February 28, 2019.

Warrants

There were no warrants outstanding or issued during the years ended February 29, 2020 or February 28, 2019.

10. INVESTMENT REVALUATION RESERVE

On March 23, 2009, the Company received back 3,615,872 of its common shares as part of the terms of the sale of Kelly Rock Limited to Municipal Capital Incorporated. The par value of these shares was \$362,000 and the fair value of the shares was determined to be \$85,000, which resulted in the initial recognition of a \$277,000 investment revaluation reserve. During the year ended February 28, 2019 the reserve was reversed.

11. CORPORATE AND ADMINISTRATIVE

| | February 29 2020 | February 28 2019 |
|-------------------------------------|---------------------|---------------------|
| Consulting | \$ 4,500 | \$ 13,325 |
| Filing and transfer agent fees | 19,946 | 14,860 |
| Office and general | 2,062 | 508 |
| Professional fees | 42,626 | 11,700 |
| Shareholder relations and promotion | 1,458 | 6,825 |
| Travel | 45 | - |
| | \$ 70,637 | \$ 47,218 |

ATLANTIC INDUSTRIAL MINERALS INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

12. EXPLORATION AND EVALUATION

| | February 29 2020 | February 28 2019 |
|----------------------------------|---------------------|---------------------|
| Property costs (recovery) | \$ (17,589) | \$ - |
| Assaying | 6,077 | - |
| Consulting/Contracting (note 13) | 16,055 | - |
| Drilling | 17,623 | - |
| Reports | 18,222 | - |
| | \$ 40,388 | \$ - |

Glencoe Carbonate Property - Nova Scotia

The Company holds a 100% interest in the Glencoe Carbonate Property located in Inverness County, Cape Breton, Nova Scotia. A production royalty based on the greater of \$1.50 per tonne or 5% of the gross selling price of all carbonate product sold from the property is payable to a Company director and a former director.

During the year ended February 28, 2018, the Company paid \$11,000 to acquire an option to purchase the surface rights of two additional properties in the Glencoe vicinity for a total cost of \$70,000. The balance of the purchase price is payable upon the commencement of a commercial extraction plant.

Based on an impairment analysis and a change in accounting policy for exploration and evaluation expenditures, the Company elected to write-off \$1,005,449 of related capitalized expenditures during the year ended February 28, 2019. During the year ended February 28, 2019, the Company capitalized \$18,546 of exploration and evaluation expenditures. The change in accounting policy was applied on a prospective basis with no restatement of the consolidated statement of financial position.

13. RELATED PARTY TRANSACTIONS AND BALANCES

- (i) Project management fees of \$9,000 (February 28, 2019 - \$nil) for the current year were paid or became payable to a company controlled by a director of the Company. These fees are related to the Glencoe Carbonate Property and are included in exploration and evaluation expenditures under consulting/contracting.
- (ii) Accounts payable and accrued liabilities include \$294,842 (February 28, 2019 - \$109,492) payable to a Company director or companies controlled by Company directors and \$205,000 (February 28, 2019 - \$30,000) payable to a former Company director (the "Former Director"), who departed the Company on June 25, 2018.
- (iii) Loans payable of \$458,081 (February 28, 2019 - \$372,217) consist of \$411,157 (February 28, 2019 - \$325,293) payable to Company directors or companies controlled by Company directors and \$46,924 (February 28, 2019 - \$46,924) payable to the Former Director. The Company received from a director loans of \$102,364 (February 28, 2019 - \$59,334) and the Company repaid \$16,500 (February 28, 2019 - \$nil) of such loans during the current year. These amounts represent cash loans and are unsecured, non-interest bearing and have no fixed terms of repayment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- (iv) Long-term accounts payable and accrued liabilities of \$nil (February 28, 2019 – \$350,000) are payable to a Company director and the Former Director. On June 24, 2014, the Company entered into an agreement (subsequently amended on February 1, 2017) with the Company director and the Former Director to defer payment of the \$350,000, comprised of unpaid consulting and professional fees and outstanding payments related to the acquisition of the Company's former Kewstoke Carbonate property. The Company director and the Former Director are each owed \$175,000 and the payment of such amounts was deferred until the earlier of either: (a) the Company completing aggregate equity financings of not less than \$750,000; or, (b) June 14, 2020. In addition, the debt is unsecured and non-interest bearing. As at February 29, 2020, the aggregate debt of \$350,000 was classified as a current liability.
- (v) A Company director and the Former Director are entitled to receive in aggregate a production royalty based on the greater of \$1.50 per tonne or 5% of the gross selling price of all carbonate product sold from the Glencoe Carbonate Property (Note 12).

