



(formerly ML GOLD CORP.)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(EXPRESSED IN CANADIAN DOLLARS)**

M3 METALS CORP. (formerly ML GOLD CORP.)

CONSOLIDATED FINANCIAL STATEMENTS

**AUGUST 31, 2019
(EXPRESSED IN CANADIAN DOLLARS)**

Table of Contents

Independent Auditors' Report	1
Consolidated Statements of Financial Position	4
Consolidated Statements of Comprehensive Loss	5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Changes in Shareholders' Equity	7
Notes to Consolidated Financial Statements	8

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
M3 Metals Corp. (formerly ML Gold Corp.)

Opinion

We have audited the accompanying consolidated financial statements of M3 Metals Corp. (formerly ML Gold Corp.) (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2019 and 2018, and the consolidated statements of comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has incurred ongoing losses since inception and may require additional financing in order to maintain its operations and exploration activities. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 David Harris.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

December 19, 2019

M3 METALS CORP. (formerly ML GOLD CORP.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	August 31, 2019	August 31, 2018
	\$	\$
ASSETS		
Current		
Cash	1,150,893	1,055,114
GST receivable	10,902	36,337
Due from related party (Note 8)	22,370	-
Prepaid expenses	166,813	146,524
Total current assets	1,350,978	1,237,975
Property and equipment (Note 3)	12,233	14,691
Exploration and evaluation properties (Note 4)	2,305,889	3,060,871
TOTAL ASSETS	3,669,100	4,313,537
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 5 and 8)	98,687	659,383
Flow-through premium liability (Note 6)	-	187,681
TOTAL LIABILITIES	98,687	847,064
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	40,573,831	39,079,646
Reserves (Note 7)	2,468,526	2,639,992
Deficit	(39,471,944)	(38,253,165)
TOTAL SHAREHOLDERS' EQUITY	3,570,413	3,466,473
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,669,100	4,313,537

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)
COMMITMENTS (Note 12)
SUBSEQUENT EVENT (Note 14)

Approved and authorized by the Board on December 19, 2019.

On behalf of the Board:

/s/ "Kosta Tsoutsis"

 Director

/s/ "Adrian Smith"

 Director

The accompanying notes are an integral part of these consolidated financial statements.

M3 METALS CORP. (formerly ML GOLD CORP.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	For the years ended August 31,	
	2019 \$	2018 \$
Expenses		
Consulting fees (Note 8)	548,256	676,633
Depreciation (Note 3)	4,498	5,481
Investor relations	29,327	103,782
Office and administration (Note 8)	122,915	148,409
Professional fees	64,812	68,009
Property investigation costs	18,924	10,827
Share-based compensation (Notes 7, 8)	762,102	643,723
Travel and related	16,234	19,566
	<u>(1,567,068)</u>	<u>(1,676,430)</u>
Interest income	1,203	1,411
Reversal of flow-through premium liability (Note 6)	187,681	241,483
Gain on forgiveness of accounts payable (Note 8)	26,905	-
Write off of exploration and evaluation properties (Note 4)	<u>(1,205,533)</u>	<u>(1,744,691)</u>
	<u>(989,744)</u>	<u>(1,501,797)</u>
Loss and comprehensive loss for the year	<u>(2,556,812)</u>	<u>(3,178,227)</u>
Basic and diluted loss per share	<u>(0.15)</u>	<u>(0.37)</u>
Weighted average number of common shares outstanding	<u>16,795,260</u>	<u>8,628,830</u>

The accompanying notes are an integral part of these consolidated financial statements.

M3 METALS CORP. (formerly ML GOLD CORP.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

