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**MELKIOR RESOURCES INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2020 AND 2019**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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## Independent Auditor's Report

To the Shareholders of Melkior Resources Inc.

### Opinion

We have audited the financial statements of Melkior Resources Inc. ("the Company"), which comprise the statements of financial position as at August 31, 2020 and August 31, 2019 and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2020 and August 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements which describes the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

**"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, Canada  
December 2, 2020**

**Melkior Resources Inc.**  
**Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	As at August 31, 2020	As at August 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 523,862	\$ 1,023,410
Sales tax receivable and other receivables (note 6)	716,885	31,528
Prepaid expenses	13,000	8,550
Marketable securities (note 7)	340,000	490,000
<b>Total current assets</b>	<b>1,593,747</b>	<b>1,553,488</b>
<b>Non-current assets</b>		
Exploration and evaluation assets (note 8)	10,782,506	10,287,019
<b>Total assets</b>	<b>\$ 12,376,253</b>	<b>\$ 11,840,507</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 10)	\$ 105,209	\$ 26,382
Flow-through share liability (note 9(b))	176,522	24,219
<b>Total liabilities</b>	<b>281,731</b>	<b>50,601</b>
<b>Equity</b>		
Share capital (note 9)	46,775,250	46,244,273
Contributed surplus (note 9)	5,208,370	4,798,370
Deficit	(39,889,098)	(39,252,737)
<b>Total equity</b>	<b>12,094,522</b>	<b>11,789,906</b>
<b>Total equity and liabilities</b>	<b>\$ 12,376,253</b>	<b>\$ 11,840,507</b>

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

Going concern (note 2)  
Subsequent events (note 15)

**Approved on behalf of the Board:**

(Signed) "Norman Farrell" \_\_\_\_\_ Director

(Signed) "Keith James Deluce" \_\_\_\_\_ Director

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**Melkior Resources Inc.****Statements of Comprehensive Income (loss)  
(Expressed in Canadian Dollars)**

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	Year Ended August 31, 2020	Year Ended August 31, 2019
<b>Expenses</b>		
Consulting and management fees (note 10)	\$ 91,475	\$ 40,000
Office and general	20,432	13,427
Professional fees (note 10)	83,500	63,906
Regulatory fees (note 10)	60,228	74,211
Share-based payments (notes 9 and 10)	410,000	278,916
Travel and promotion	379	-
<b>Net loss before other items</b>	<b>(666,014)</b>	<b>(470,460)</b>
<b>Other items</b>		
Interest income	2,473	7,260
Gain on marketable securities (note 7)	2,961	194,622
Other income	24,219	282,977
<b>Net and comprehensive income (loss) for the year</b>	<b>\$ (636,361)</b>	<b>\$ 14,399</b>
<b>Basic and diluted net income (loss) per share</b>	<b>\$ (0.03)</b>	<b>\$ 0.00</b>
<b>Weighted average number of common shares outstanding - Basic and diluted</b>	<b>19,391,411</b>	<b>18,723,987</b>

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

**Melkior Resources Inc.**  
**Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

	Year Ended August 31, 2020	Year Ended August 31, 2019
<b>Operating activities</b>		
Net income (loss) for the year	\$ (636,361)	\$ 14,399
Adjustments for:		
Share-based payments	410,000	278,916
Gain on marketable securities	(2,961)	(194,622)
Interest income	(2,473)	(7,260)
Other income	(24,219)	(278,967)
Changes in non-cash working capital items:		
Sales tax receivable and other receivables	14,642	17,937
Prepaid expenses	(4,450)	29,317
Amounts payable and other liabilities	24,827	(4,069)
<b>Net cash used in operating activities</b>	<b>(220,995)</b>	<b>(144,349)</b>
<b>Investing activities</b>		
Exploration and evaluation assets expenditures	(646,563)	(1,736,940)
Tax credit received	187,576	-
Option payment received	25,000	-
Proceeds from sale of marketable securities	152,961	274,184
Interest income	2,473	7,260
<b>Net cash used in investing activities</b>	<b>(278,553)</b>	<b>(1,455,496)</b>
<b>Financing activities</b>		
Shares issued for cash, net of issue costs	-	1,372,089
Warrants exercised	-	10,000
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>1,382,089</b>
<b>Net change in cash</b>	<b>(499,548)</b>	<b>(217,756)</b>
<b>Cash, beginning of year</b>	<b>1,023,410</b>	<b>1,241,166</b>
<b>Cash, end of year</b>	<b>\$ 523,862</b>	<b>\$ 1,023,410</b>