14. LOSS PER SHARE

Loss per share is calculated using the weighted average number of shares outstanding for the period. For the purposes of calculating the basic and diluted loss per share the effect of the potentially dilutive options and warrants were not included in the calculation as the result would be anti-dilutive.

15. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

| | February 29 2020 | February 28 2019 |
|---|---------------------|---------------------|
| Statutory rate | 31.00% | 31.00% |
| Expected income tax recovery | \$ (34,000) | \$ (325,000) |
| Increase (decrease) resulting from: | | |
| Non-deductible expenses and other permanent differences | (19,000) | (2,000) |
| Change in estimates and tax assets not recognized | 53,000 | 327,000 |
| Deferred income tax (recovery) | \$ - | \$ - |

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For the years ended February 29, 2020 and February 28, 2019

INCOME TAXES (continued)

The components of the Company's deferred tax assets and liabilities are as follows:

| | February 29 2020 | February 28 2019 |
|--|---------------------|---------------------|
| Exploration and evaluation costs | \$ 346,000 | \$ 333,000 |
| Share issuance costs and other | 1,000 | 2,000 |
| Non-capital losses | 472,000 | 431,000 |
| Deferred tax asset | 819,000 | 766,000 |
| Less: Deferred tax assets not recognized | (819,000) | (766,000) |
| Net deferred tax asset | \$ - | \$ - |

The taxable entities have historically made tax losses, and the existence of future taxable profits cannot be assessed as probable. Accordingly, the future tax benefit of the above noted tax pools have been offset by recognition of a valuation allowance in these financial statements.

At February 28, 2020, the Company has \$1,521,000 (2019 – \$1,450,000) of non-capital losses available for deduction in future years expiring over various years to 2040. The Company also has Canadian and foreign resource related expenditures totaling approximately \$1,115,000 (2019 - \$1,075,000) which can be used to offset future income taxes.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying value of accounts payable and accrued liabilities, loans payable and long-term debt approximates fair value due to the relative short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arms-length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

IFRS 7 establishes a fair value hierarchy that prioritizes the valuation techniques for each financial instrument measured at fair value. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement. The methods and assumptions used to develop fair value measurements are:

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

As at February 29, 2020 and February 28, 2019, cash was the only financial instrument within the fair value hierarchy and was classified as Level 1.

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For the years ended February 29, 2020 and February 28, 2019

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Classification of Financial Instruments

| | | February 29 2020 | February 28 2019 |
|--|----------------|---------------------|---------------------|
| Financial assets | | | |
| Cash | Amortized cost | \$ 610 | \$ 1,352 |
| Financial liabilities | | | |
| Accounts payable and accrued liabilities | Amortized cost | \$ 789,584 | \$ 402,225 |
| Loans payable | Amortized cost | 458,081 | 372,217 |
| Long-term debt | Amortized cost | - | 350,000 |

Risk Management

The Company's financial risk management activities include the preservation of its capital by minimizing risk related to its cash. The Company does not trade financial instruments for speculative purposes. The Company does not have a risk management committee or written risk management policies. The primary risks the Company's financial instruments are exposed to are described below:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge their obligations. Financial instruments that potentially expose the Company to this risk consist of cash. The Company mitigates the risk to its cash by depositing its cash with Canadian banks.

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 manages liquidity risk through the management of its capital structure as described in Note 5. The Company has no income from operations or a regular source of cash flow and relies on equity funding to support its exploration and corporate activities. Should the need for equity funding arise, there is a risk that the Company may not be successful in selling new common shares at acceptable prices.

Accounts payable and accrued liabilities are generally due within 30 days and loans payable have no specific terms of repayment. As at February 29, 2020, the Company had cash of \$610 to settle current liabilities of \$1,247,665. The Company does not have sufficient cash to fund its obligations and activities for the coming financial year and will be required to raise additional capital.

Currency Risk

The Company is not exposed to foreign currency risk as it operates in Canada and its expenditures are in Canadian dollars.

Interest Rate Risk

The Company is not exposed to any significant interest rate risk. When applicable, excess cash is invested in financial instruments that provide safety and flexibility for early redemption. The Company has no interest-bearing debt.