

SHERPA II HOLDINGS CORP.

Financial Statements

For the year ended June 30, 2020

Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sherpa II Holdings Corp.:

Opinion

We have audited the financial statements of Sherpa II Holdings Corp. (the "Company"), which comprise the statements of financial position as at June 30, 2020 and 2019, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, 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 financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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 Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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 Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

DML

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
October 23, 2020

SHERPA II HOLDINGS CORP.
Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	June 30, 2020	June 30, 2019
Assets			
Current assets			
Cash		\$ 332,619	\$ 389,625
Prepaid expenses		5,042	3,647
Total assets		\$ 337,661	\$ 393,092
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 23,955	\$ 4,000
Shareholders' equity			
Share capital	4	466,770	466,770
Share-based payment reserve	4	63,243	63,243
Deficit		(216,307)	(140,921)
Total shareholders' equity		313,706	389,092
Total liabilities and shareholders' equity		\$ 337,661	\$ 393,092

Nature and continuance of operations (Note 1)
Subsequent events (Note 9)

Approved on behalf of the Board:

"Thomas O'Neill"
Thomas O'Neill, President

"Robert Scott"
Robert Scott, Director

SHERPA II HOLDINGS CORP.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	Year Ended June 30, 2020	Year Ended June 30, 2019
Administrative expenses			
General and administrative		\$ 24,221	\$ 22,875
Transfer agent and filing fees		13,340	33,229
Stock based compensation	4,5	-	47,939
Professional fees		37,825	10,406
Net and comprehensive loss		\$ (75,386)	\$ (114,449)
Weighted average number of common shares	4	3,381,000	2,621,433
Basic and diluted loss per share		\$ (0.02)	\$ (0.04)

The accompanying notes are an integral part of these financial statements

SHERPA II HOLDINGS CORP.

Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

		Share capital		Share-based payment reserve	Deficit	Total shareholders' equity
	Note	Number	Amount			
Balance, June 30, 2018		2,000,000	\$ 92,272	\$ -	\$ (26,472)	\$ 65,800
Common shares issued for cash	4	4,381,000	438,100	-	-	438,100
Share issuance costs	4	-	(63,602)	15,304	-	(48,298)
Stock based compensation	4	-	-	47,939	-	47,939
Net loss		-	-	-	(114,449)	(114,449)
Balance, June 30, 2019		6,381,000	466,770	63,243	(140,921)	389,092
Net loss		-	-	-	(75,386)	(75,386)
Balance, June 30, 2020		6,381,000	\$ 466,770	\$ 63,243	\$ (216,307)	\$ 313,706

The accompanying notes are an integral part of these financial statements

SHERPA II HOLDINGS CORP.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended June 30, 2020	Year Ended June 30, 2019
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Cash provided by (used in):		
Operating activities		
Net loss	\$ (75,386)	\$ (114,449)
Item not effecting cash		
Stock based compensation	-	47,939
Changes in non-cash working capital item:		
Amounts receivable and prepaid expenses	(1,575)	17,033
Accounts payable and accrued liabilities	19,955	(29,881)
	<hr/>	
Cash used in operating activities	(57,006)	(79,358)
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Financing Activity:		
Issuance of shares, net of issuance costs	-	389,802
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Cash provided by financing activity	-	389,802
	<hr/>	
(Decrease) increase in cash	(57,006)	310,444
Cash, beginning	389,625	79,181
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Cash, ending	\$ 332,619	\$ 389,625
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The accompanying notes are an integral part of these financial statements

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Sherpa II Holdings Corp. (the "Company") was incorporated under the British Columbia Business Corporations Act on January 18, 2018. The Company was formed for the primary purpose of completing an Initial Public Offering ("IPO") on the TSX Venture Exchange ("Exchange") as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the Exchange. As a CPC, the Company's principal business would be to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction in accordance with Policy 2.4 of the Exchange ("Qualifying Transaction"). A CPC has 24 months from when the shares are listed on the Exchange to complete a Qualifying Transaction. Such a transaction will be subject to shareholder and regulatory approval. Until completion of the Qualifying Transaction, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction. As a CPC, the proceeds raised by the Company from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the sale of securities issued by the Company and \$210,000 may be used to cover prescribed costs of issuing common shares or administrative and general expenditures of the Company. These restrictions apply until the completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

The head office of the Company is located at Suite 918 – 1030 West Georgia Street, Vancouver, British Columbia V6E 2Y3 and the registered and records office of the Company is located at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

The Company incurred a loss of \$75,386 for the year ended June 30, 2020 (2019 - \$114,449). As at June 30, 2020, the Company had an accumulated deficit of \$216,307 (2019 - \$140,921). Consequently, continuing business as a going concern is dependent upon the success of the Company's completion of a Qualifying Transaction, generation of positive cash flows and the ability of the Company to obtain additional debt or equity financing, all of which are uncertain. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

For significant expenditures, the Company will depend almost exclusively on external capital. Such external capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company's operating commitments and development plans. The issuance of additional equity securities by the Company will result in dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including the operating costs, the current capital market environment and global market conditions. The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, and ultimately generate profitable operations in the future. The Company has no assurance that it will be successful in its efforts. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected.

