

XAU Resources Inc.
(A Capital Pool Company)

Financial Statements
(Expressed in Canadian Dollars)

For the nine months ended
July 31, 2019

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the CPA Canada for a review of interim financial statements by an entity's auditor.

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENT OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
As at July 31, 2019

	July 31, 2019 \$	October 31, 2018 \$
	(unaudited)	
Assets		
Current Assets		
Cash (Note 7)	\$ 457,630	\$ 170,886
Receivables (Note 3)	9,622	650
Total Current Assets	467,252	171,536
Deferred financing costs (Note 4)	-	18,150
Total Assets	\$ 467,252	\$ 189,686
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 36,171	\$ 19,066
Total Liabilities	36,171	19,066
Shareholders' Equity		
Share capital (Note 5)	522,742	200,000
Contributed surplus (Note 5)	86,467	—
Deficit	(178,128)	(29,380)
Total Shareholders' Equity	431,081	170,620
Total Liabilities and Shareholders' Equity	\$ 467,252	\$ 189,686

Nature of operations (Note 1)

On Behalf of the Board:

“Dan Hrushewsky” _____

Director

“Gairat Gary Bay” _____

Director

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENT OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	For the three months ended July 31, 2019 \$ (unaudited)	For the nine months ended July 31, 2019 \$ (unaudited)	Period from incorporation on June 18,2018 to October 31, 2018 \$
Expenses			
Professional fees	\$ 22,142	\$ 75,662	\$ 14,066
Registration and filing	10,000	10,000	15,314
Share based compensation	63,086	63,086	—
Total expenses	95,228	148,748	29,380
Loss and comprehensive loss	\$ (95,228)	\$ (148,748)	\$ (29,380)
Loss per common share	\$ (0.02)	\$ (0.04)	\$ (0.01)
Weighted average number of common shares outstanding	4,637,217	4,212,406	4,000,000

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital		Contributed		Total
	Shares	Amount	Surplus	Deficit	
Shares issued for cash	4,000,000	\$ 200,000	\$ —	\$ —	\$200,000
Loss for the period	—	—	—	(29,380)	(29,380)
Balance, October 31, 2018	4,000,000	\$ 200,000	\$ —	\$ (29,380)	\$170,620
Issuance of common shares (Note 5)	4,411,500	\$ 441,150	—	—	\$ 441,150
Share issuance costs (Note 5)	—	(95,027)	—	—	(95,027)
Fair value of agents options issued (Note 5)	—	(23,381)	23,381	—	-
Fair value of stock options issued (Note 5)	—	—	63,086	—	63,086
Loss for the period	—	—	—	(148,748)	(148,748)
Balance, July 31, 2019 (unaudited)	8,411,500	\$ 522,742	\$ 86,467	\$ (178,128)	\$ 431,081

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

XAU RESOURCES INC.
(A Capital Pool Company)
STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the nine months ended July 31, 2019 \$	Period from incorporation on June 18,2018 to October 31, 2018 \$
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (148,748)	\$ (29,380)
Add Share based compensation	63,086	—
Changes in non-cash working capital items:		
Receivables	(8,972)	(650)
Deferred financing costs	18,150	—
Accounts payable and accrued liabilities	17,105	916
Net cash used in operating activities	(59,379)	(29,114)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issuances	441,150	200,000
Share issuance costs	(95,027)	—
Net cash provided by financing activities	346,123	200,000
Change in cash	286,744	170,886
Cash, beginning of the period	170,886	—
Cash, end of the period	\$ 457,630	\$ 170,886

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

XAU Resources Inc.
(A Capital Pool Corporation)
Notes to Financial Statements
(Expressed in Canadian Dollars)
July 31, 2019
(Unaudited)

1. NATURE OF OPERATIONS

XAU Resources Inc. (the "Company") was incorporated under the *Canada Business Corporations Act* on June 18, 2018. The Company is in the process of completing an Initial Public Offering ("IPO") to be classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business (Qualifying Transaction) and, once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

The Company's head office, principal address and registered and records office is located at Suite 4100, 66 Wellington Street West, Toronto, Ontario, Canada, M5K 1B7.

These financial statements were authorized for issue by the Board of Directors on September 27, 2019

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses within 24 months of listing on the TSX-V.

There is no assurance that the Company will complete a Qualifying Transaction within twenty-four months from the date the Company's shares are listed on the TSX-V, at which time the TSX-V may suspend or de-list the Company's shares from trading.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

These financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Significant Accounting Estimates and Judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Significant Accounting Estimates and Judgments. continued

There have been no significant judgements made by management in the application of IFRS that have a significant effect on these financial statements.

Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related share capital. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

i) Financial assets

The Company adopted IFRS 9, Financial Instruments, on its incorporation. IFRS 9 replaces International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement. Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI.

At present, the Company classifies all financial assets as held at amortized cost. Cash is classified as a financial asset.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its financial assets:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Instruments. continued

that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.

Fair value through OCI (FVOCI): Debt instruments that are held for collection of contractual cash flows and for selling the debt instruments, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these debt instruments is included as finance income using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the statement of loss and comprehensive loss in the period in which it arises.

ii) Financial liabilities

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: where the Company optionally designates financial liabilities at FVTPL the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

At present, the Company classifies all of its financial liabilities as held at amortized cost. These financial liabilities are classified as current liabilities as the payment is due within 12 months.

Stock-based compensation

The Company has a stock-based compensation plan that is described in note 5. The Company accounts for stock options using the fair value method. The estimated fair value of all stock options granted is recorded in the statement of loss and comprehensive loss over their vesting periods.

Share issuance costs

Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs are deferred until the issuance of the shares to which the costs relate to, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Loss per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (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 and convertible loan, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the convertible loans were converted and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the periods presented, the calculations proved to be anti-dilutive.