Supplemental disclosure with respect to cash flow (note 11)

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

**Melkior Resources Inc.**  
**Statements of Changes in Equity**  
**(Expressed in Canadian Dollars)**

	<u>Share capital</u>				
	Number of shares	Share capital	Contributed surplus	Deficit	Total
<b>Balance, August 31, 2018</b>	<b>17,517,294</b>	<b>\$ 45,171,037</b>	<b>\$ 4,513,787</b>	<b>\$ (39,267,136)</b>	<b>\$ 10,417,688</b>
Shares issued for cash, net of flow-through premium	1,828,431	1,146,814	-	-	1,146,814
Share issue costs	-	(85,578)	7,667	-	(77,911)
Warrants exercised	20,000	10,000	-	-	10,000
Fair value warrants exercised	-	2,000	(2,000)	-	-
Share-based payments	-	-	278,916	-	278,916
Net comprehensive income for the year	-	-	-	14,399	14,399
<b>Balance, August 31, 2019</b>	<b>19,365,725</b>	<b>46,244,273</b>	<b>4,798,370</b>	<b>(39,252,737)</b>	<b>11,789,906</b>
Shares issued for cash, net of flow-through premium	608,695	523,477	-	-	523,477
Share issue costs	-	(54,000)	-	-	(54,000)
Shares issued for exploration and evaluation assets	75,000	61,500	-	-	61,500
Share-based payments	-	-	410,000	-	410,000
Net comprehensive loss for the year	-	-	-	(636,361)	(636,361)
<b>Balance, August 31, 2020</b>	<b>20,049,420</b>	<b>\$ 46,775,250</b>	<b>\$ 5,208,370</b>	<b>\$ (39,889,098)</b>	<b>\$ 12,094,522</b>

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

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# Melkior Resources Inc.

## Notes to Financial Statements

Years Ended August 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 1. Nature of operations

Melkior Resources Inc. (the “Company”), incorporated under the *Business Corporations Act* (Canada), is a junior mining exploration company operating in Canada. The Company’s operations include the acquisition and exploration of mineral properties in Canada. The address of the registered office is 1680 – 200 Burrard Street, Vancouver, BC, Canada, V6C 3L6, and its principal place of business is 207 - 66 Brousseau Avenue, Timmins, Ontario, Canada, P4N 5Y2. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “MKR”, on the OTCQX Exchange in the United States under the symbol “MKRIF” and on the Frankfurt Stock Exchange under the symbol “MEK”.

On January 24, 2018, at the Annual General and Special Meeting, the shareholders voted to approve the continuation of the Company into British Columbia under the *Business Corporations Act (British Columbia)* from federal jurisdiction. The continuation took effect on February 20, 2018.

### 2. Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

The Company has incurred a net loss during the year ended August 31, 2020 of \$636,361 (year ended August 31, 2019 - income of \$14,399) and has a deficit at August 31, 2020 of \$39,889,098 (August 31, 2019 - \$39,252,737), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage and, accordingly, has not yet commenced revenue-producing operations. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company’s ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management’s plan will be successful.

If the going concern assumption were not appropriate for these financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Basis of presentation**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on December 2, 2020.

**(b) Basis of measurement**

These financial statements have been prepared under the historical cost basis, except for financial instruments measured at fair value. These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

**(c) Functional and presentation currency**

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

**4. Significant accounting policies**

The significant accounting policies have been applied consistently throughout by the Company for purposes of these financial statements.