	For the years ended August 31,	
	2019 \$	2018 \$
Cash flows from operating activities		
Loss for the year	(2,556,812)	(3,178,227)
Items not affecting cash:		
Depreciation	4,498	5,481
Share-based compensation	762,102	643,723
Write off of exploration and evaluation properties	1,205,533	1,744,691
Reversal of flow-through premium liability	(187,681)	(241,483)
Changes in non-cash working capital items:		
GST receivable	25,435	(15,202)
Due from related party	(22,370)	-
Prepaid expenses	(20,289)	(127,991)
Accounts payable and accrued liabilities	(252,255)	110,987
	(1,041,839)	(1,058,021)
Cash flows from investing activities		
Exploration and evaluation property expenditures	(719,992)	(1,980,817)
Acquisitions of property and equipment	(2,040)	-
	(722,032)	(1,980,817)
Cash flows from financing activities		
Proceeds from share issuances	1,900,000	2,920,830
Share issuance costs	(40,350)	(65,218)
Stock options exercised	-	30,000
Warrants exercised	-	591,000
	1,859,650	3,476,612
Net change in cash	95,779	437,774
Cash, beginning of the year	1,055,114	617,340
Cash, end of the year	1,150,893	1,055,114
Supplemental cash flow information		
Reclassification of warrants exercised	-	209,475
Reclassification of stock options exercised	-	27,330
Reclassification of expired warrants	454,801	7,009
Reclassification of expired stock options	-	104,306
Reclassification of cancelled stock options	1,338,033	-
Shares issued for acquisition of exploration and evaluation assets	39,000	48,000
Exploration and evaluation assets in accounts payable and accrued liabilities	560	309,001
Value of warrants issued in private placement	831,301	803,299
Value of finders' warrants issued in private placement	27,965	43,860

The accompanying notes are an integral part of these consolidated financial statements.

M3 METALS CORP. (formerly ML GOLD CORP.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares Issued #	Share Capital \$	Reserves \$	Deficit \$	Total Shareholders' Equity \$
Balance at August 31, 2017	7,264,905	36,539,657	1,497,230	(35,179,244)	2,857,643
Shares issued in private placement	3,011,118	1,736,253	803,299	-	2,539,552
Share issuance costs	-	(109,078)	43,860	-	(65,218)
Shares issued for exploration and evaluation assets	50,000	48,000	-	-	48,000
Stock options exercised	30,000	57,330	(27,330)	-	30,000
Stock options expired	-	-	(104,306)	104,306	-
Stock options granted	-	-	643,723	-	643,723
Warrants exercised	386,250	800,475	(209,475)	-	591,000
Warrants expired	-	7,009	(7,009)	-	-
Loss for the year	-	-	-	(3,178,227)	(3,178,227)
Balance at August 31, 2018	10,742,273	39,079,646	2,639,992	(38,253,165)	3,466,473
Shares issued in private placement	19,000,000	1,068,699	831,301	-	1,900,000
Share issuance costs	-	(68,315)	27,965	-	(40,350)
Shares issued for exploration and evaluation assets	60,000	39,000	-	-	39,000
Stock options cancelled	-	-	(1,338,033)	1,338,033	-
Stock options granted	-	-	762,102	-	762,102
Warrants expired	-	454,801	(454,801)	-	-
Loss for the year	-	-	-	(2,556,812)	(2,556,812)
Balance at August 31, 2019	29,802,273	40,573,831	2,468,526	(39,471,944)	3,570,413

The accompanying notes are an integral part of these consolidated financial statements.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE AND CONTINUANCE OF OPERATIONS

M3 Metals Corp. (formerly ML Gold Corp.) (the “Company”) was incorporated under the Canada Business Corporations Act (CBCA) on February 27, 2007 and is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol V.MLG. The Company's business is to acquire, explore and develop interests in mineral properties located in North America. On July 16, 2019, the Company changed its name from ML Gold Corp. to M3 Metals Corp.

The Company's registered office is Suite 650 – 1188 West Georgia Street, Vancouver, BC, Canada, V6E 4A2. The Company maintains an executive office at Suite 2310 – 1177 West Hastings Street, Vancouver, BC, Canada, V6E 2K3.

On February 27, 2019, the Company consolidated its outstanding share capital on a ten-for-one basis. The share consolidation has been applied retrospectively and as a result all shares, options, warrants, and per share amounts are stated on an adjusted basis.

The Company's exploration and evaluation properties are at the exploration and evaluation stage and are without a known body of commercial ore. The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company has a deficit of \$39,471,944 and has incurred ongoing losses since inception. As at August 31, 2019, the Company had not advanced any of its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. The Company may require additional financing for the upcoming fiscal year in order to maintain its operations and exploration activities. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on December 19, 2019.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements.