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from novel coronavirus ("COVID-19"). The Company continues to operate its business at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations, cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in 2021.

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION

The financial statements were authorized for issuance on October 23, 2020 by the directors of the Company.

(a) Statement of Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Use of estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires the Company to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Areas requiring a significant degree of estimation and judgment include fair value measurements for share-based payments, the recoverability and measurement of deferred tax assets and liabilities and assessment of the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash at banks and highly liquid investments with original maturities of three months or less, which are readily convertible into a known amount of cash.

(b) Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on July 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking "expected loss" impairment model.

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by instrument basis) to designate them as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(i) Classification (continued)

The following table shows the classification of financial instruments under IFRS 9:

	Classification
Cash	FVTPL
Accounts payable and accrued liabilities	Amortized cost

(ii) Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit and loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit and loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

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

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit and loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

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

(c) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign Currency Translation

The functional and reporting currency of the Company is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in profit and loss.

(e) Income and Loss per Share

Basic income and loss per share amounts are calculated by dividing income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted income or loss per share amounts are determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(f) Share capital

The Company records proceeds from the issuance of its common shares as equity. Proceeds received on the issuance of common shares are allocated to common share component. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted price on the issuance date. The remaining proceeds, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. Management does not expect to record a value to the warrant in most equity issuances as unit private placements are commonly priced at market or at a permitted discount to market. If the warrants are issued as share issuance costs, the fair value of agent's warrants are measured using the Black-Scholes Option Pricing Model and recognized in equity as a deduction from the proceeds.

(g) Share-based Payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payments reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted, shall be based on the number of equity instruments that eventually vest.

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) New accounting standards and interpretations

The Company adopted the following new accounting standard and interpretation:

IFRS 16, Leases (effective January 1, 2019) introduced new requirements for the classification and measurement of leases. Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases in the statement of financial position, unless the lease term is 12 months or less or the underlying asset has a low value. The Company does not have any leases, and as a result, this standard had no impact on the Company's financial statements on adoption.

IFRIC 23, Uncertainty over Income Tax Treatments (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatment including, but not limited to, whether uncertain tax treatment should be considered separately; assumptions made about the examination of tax treatment by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. This interpretation did not have an impact on the Company's financial statements.

(i) Accounting standards issued but not yet adopted

The following amendment has been issued but is not yet effective:

Amendments to IFRS 3, Business Combinations (effective January 1, 2020) assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits.

4. SHARE CAPITAL

Common shares

The Company has authorized an unlimited number of common shares without par value.

Issued

- On September 20, 2018, the Company completed its Initial Public Offering whereby it issued 2,881,000 common shares at a price of \$0.10 per common share for proceeds of \$288,100. In addition, the Company completed a non-brokered private placement where by it issued 1,500,000 common shares at \$0.10 per common share for proceeds of \$150,000. The Company also issued to the agent a warrant to acquire 288,100 common shares of the Company at a price of \$0.10 per share, expiring September 20, 2020. Aggregate share issuance costs related to these financings totaled \$63,602, which includes the fair value of warrants issued to the agent, commission of \$28,810 and corporate financing fee of \$19,488 paid to the agent.
- As at June 30, 2020, there were 3,000,000 shares remaining in escrow. 10% of the common shares will be released from escrow on the issuance of the final Exchange bulletin on the closing of a Qualifying Transaction and an additional 15% will be released every six months following the initial release over a period of thirty six months. The shares in escrow are subject to an escrow agreement and may be cancelled in the event that the Company is unable to complete its Qualifying Transaction within certain time limits. Accordingly, these shares are accounted for as contingently returnable shares and excluded from the calculation of loss per share

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

4. SHARE CAPITAL (continued)

Warrants

On September 20, 2018, the Company issued 288,100 warrants at a price of \$0.10 per share, expiring September 20, 2020. The estimated fair value of the warrants was \$15,304 which was determined using the Black-Scholes Option Pricing Model with the following assumptions: an annualized volatility of 100%; an expected life of 2 years; a dividend yield rate of 0%; and a risk-free interest rate of 2.25%.

The weighted average remaining life of warrants at June 30, 2020 was 0.22 years.

The following is a summary of warrants outstanding at June 30, 2020. All of these warrants expired unexercised subsequent to year end.