**(a) Exploration and evaluation assets**

Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the year in which they are incurred. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

Mineral property acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of mineral property acquisition costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments related to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the amounts upon payment.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**4. Significant accounting policies (continued)**

**(a) Exploration and evaluation assets (continued)**

Impairment

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment at least annually and when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision.

Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

**(b) Provisions**

Provisions are recognized when present legal and constructive obligations as a result of a past event will likely lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

**(c) Tax credits receivable**

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred and refundable credit on duties for losses under the *Mining Tax Act*. These tax credits are recognized as a reduction of the exploration costs incurred based on estimates made by management. The Company records these tax credits in the period when there is reasonable assurance with regard to collections and assessments and that the Company will comply with conditions associated with them.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**4. Significant accounting policies (continued)**

**(d) Financial instruments**

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- i) those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and
- ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- i) amortized cost;
- ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

The Company's financial asset consists of cash and other receivables, which are classified and subsequently measured at amortized cost, and marketable securities, which is classified and measured at FVTPL, with realized and unrealized gains or losses related to changes in fair value reported in net loss.

The Company's financial liabilities consist of accounts payable and accrued liabilities, which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**4. Significant accounting policies (continued)**

**(d) Financial instruments (continued)**

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

**(e) Basic and diluted loss per share**

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which include options and warrants. Dilutive potential common shares shall be deemed to have been converted into common shares at the average market price at the beginning of the year or, if later, at the date of issue of the potential common shares.

**(f) Income taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

However, since the Company is in the exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprised only of deferred tax.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries, associates and joint ventures are not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary differences will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income or expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized directly in equity, in which case the related deferred tax is also recognized in equity.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**4. Significant accounting policies (continued)**

**(g) Equity**

Share capital represents the amount received on the issue of shares. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus. In addition, if shares were issued as consideration for the acquisition of exploration and evaluation assets or some other form of non-monetary assets, when the fair value of the non-monetary assets cannot be determined, the shares are measured at their fair value according to the quoted price on the day of the conclusion of the agreement to issue shares.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Flow-through placements

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as an other liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the other liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The Company may also be subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financing expense until qualifying expenditures are incurred.

Other elements of equity

Contributed surplus includes charges related to share options and warrants not exercised. When share options and warrants are exercised, the related compensation cost is transferred to share capital. Deficit includes all current and prior period retained profits or losses.

**(h) Share-based payments**

The Company operates an equity-settled share-based remuneration plan (stock option plan) for its eligible directors, officers, employees and consultants. The Company's plan is not cash-settled.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or service received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted. The Company uses the Black-Scholes valuation model to estimate fair value.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**4. Significant accounting policies (continued)**

**(h) Share-based payments (continued)**

Equity-settled share-based payments (except finders' warrants to brokers) are ultimately recognized as an expense in profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment, with a corresponding credit to contributed surplus in equity. Finders' warrants to brokers in respect of an equity financing are recognized as issuance cost of the equity instruments in deficit, with a corresponding credit to contributed surplus in equity. When share options and warrants are exercised, the related compensation cost is transferred to share capital. The compensation cost related to options and warrants expired unexercised remain in contributed surplus.

If vesting periods or other vesting conditions apply, the expenses are allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different from that estimated on vesting.

**(i) Changes in accounting policy**

IFRS 16 Leases ("IFRS 16")

Effective September 1, 2019, the Company adopted IFRS 16. IFRS 16 was issued in January 2016 and replaces IAS 17 Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The adoption of IFRS 16 had no material impact to the Company's financial statements.

**5. Critical accounting estimates and judgments**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**5. Critical accounting estimates and judgments (continued)**

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) *Impairment of exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

(b) *Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(c) *Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

(d) *Going concern*

The assessment of the Company's ability to continue as a going concern requires significant judgment. The financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in note 2.