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, ML Nevada Corp. All significant intercompany accounts and transactions between the Company and its subsidiary have been eliminated upon consolidation.

Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiary is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than Canadian dollars are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation properties, valuation of share-based compensation, and recognition of deferred tax amounts.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Use of estimates (continued)

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Economic recoverability and probability of future economic benefits of exploration and evaluation properties

Management determined exploration, evaluation, and related costs incurred which are capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forecasted dividend rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Exploration and evaluation properties

Pre-exploration costs are expensed as incurred.

Costs directly related to the acquisition and exploration of exploration and evaluation properties are capitalized once the legal rights to explore the exploration and evaluation properties are acquired or obtained. When the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation properties are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

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 properties 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 the related 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 the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit and loss for the period.

As at August 31, 2019 and 2018, there were no significant restoration and environmental obligations.

Share-based compensation

The Company operates an employee stock option plan. Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On exercise of stock options, any amounts related to the initial value of the stock options, along with the proceeds from exercise are recorded to share capital. On expiration of stock options, the corresponding amounts related to the initial value of the stock options are transferred to deficit.

Financial instruments

The Company adopted all of the requirements of IFRS 9 – Financial Instruments (“IFRS 9”) as of September 1, 2018. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Financial instruments (Continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Receivables are measured at amortized cost with subsequent impairments recognized in profit or loss and cash is classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statements of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified as amortized cost and carried on the statements of financial position at amortized cost.

As at August 31, 2019, the Company does not have any derivative financial liabilities.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the fiscal period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated using a declining balance method to write off the cost of the assets. The depreciation rates applicable to each category of property and equipment are as follows:

Asset	Basis	%
Computer hardware	Declining balance	55%
Equipment	Declining balance	20%
Vehicles	Declining balance	30%

Unit offering

The Company accounts for unit offering financing using the relative fair value method. Under this method, the fair values of the shares and share purchase warrants are determined separately and prorated to the actual proceeds received. The fair value of shares is determined using the share price at the issue date. The fair value of share purchase warrants is measured using the Black-Scholes valuation model at the issue date.

Warrants

Finder's warrants are measured using the Black-Scholes valuation model at the issue date. The value of warrants are reclassified from reserves to share capital when exercised or expired.

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 country 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.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Income taxes (Continued)

Deferred income tax:

Deferred income tax is provided for, based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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.

Flow-through shares:

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid, if any, for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in profit or loss on a pro-rata basis at the same time the qualifying expenditures are made.

Impairment of non-financial assets

The carrying amount of the Company's assets (which include property and equipment and exploration and evaluation properties) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of an asset is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Basic and diluted loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Potentially dilutive options and warrants excluded from diluted loss per share totalled 25,100,871 (2018 – 4,215,620).

Accounting pronouncements not yet adopted

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended August 31, 2019 and have not been applied in preparing these consolidated financial statements:

IFRS 16 – Leases: On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.

IFRIC 23 – Uncertainty Over Income Tax Treatments: clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.

3. PROPERTY AND EQUIPMENT

	Computer hardware	Equipment	Vehicles	Total
	\$	\$	\$	\$
Cost:				
At August 31, 2017 and 2018	29,462	24,740	101,524	155,726
Additions	2,040	-	-	2,040
At August 31, 2019	31,502	24,740	101,524	157,766
Depreciation:				
At August 31, 2017	29,306	18,639	87,609	135,554
Charge for the year	87	1,220	4,174	5,481
At August 31, 2018	29,393	19,859	91,783	141,035
Charge for the year	600	976	2,922	4,498
At August 31, 2019	29,993	20,835	94,705	145,533
Net book value:				
At August 31, 2018	69	4,881	9,741	14,691
At August 31, 2019	1,509	3,905	6,819	12,233