3. RECEIVABLES

Receivables consist of recoverable amounts paid for harmonized sales taxes charged to the Company on purchases of goods or services.

4. DEFERRED FINANCING COSTS

The Company has entered into a Letter Agreement with Hampton Securities Inc. (the "Agent") dated July 6, 2018 whereby the Company agreed to offer, through the Agent, a minimum of 4,000,000 common shares, and a maximum of 6,000,000 shares, at a price of \$0.10 per share. Upon completion of the IPO these costs were charged against the related share capital (Note 5).

5. SHARE CAPITAL

Common Shares

Authorized

Unlimited number of common shares with no par value.

Issued

On June 18, 2018, the Company issued 4,000,000 shares at a price of \$0.05 per share for gross proceeds of \$200,000 pursuant to a private placement. All common shares issued are subject to escrow restrictions upon the completion of the IPO and will be released from escrow in tranches over 36 months from its listing on the TSX-V.

On July 18, 2019, the Company completed its IPO of 4,411,500 common shares at a purchase price of \$0.10 per common share for aggregate proceeds of \$441,150.

Initial Public Offering

On July 18, 2019, the Company completed its IPO of 4,411,500 common shares at a purchase price of \$0.10 per common share for aggregate proceeds of \$441,150.

Hampton Securities Limited (the "Agent") acted as agent for the IPO. In connection with the IPO, the Agent

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July 31, 2019
(Unaudited)

5. SHARE CAPITAL, CONTINUED

received a cash commission of \$44,115, equal to 10% of the aggregate gross proceeds from the sale of the common shares.

In connection with the IPO, the Company granted to the Agent non-transferable warrants to acquire up to an aggregate of 441,150 common shares (the "Agent's Options"). Each Agent's Option is exercisable to acquire one common share at a price of \$0.10 for a period of 24 months following the date that the common shares are listed on the Exchange.

Stock Options

A summary of stock option activity during the period ended July 31, 2019 is as follows:

	Number of options	Average exercise price	Weighted average remaining life
Outstanding, October 31, 2018	—	\$ —	—
Granted	841,147	0.10	5
Exercised	—	—	—
Expired	—	—	—
Outstanding, July 31, 2019	841,147	\$ 0.10	5

The Company has a common share purchase option plan (the "Plan") for directors, officers, employees and consultants. The number of common shares reserved for issuance pursuant to the Plan is equal to 10% of the Company's issued and outstanding common shares at the time of grant. The number of common shares reserved for issuance or granted to any insiders, within any twelve-month period, will not exceed 10% of the issued and outstanding common shares at the date of the grant. Options granted under the Plan have a five-year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the TSX Venture Exchange at the time of the grant.

The Company granted the directors and officers stock options at closing of the IPO, which will entitle the holders to purchase an aggregate of up to 841,147 common shares at a price of \$0.10 per common share for a period of 5 years from the date of grant, in accordance with the policies of the TSX-V. All options vested immediately on the issuance date. The options were valued at \$63,086 using a Black-Scholes option model with the following assumptions: share price of \$0.10 per common share, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.46%, expected life of five years.

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, subject to the expiry date of such option. Any common shares acquired pursuant to the exercise of options prior to the Completion of the Qualifying Transaction will be subject to escrow restrictions until the issuance of the Final Exchange Bulletin.

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Notes to Financial Statements
(Expressed in Canadian Dollars)
July 31, 2019
(Unaudited)

5. SHARE CAPITAL, CONTINUED

Warrants

A summary of warrant activity during the period ended July 31, 2019 is as follows:

	Number of warrants	Average exercise price	Weighted average remaining life
Outstanding, October 31, 2018	—	\$ —	—
Granted	441,150	0.10	2
Exercised	—	—	—
Expired	—	—	—
Outstanding, July 31, 2019	441,150	\$ 0.10	2

In connection with IPO, the Company granted to the Agent non-transferable warrants to acquire up to an aggregate of 441,150 common shares (the "Agent's Options"). Each Agent's Option is exercisable to acquire one common share at a price of \$0.10 for a period of 24 months following the date that the common shares are listed on the Exchange. The Agent's Options were valued at \$23,381 using a Black-Scholes option pricing model with the following assumptions: share price of \$0.10 per common share, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.55%, expected life of two years.

Contributed surplus

Contributed surplus records items recognized as share-based payments and allocation of the value of warrants and agent's options until such time that the options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

6. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of risks related to financial instruments. The Board approves and monitors the risk management processes. The principal types of risk exposure and the way in which they are managed are 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 held in bank accounts. The Company has deposited the cash with its bank from which management believes the risk of loss is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Accounts payable and accrued liabilities are due within the current operating period. The Company has a sufficient cash balance to settle current liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while

6. FINANCIAL RISK MANAGEMENT, CONTINUED

optimizing the return.

Currency risk

The Company's operations and financing activities are conducted in Canadian dollars and as a result, the Company is not subject to significant exposure to market risks from changes in foreign currency rates.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is currently not exposed to any interest rate risk as cash is held in a non-interest bearing account and the Company does not hold any interest bearing liabilities.

Fair value

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 fair value of the Company's receivables and accounts payable and accrued liabilities approximates their carrying value because of the short-term nature of the financial instruments. The Company's cash is measured at fair value using Level 1 inputs.

7. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the completion of a Qualifying Transaction. Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital structure.

The Company considers its capital structure to consist of components of shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms and approved by the TSX-V.

As a CPC, the Company is subject to externally imposed cash restrictions as outlined in TSX-V Policy 2.4. The proceeds raised from the issuance of common shares 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 issuance of shares may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company.