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**5. Critical accounting estimates and judgments (continued)**

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

*Decommissioning liabilities*

Rehabilitation provisions are created based on the Company's internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at August 31, 2020, the Company has no known rehabilitation requirements and accordingly, no provision has been made.

*Fair value of investments in unquoted equity investment*

The Company has \$300,000 investment in IR Battery Resources and Processing Inc., a private entity's shares. Management estimates cost approximates fair value as there is insufficient more recent information available to measure fair value. There are no indicators that cost might not be representative of fair value.

**6. Sales tax receivable and other receivables**

	<b>As at August 31, 2020</b>	<b>As at August 31, 2019</b>
Sales tax receivable	\$ 14,886	\$ 31,528
Subscription receivable (note 9)	699,999	-
Other receivable	2,000	-
	<b>\$ 716,885</b>	<b>\$ 31,528</b>

## Melkior Resources Inc.

### Notes to Financial Statements

Years Ended August 31, 2020 and 2019

(Expressed in Canadian Dollars)

#### 7. Marketable securities

All of the marketable securities held by the Company were acquired through current and prior year's property option and sales transactions with the below listed companies. The Company does not purchase shares of publicly-listed companies on the open market. As at August 31, 2020, the following securities were included in marketable securities:

	Number of shares	Acquisition cost	Fair value adjustment	Fair value
Northcore Resources Inc.	50,000	\$ 60,000	\$ (60,000)	\$ -
CBLT Inc.	1,000,000	100,000	(60,000)	40,000
IR Battery Resource and Processing Inc.	600,000	300,000	-	300,000
		<b>\$ 460,000</b>	<b>\$ (120,000)</b>	<b>\$ 340,000</b>

During the year ended August 31, 2020:

- The Company sold 50,000 shares of Osisko Mining Inc. for proceeds of \$152,961 and loss of \$22,039.
- The Company recognized an unrealized gain of \$25,000 from the change in the fair value of the marketable securities.

As at August 31, 2019, the following securities were included in marketable securities:

	Number of shares	Acquisition cost	Fair value adjustment	Fair value
Northcore Resources Inc.	50,000	\$ 60,000	\$ (60,000)	\$ -
CBLT Inc.	1,000,000	100,000	(85,000)	15,000
Osisko Mining Inc.	50,000	207,469	(32,469)	175,000
IR Battery Resources and Processing Inc.	600,000	300,000	-	300,000
		<b>\$ 667,469</b>	<b>\$ (177,469)</b>	<b>\$ 490,000</b>

During the year ended August 31, 2019:

- 2,500,000 shares of Beaufield Resources Inc. ("Beaufield") held by the Company were exchanged for 120,500 shares of Osisko Mining Inc. ("Osisko") (TSX: OSK) as a result of Osisko's acquisition of Beaufield.
- The Company sold 70,500 shares of Osisko for proceeds of \$247,824 and loss of \$44,708.
- 212,600 shares of Zara Resources Inc. held by the Company were exchanged for 5,915 shares of Ionic Brands Corp. which were then sold for proceeds of \$2,711 and loss of \$72,114.
- The Company sold 90,000 shares of Tempus Capital Inc. for proceeds of \$9,828 and gain of \$9,828.
- 62,500 shares of Lieange Grow Company ("Lineage") held by the Company were exchanged for 1,494 shares of Harborside Inc., which were then sold for proceeds of \$11,832 and loss of \$40,668.
- 100,000 shares of CBLT Inc. were sold for proceeds of \$1,990 and loss of \$8,010.
- The Company recognized unrealized gain of \$350,294 from the change in fair value of the marketable securities.