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

4. EXPLORATION AND EVALUATION PROPERTIES

	Schefferville \$	Pinnacle Reef \$	Aspen \$	Stars \$	Palmetto \$	Total \$
Balance, August 31, 2017	1	927,298	179,983	-	1,469,780	2,577,062
Property acquisition costs	-	21,000	22,313	48,000	159,732	251,045
<i>Exploration expenditures:</i>						
Drilling	-	403,673	-	1,436,547	50,417	1,890,637
Equipment	-	27,874	-	-	-	27,874
Geological	-	18,025	2,547	145,387	64,763	230,722
Transportation	-	-	-	12,035	-	12,035
	-	470,572	24,860	1,641,969	274,912	2,412,313
BC mineral exploration tax credit recoverable	-	(160,021)	(23,792)	-	-	(183,813)
Write-off of exploration and evaluation properties	-	-	-	-	(1,744,691)	(1,744,691)
Balance, August 31, 2018	1	1,237,849	181,051	1,641,969	1	3,060,871
Property acquisition costs	-	-	-	79,000	-	79,000
<i>Exploration expenditures:</i>						
Drilling	-	-	-	480,599	-	480,599
Geological	-	-	-	38,030	-	38,030
	-	-	-	597,629	-	597,629
BC mineral exploration tax credit recoverable	-	(32,317)	(183)	(114,578)	-	(147,078)
Write-off of exploration and evaluation properties	-	(1,205,532)	-	-	(1)	(1,205,533)
Balance, August 31, 2019	1	-	180,868	2,125,020	-	2,305,889

Schefferville Properties

In 2011, the Company acquired a 100% interest in a number of properties. These properties are subject to certain royalty interests and NSRs.

The Pinnacle Reef Property

In July 2016, the Company entered into a mineral property option agreement with Pacific Empire Minerals Corp. whereby the Company was granted the option to acquire up to a 70% interest in the Pinnacle Reef Property located in central British Columbia.

In July 2019, the Company decided not to proceed with the acquisition and terminated the option agreement. As at August 31, 2019, the Company wrote-off the related costs it had incurred resulting in a write-off of \$1,205,532 being recognized.

Aspen Gold Property

In July 2016, the Company entered into an agreement (later amended in October 2016) with a company controlled by officer and directors to acquire a 90% interest in the Aspen Gold Property located in central British Columbia. The related party will retain a 10% interest in the property. Under the terms of the amended agreement, the purchase price for the interest was \$100,000 (paid).

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

4. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**Stars Property**

In November 2017, the Company entered into two separate option agreements to acquire, by way of option, up to 80% of certain mining claims in the Omineca Mining Division located in north central British Columbia, approximately 40 kilometers south - southwest of Houston, BC (collectively, the “Stars Property”). The Company can earn a total of 80% interest in the Stars Property by fully exercising the options in the First Agreement and the Second Agreement as outlined below.

The first agreement (the “First Agreement”) is with Pacific Empire Minerals Corp., an arm’s length party which currently owns 50% of the Stars Property. Under the terms of the First Agreement, the Company has the option to earn up to a 30% interest in the Stars Property by completing the following:

	Cash payment (\$)		Common shares		Expenditures (\$)	
Upon TSX-V approval – June 5, 2018	(paid)	10,000	(issued)	10,000		-
On or before June 5, 2019	(paid)	20,000	(issued)	20,000	(incurred)	500,000 ¹
On or before June 5, 2020		50,000		30,000	(incurred)	1,000,000 ¹
On or before June 5, 2021		-		-		3,000,000
Total Requirement		80,000		60,000		4,500,000

¹ As at August 31, 2019, the Company had incurred \$2,112,598 in exploration expenditures.

The second agreement (the “Second Agreement”) is with Divitiae Resources Ltd., a non-arm’s-length party owned by Adrian Smith, P. Geo, a director of the Company, which currently owns 50% of the Stars Property. Under the terms of the Second Agreement, the Company has the option to earn up to an additional 50% interest in the Stars Property by completing the following:

	Cash payment (\$)		Common shares	
Upon TSX-V approval – June 5, 2018	(paid)	10,000	(issued)	20,000
On or before June 5, 2019	(paid)	20,000	(issued)	40,000
On or before June 5, 2020		50,000		30,000
On or before June 5, 2021		50,000		100,000
Total Requirement		130,000		190,000

Palmetto Property

In October 2016, the Company entered into an option agreement to acquire a 100% right, title and interest to unpatented mining claims (the “Palmetto Project”) located in Nevada.