Number of Shares	Exercise Price	Expiry Date	Exercisable
288,100	\$0.10	September 20, 2020	288,100

Stock Options

The Company has adopted a stock option plan, pursuant to which the board of directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, and technical consultants to the Company, nontransferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares exercisable for a period of up to five years from the date the common shares are listed on the Exchange. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised the greater of 12 months after the completion of the Qualifying Transaction and 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

On September 20, 2018, the Company issued 638,100 stock options at a price of \$0.10 per share, expiring September 20, 2023. The estimated fair value of the options was \$47,939 which was determined using the Black-Scholes Option Pricing Model with the following assumptions: an annualized volatility of 100%; an expected life of 5 years; a dividend yield rate of 0%; and a risk-free interest rate of 2.32%.

The weighted average remaining life of options at June 30, 2020 was 3.22 years.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2020:

Number of Shares	Exercise Price	Expiry Date	Exercisable
638,100	\$0.10	September 20, 2023	638,100

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

SHERPA II HOLDINGS CORP.
Notes to Financial Statements
June 30, 2020
(Expressed in Canadian Dollars)

5. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2019, the Company entered into the following transactions with related parties:

- Key management compensation paid and accrued to directors, officers and companies in which directors and officers are shareholders and employees consisted of stock-based compensation of \$47,939 (Note 4).

The Company did not enter into any transactions with related parties during the year ended June 30, 2020.

6 INCOME TAXES

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

	Year Ended June 30, 2020	Year Ended June 30, 2019
Net loss	\$ (75,386)	\$ (114,449)
Statutory income tax rate	27%	27%
Expected income tax recovery	(20,354)	(30,901)
Share issue costs	-	(13,040)
Non-deductible items	-	12,944
Effect of tax rate change	-	(166)
Change in valuation allowance	20,354	31,164
Tax recovery	\$ -	\$ -

The significant components of deferred income tax assets and liabilities are as follows:

	June 30, 2020	June 30, 2019
Non-capital loss	\$ 46,945	\$ 23,565
Share issuance costs	8,888	11,914
Valuation allowance	(55,833)	(35,479)
	\$ -	\$ -

The Company has non-capital losses of approximately \$173,871 that may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire commencing 2038.

7 MANAGEMENT OF CAPITAL

The Company's capital structure consists of cash and share capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to complete a Qualifying Transaction. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In order to carry out the planned activities and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management since inception. The Company is not subject to external capital requirements.

8 FINANCIAL RISK AND CAPITAL MANAGEMENT

(a) Management of Financial Risks

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. The Company manages its credit risk relating to cash through the use of a major financial institution which has a high credit quality as determined by rating agencies. The Company assessed credit risk as low.

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's liquidity and operating results may be adversely affected if its access to the capital market is hindered. The Company has no source of revenue and has obligations to meet its administrative overheads and to settle amounts payable to its creditors. The Company has been successful in raising equity financing; however, there is no assurance that it will be able to do so in the future. The Company assesses liquidity risk as high.

Foreign Exchange Risk

Foreign exchange risk is the risk that the Company's financial instruments will fluctuate in value as a result of movements in foreign exchange rates. The Company has a nominal amount of cash denominated in foreign currencies. The Company assesses foreign exchange risk as low.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

SHERPA II HOLDINGS CORP.

Notes to Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

8 FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(b) Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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

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

The Company's cash is measured at fair value. Cash is measured using level 1 inputs.

9 SUBSEQUENT EVENTS

The Company entered into the following transactions subsequent to June 30, 2020:

On August 18, 2020 the Company announced that it had entered into a definitive purchase agreement with District Metals Corp. to acquire an 80% undivided interest in eight mineral claims (the "Bakar Claims") located in northwestern Vancouver Island, British Columbia, and a 100% undivided interest in all technical data relating to the Bakar Claims. The intention is for the Transaction to constitute the Company's Qualifying Transaction. The Company will acquire the Bakar Claims and all technical data for total consideration of:

- \$50,000 cash payment;
- 1,000,000 common shares of the Company;
- \$200,000 in work expenditures within six months of closing; and
- Carry over of the 2.0% net smelter royalty ("NSR") from the royalty agreement dated July 12, 2019 between District Metals Corp. and Longford Capital Corp. on one of the eight mineral claims that comprises the Bakar Claims. The 2.0% NSR may be repurchased entirely for \$6,500,000 cash.

Concurrent with the closing of the transaction, the Company expects to complete a private placement for gross proceeds of \$300,000. The Company expects to issue 1,250,000 common shares at a price of \$0.08 per common share for aggregate gross proceeds of \$100,000 and 2,000,000 common shares to be issued as "flow-through shares" at a price of \$0.10 per flow-through common share, for gross proceeds of \$200,000.

The Company granted stock options to officers and directors of the Company to purchase up to 159,525 common shares exercisable at \$0.10 per share until September 20, 2023.