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**8. Exploration and evaluation assets**

	Quebec		Ontario		Total
	Urban	Val d'Or	Carscallen	Hemlo	
<b>Property acquisition costs</b>					
Balance, August 31, 2018	\$ 43,324	\$ -	\$ 218,068	\$ 143,222	\$ 404,614
Claim maintenance	28,611	-	-	1,050	29,661
Balance, August 31, 2019	71,935	-	218,068	144,272	434,275
Acquisitions	-	-	71,500	-	71,500
Claim maintenance	-	7,410	1,000	8,650	17,060
Balance, August 31, 2020	\$ 71,935	\$ 7,410	\$ 290,568	\$ 152,922	\$ 522,835
<b>Property exploration costs</b>					
Balance, August 31, 2018	\$ 551,665	\$ -	\$ 7,386,354	\$ 78,391	\$ 8,016,410
Camp	625,855	-	-	-	625,855
Consulting	183,950	-	-	-	183,950
Core cutting	30,732	-	-	-	30,732
Drilling	347,853	-	-	-	347,853
Geochemistry	27,962	-	-	-	27,962
Geology and prospecting	307,743	-	2,270	8,500	318,513
Geophysics	83,231	-	-	188,257	271,488
Line cutting	29,981	-	-	-	29,981
Balance, August 31, 2019	2,188,972	-	7,388,624	275,148	9,852,744
Assays	-	-	20,814	-	20,814
Camp	16,471	7,077	-	-	23,548
Consulting	-	-	36,254	-	36,254
Drilling	-	-	349,274	-	349,274
Geochemistry	5,226	10,192	-	-	15,418
Geology and prospecting	21,804	42,930	84,384	14,775	163,893
Geophysics	-	-	9,100	1,202	10,302
Option payment received	-	(25,000)	-	-	(25,000)
Tax credits received	(187,576)	-	-	-	(187,576)
Balance, August 31, 2020	\$ 2,044,897	\$ 35,199	\$ 7,888,450	\$ 291,125	\$ 10,259,671
<b>Total exploration and evaluation assets</b>					
August 31, 2019	\$ 2,260,907	\$ -	\$ 7,606,692	\$ 419,420	\$ 10,287,019
August 31, 2020	\$ 2,116,832	\$ 42,609	\$ 8,179,018	\$ 444,047	\$ 10,782,506

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**8. Exploration and evaluation assets (continued)**

Quebec

**(a) Urban**

During the year ended August 31, 2017, the Company acquired claims in the Urban area of Quebec through map staking. The Company has a 100% ownership in the claims and there is no net smelter return royalty ("NSR").

During the year ended August 31, 2018, the Company acquired additional claims through staking.

**(b) Launay**

The Company retains a 1.5% NSR on the Launay property, of which one-half may be purchased by Beaufield for \$750,000.

**(c) Val d'Or (formerly Tiblemont)**

The Company owns a 100% interest in three mineral claims in Tiblemont Township, Quebec. The Company owns a 100% interest in adjacent claims. On May 12, 2014, three claims were acquired for 20,000 common shares (valued at \$8,000) and a 2% NSR with an optional buy back of 1% for \$1,000,000. The Company wrote off capitalized costs of \$16,746 during the year ended August 31, 2017.

In April 2020, the Company entered into a purchase agreement to sell 100% interest in the three claims for a single cash payment of \$25,000.

In May 2020, the Company acquired 2 packages of claims.

Ontario

**(d) Carscallen**

The Company holds a 100% interest in the Carscallen property, west of Timmins. Some claims are subject to a 1.5% NSR while another group of claims is subject to a 2% NSR, of which the Company may buy back one-half for \$1,000,000.

In October and November 2010, the Company signed three agreements to acquire 100% interests in additional mining claims in consideration of \$10,000 cash and two 2% NSR royalties, of which 1% can be repurchased for \$500,000 each.

In October 2013, the Company signed a memorandum of understanding ("MOU") with the Mattagami First Nations. As part of the MOU, the Company issued 20,000 common shares (valued at \$8,000) on December 23, 2013. The Company will pay 2% of all exploration costs eligible for assessment credit to the Mattagami First Nation.

On April 7, 2016, the Company issued 21,000 common shares (valued at \$8,400) for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm's length party.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**8. Exploration and evaluation assets (continued)**

**(d) Carscallen (continued)**

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking. One of the claims is subject to a 2% NSR.