As at August 31, 2018, the Company did not have any future exploration plan on the Palmetto Project. As a result, the Company wrote down the property to \$1. As at January 2, 2019, the Company terminated the option agreement in relation to the Palmetto Project and wrote off the Palmetto Project.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2019	August 31, 2018
	\$	\$
Accounts payable	7,637	571,257
Accrued liabilities	91,050	88,126
	98,687	659,383

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

6. SHARE CAPITAL

Authorized share capital

Unlimited common shares without par value.

Issued share capital

During the year ended August 31, 2019:

On June 5, 2019, the Company issued 60,000 common shares in connection to the property option agreements for the Stars Property valued at \$39,000 (Note 4).

On May 13, 2019, the Company completed a private placement for gross proceeds of \$1,900,000 which consisted of the issuance of 19,000,000 units at a price of \$0.10 per unit. Each unit comprised of one common share of the Company and one full, non-transferable warrant, which is exercisable into one common share at a price of \$0.15 for a period of two years. The warrants were valued at \$831,301 or \$0.04 per warrant using the relative fair value method and the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.53%, volatility of 170%, and nil forecasted dividend yield. Finder's fees totaling \$30,100 cash and 616,000 finder's warrants were paid and issued in connection with the private placement financing. Each finder's warrant entitles the holder to purchase one common share of the Company exercisable at a price of \$0.15, for a period of two years from closing. The finder's warrants were valued at an aggregate of \$27,965 or \$0.05 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.53%, volatility of 170%, and nil forecasted dividend yield.

During the year ended August 31, 2018:

On December 28, 2017, the Company completed a private placement for gross proceeds of \$1,296,830 which consisted of the issuance of 584,160 non flow-through units ("NFT Unit") at a price of \$1.00 per unit and 548,208 flow-through units ("FT Unit") at a price of \$1.30 per unit. Finder's fees totaling \$18,188 cash and 15,057 finder's warrants were paid and issued in connection with the private placement financing. Each finder's warrant entitles the holder to purchase one common share of the Company, whereas 10,437 and 4,620 finder's warrants are exercisable at a price of \$1.80 and \$1.50 respectively, for a period of two years from closing. The finder's warrants were valued at an aggregate of \$9,761 or \$0.65 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.66%, volatility of 130%, and nil forecasted dividend yield. The flow-through common shares had an associated flow-through premium liability of \$213,027 on issuance.

Each NFT Unit comprised of one common share of the Company and one full non-transferable warrant, which is exercisable into one common share at a price of \$1.50 for a period of two years. The warrants were valued at \$211,946 or \$0.36 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.66%, volatility of 130%, and nil forecasted dividend yield.

Each FT Unit comprised of one flow-through common share of the Company and one half of one non-transferable warrant, with each full warrant exercisable into one common share at a price of \$1.80 for a period of two years. The warrants were valued at \$151,384 or \$0.55 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.66%, volatility of 130%, and nil forecasted dividend yield.

On June 5, 2018, the Company issued 30,000 common shares in connection to the property option agreements for the Stars Property valued at \$27,000 (Note 4).

On August 1, 2018, the Company issued 20,000 common shares in connection to the property option agreements for the Pinnacle Reef Property valued at \$21,000 (Note 4).

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

6. SHARE CAPITAL (CONTINUED)

Issued share capital (Continued)

On June 26, 2018, the Company completed a private placement for gross proceeds of \$1,624,000 which consisted of the issuance of 1,273,750 non flow-through units ("June NFT Unit") at a price of \$0.80 per unit and 605,000 flow-through units ("June FT Unit") at a price of \$1.00 per unit. Finder's fees and expenses totalling \$47,030 cash, 35,700 non flow-through finder's warrants, and 29,600 flow-through finder's warrants were paid and issued in connection with the private placement financing, each non flow-through and flow-through finder's warrant entitles the holder to purchase one common share of the Company at a price of \$0.80 and \$1.00, respectively, for a period of two years from closing. The finder's warrants were valued at an aggregate of \$34,099 or \$0.52 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.77%, volatility of 111%, and nil forecasted dividend yield. The flow-through common shares had an associated flow-through premium liability of \$168,251 on issuance.

Each June NFT Unit comprised of one common share of the Company and one full non-transferable warrant, which is exercisable into one common share at a price of \$1.20 for a period of two years. The warrants were valued at \$328,724 or \$0.26 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.77%, volatility of 111%, and nil forecasted dividend yield.

Each June FT Unit comprised of one flow-through common share of the Company and one half of one non-transferable warrant, which is exercisable into one common share at a price of \$1.40 for a period of two years. The warrants were valued at \$111,245 or \$0.37 per warrant using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.77%, volatility of 111%, and nil forecasted dividend yield.

Flow through premium liability

The following is a continuity schedule of the liability portion of the flow-through share issuances:

	Liability portion of the flow-through share issuance
	\$
Balance, August 31, 2017	47,886
Flow-through premium liability	381,278
Settlement of flow-through share premium liability pursuant to qualified expenditures	<u>(241,483)</u>
Balance, August 31, 2018	187,681
Settlement of flow-through share premium liability pursuant to qualified expenditures	<u>(187,681)</u>
Balance, August 31, 2019	<u>-</u>

The Company was required to incur \$65,000 of eligible exploration and evaluation expenditures by December 31, 2018 in connection with the issuance of flow-through shares on December 28, 2017. In addition, the Company was required to incur \$605,000 of eligible exploration and evaluation expenditures by December 31, 2018 in connection with the issuance of flow-through shares on June 26, 2018. The Company fulfilled the requirement to incur eligible exploration and evaluation expenditures in relation to the issuance of flow-through shares on December 28, 2017 and June 26, 2018.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

7. RESERVES

Stock options

The Company has a stock option plan (“the Plan”) whereby it can grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company. Vesting and term of the option is determined by the board of directors in accordance with the Plan and the policies of the TSX-V.

On January 11, 2018, the Company granted 200,000 stock options to certain officers, directors and consultants of the Company for a term of five years exercisable at a price of \$1.10 per option valued at \$293,800 or \$1.47 per option estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 2.08%, volatility of 199%, and nil forecasted dividend yield. All options vested immediately on grant.

On July 20, 2018, the Company granted 399,000 stock options to certain officers, directors and consultants of the Company for a term of five years exercisable at a price of \$0.90 per option valued at \$349,923 or \$0.88 per option estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 2.08%, volatility of 199%, and nil forecasted dividend yield. All options vested immediately on grant.

During the year ended August 31, 2018, the Company issued 30,000 common shares in connection with the exercise of 30,000 stock options with a weighted average exercise price of \$1.00 for total proceeds of \$30,000. As a result, the Company transferred \$27,330 representing the fair value of the exercised share options from reserves to share capital. In addition, 19,500 stock options expired and as a result, \$104,306 was reclassified from reserves to deficit.

On May 13, 2019, the Company granted 2,970,000 stock options to certain officers, directors and consultants of the Company for a term of five years exercisable at a price of \$0.17 per option valued at \$762,102 or \$0.26 per option estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 1.46%, volatility of 213%, and nil forecasted dividend yield. All options vested immediately on grant.

During the year ended August 31, 2019, the Company cancelled 1,052,000 stock options. As a result, the Company transferred \$1,338,033 representing the fair value of the cancelled share options from reserves to deficit.

A summary of stock option activities is as follows:

	Number of options #	Weighted average exercise price \$
Balance, August 31, 2017	502,500	1.57
Expired	(19,500)	0.80
Granted	599,000	0.97
Exercised	(30,000)	1.00
Balance, August 31, 2018	1,052,000	1.26
Cancelled	(1,052,000)	1.26
Granted	2,970,000	0.17
Balance, August 31, 2019	2,970,000	0.17

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

7. RESERVES (CONTINUED)**Stock options (Continued)**

A summary of the stock options outstanding and exercisable at August 31, 2019 is as follows:

Exercise Price \$	Number Outstanding and Exercisable	Expiry Date
0.17	2,970,000	May 13, 2024

The weighted average life of the outstanding stock options is 4.70 years.

Warrants

During the year ended August 31, 2019, 648,750 warrants expired and as a result, \$454,801 was reclassified from reserves to share capital.

During the year ended August 31, 2018, the Company issued 386,250 common shares in connection with the exercise of 386,250 warrants with a weighted average exercise price of \$1.53 for total proceeds of \$591,000. As a result, the Company transferred \$209,475 representing the fair value of the exercised warrants from reserves to share capital. In addition, 20,833 warrants expired and as a result, \$7,009 was reclassified from reserves to share capital.

A summary of share purchase warrant activities is as follows:

	Number of warrants	Weighted average exercise price \$
Balance, August 31, 2017	1,055,833	1.81
Expired	(20,833)	0.90
Issued	2,514,871	1.35
Exercised	(386,250)	1.53
Balance, August 31, 2018	3,163,621	1.49
Expired	(648,750)	2.00
Issued	19,616,000	0.15
Balance, August 31, 2019	22,130,871	0.29

A summary of the warrants outstanding and exercisable at August 31, 2019 is as follows:

Exercise Price \$	Number Outstanding	Expiry Date
1.80	284,541	December 28, 2019
1.50	588,780	December 28, 2019
1.20	1,273,750	June 26, 2020
0.80	35,700	June 26, 2020
1.40	302,500	June 26, 2020
1.00	29,600	June 26, 2020
0.15	19,616,000	May 13, 2021
	<u>22,130,871</u>	

The weighted average life of the outstanding warrants is 1.58 years.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

8. RELATED PARTY TRANSACTIONS

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including directors (executive and non-executive) of the Company. As at August 31, 2019, the Company has \$1,507 (2018 - \$538,977) included in accounts payable and accrued liabilities due to officers, directors and companies controlled by officers and directors. In addition, \$22,370 (2018 - \$nil) was included in due from related party owing from a company related by virtue of a common officer and a common director for reimbursement of expenses.

Summary of key management personnel compensation:

	For the years ended August 31,	
	2019	2018
	\$	\$
Consulting fees	326,000	441,000
Share-based compensation	499,087	479,175
	825,087	920,175

In addition, the following amounts were incurred with respect to officers, directors and companies controlled by officers and directors:

	For the years ended August 31,	
	2019	2018
	\$	\$
Exploration and evaluation property expenditures	354,603	1,643,265
Rent	34,500	42,000
	389,103	1,685,265

For the year ended August 31, 2019, the Company recorded a gain on forgiveness of accounts payable of \$26,905, which was owed to a company controlled by a former officer and director.

9. CAPITAL MANAGEMENT

The Company considers its capital structure to include the components of shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. As the Company's properties are in the exploration and evaluation stage, the Company is currently unable to self-finance its operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favorable.

The Company's share capital is not subject to any external restrictions. The Company did not change its approach to capital management during the year ended August 31, 2019.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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.

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's financial instruments consist of cash, GST receivable, due from related party and accounts payable and accrued liabilities. The fair value of these financial instruments, other than cash, approximates their carrying values due to the short-term nature of these instruments. Cash is measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

a) Currency risk

The Company conducts exploration and evaluation activities in the United States. As such, it is subject to risk due to fluctuations in the exchange rates for the Canadian and US dollars. As at August 31, 2019, the Company does not have significant net assets or liabilities in US dollars, therefore, the Company has determined that there is very limited currency risk at this time.

b) Credit risk

Credit risk is risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in large Canadian financial institutions and GST receivable is due from the Government of Canada. The Company's financial instrument related to the GST receivable is not exposed to significant credit risk.

c) 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 exposed to limited interest rate risk as it holds cash majority.

d) Liquidity risk

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

e) Commodity price risk

The ability of the Company to explore and evaluate its exploration and evaluation properties and the future profitability of the Company are directly related to the price of gold. The Company monitors iron and gold prices to determine the appropriate course of action to be taken.

11. SEGMENTED INFORMATION

The Company has one operating segment, being the acquisition and exploration of exploration and evaluation assets. Geographic information is as follows:

	As at August 31, 2019		
	Canada	US	Total
	\$	\$	\$
Property and equipment	12,233	-	12,233
Exploration and evaluation properties	2,305,889	-	2,305,889
	2,318,122	-	2,318,122

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

11. SEGMENTED INFORMATION (CONTINUED)

	As at August 31, 2018		
	Canada	US	Total
	\$	\$	\$
Property and equipment	14,691	-	14,691
Exploration and evaluation properties	3,060,870	1	3,060,871
	3,075,561	1	3,075,562

12. COMMITMENTS

On May 1, 2019, the Company entered into a consulting agreement with the CFO and director of the Company. The agreement requires monthly payments of \$3,000 for a period of 60 months. Included in the agreement is a provision for a one year payout in the event of termination without cause.

On May 1, 2019, the Company entered into a management agreement with the President and director of the Company. The agreement requires monthly payments of \$10,000 for a period of 60 months. Included in the agreement is a provision for a one year payout in the event of termination without cause.

On May 1, 2019, the Company entered into a consulting agreement with the CEO and director of the Company. The agreement requires monthly payments of \$10,000 for a period of 60 months. Included in the agreement is a provision for a one year payout in the event of termination without cause.

13. INCOME TAX

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying statements of comprehensive loss is provided below:

	For the year ended August 31,	
	2019	2018
	\$	\$
Loss before income taxes	(2,556,812)	(3,178,227)
Expected income tax (recovery)	(690,000)	(848,000)
Change in statutory, foreign tax, foreign exchange rates and other	3,000	(228,000)
Permanent difference	157,000	107,000
Impact of flow through share	181,000	260,000
Share issue cost	(11,000)	(17,000)
Adjustment to prior years provision versus statutory tax returns	1,000	291,000
Change in unrecognized deductible temporary differences	359,000	435,000
Total deferred taxes	-	-

M3 METALS CORP. (formerly ML GOLD CORP.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

13. INCOME TAX (CONTINUED)

Significant components of unrecognized temporary differences and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	As of August 31,			
	2019	Expiry dates	2018	Expiry dates
	\$		\$	
Exploration and evaluation properties	18,071,000	No Expiry	17,543,000	No Expiry
Investment tax credit	1,093,000	2032 to 2033	1,093,000	2032 to 2033
Property and equipment	283,000	No Expiry	278,000	No Expiry
Share issuance costs	102,000	2040 to 2043	99,000	2039 to 2042
Non-capital losses				
Canada	12,790,000	2031 to 2039	12,020,000	2031 to 2038
USA	38,000	No Expiry	9,000	No Expiry

Tax attributes are subject to review, and potential adjustment, by tax authorities.

14. SUBSEQUENT EVENT

On September 21, 2019, the Company entered into an option agreements with DDS Resources LLC and Mohave Mine Partnership LLC (collectively, "Optionors") to acquire, by way of option, up to 100% of certain mining claims in the Weaver mining district, Mohave County, Arizona, USA (collectively, the "Mohave Mine Gold Property").

Under the terms of the agreement, the Company has the option to earn up to a 100% interest in the Mohave Mine Gold Property by completing the following:

	Cash payment (US\$)	Expenditures (US\$)
Within ten days of execution of the agreement*	(paid subsequently) 50,000	-
On or before the Payment Commencement Date**	-	50,000
On or before 10 days after the Payment Commencement Date**	75,000	-
On or before the first anniversary of the Payment Commencement Date**	-	200,000
On or before 10 days after the first anniversary of the Payment Commencement Date**	100,000	-
On or before the second anniversary of the Payment Commencement Date**	-	300,000
On or before 10 days after the second anniversary of the Payment Commencement Date**	150,000	-
On or before the third anniversary of the Payment Commencement Date**	-	350,000

M3 METALS CORP. (formerly ML GOLD CORP.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019
(EXPRESSED IN CANADIAN DOLLARS)

14. SUBSEQUENT EVENT (CONTINUED)

On or before 10 days after the third anniversary of the Payment Commencement Date**	200,000	-
On or before the fourth anniversary of the Payment Commencement Date**	-	400,000
On or before 10 days after the fourth anniversary of the Payment Commencement Date**	3,000,000	-
Total Requirement	3,575,000	1,300,000

**The Company was also required, under the terms of the agreement, to pay the BLM claim maintenance fees (paid subsequently) for the period September 1, 2019 to August 31, 2020.*

*** Payment Commencement Date shall commence on the earlier of: (i) the date the Company has received all required governmental permits to carry out its initial exploration program on the Mohave Mine Gold Property; (ii) eighteen months after September 21, 2019 provided that it cannot be less than twelve months.*

Upon the completion of all payments, the Company will grant a 1.5% net smelter royalty to the Optionors.