During the year ended August 31, 2018, the Company entered into three agreements for the purchase of six additional claims for the Carscallen property. The Company paid \$12,500 and issued 10,000 common shares (valued at \$7,000) as consideration. Two of the claims are subject to a 2% NSR.

During the year ended August 31, 2017, the Company paid \$5,000 for a 100% interest in a claim located in the Carscallen Township. This claim is part of the Big Marsh property, where the Company has existing claims. The previous claims were deemed impaired during the year ended August 31, 2016.

The Company also holds a 100% interest in claims forming the Bristol property acquired through staking during the year ended August 31, 2017.

On May 6, 2020, the Company entered into an option agreement of 6 cell units (the "Carscallen Claims"). Pursuant to the option agreement, the Company can acquire 100% interest in the Carscallen Claims, subject to a 3% NSR, in consideration for:

- On signing, cash payment of \$10,000 (paid);
- Upon TSX-V acceptance, issuance of 75,000 shares of the Company (issued, valued at \$61,500);
- On the first anniversary, cash payment of \$10,000 and issuance of \$25,000 worth of shares issued at the weighted average price of the common shares for the 10 trading days immediately preceding; and
- On the second anniversary, cash payment of \$10,000 and issuance of \$25,000 worth of shares issued at the weighted average price of the common shares for the 10 trading days immediately preceding.

The Company may purchase one-half of the NSR at any time for the sum of \$1,000,000.

**(e) Hemlo**

On May 12, 2017, the Company entered into an agreement to acquire a 100% interest in the Hemlo property. The Company paid \$5,000 and issued 150,000 common shares (valued at \$90,000) as consideration. The vendor holds a 3% NSR, of which one-third may be purchased by the Company for \$1,000,000.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking.

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**9. Share capital**

**(a) Authorized share capital**

- (i) an unlimited number of common shares without par value, voting and participating; and
- (ii) an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the request of the Company at paid-up capital.

On February 26, 2020, the Company affected a 10-to-1 stock consolidation, which has been retrospectively applied in these financial statements.

**(b) Issued**

During the year ended August 31, 2020

On May 22, 2020, the Company issued 75,000 common shares (valued at \$61,500) for the acquisition of Carscallen Claims (see note 8(d)).

On August 28, 2020, the Company closed a non-brokered flow-through private placement and issued 608,695 flow-through shares at \$1.15 per share for gross proceeds of \$699,999, received subsequent to August 31, 2020. The flow-through premium paid by investors was calculated as \$0.29 per share. Accordingly, \$176,522 was recorded as flow-through share liabilities. The Company incurred cash share issuance cost of \$54,000.

During the year ended August 31, 2019

During the year ended August 31, 2019, 20,000 warrants were exercised for gross proceeds of \$10,000.

On December 6, 2018, the Company closed a non-brokered flow-through private placement and issued 941,177 flow-through shares at \$0.85 per share for gross proceeds of \$800,000. The premium paid by investors was calculated as \$0.25 per share. Accordingly, \$235,294 was recorded as flow-through share liabilities. The Company paid finders' fees of \$48,000 in cash.

On December 21, 2018, the Company closed a non-brokered flow-through private placement and issued 470,588 flow-through shares at \$0.85 per share for gross proceeds of \$400,000. The premium paid by investors was calculated as \$0.10 per share. Accordingly, \$47,059 was recorded as flow-through share liabilities.

On April 2, 2019, the Company closed a non-brokered flow-through private placement and issued 416,666 flow-through shares at \$0.60 per share for gross proceeds of \$250,000. The premium paid by investors was calculated as \$0.05 per share. Accordingly, \$20,833 was recorded as flow-through share liabilities. The Company paid finders' fees of \$17,500 in cash and issued 29,167 finders' warrants exercisable for a period of 24 months at an exercise price of \$1.10.

The grant date fair value of the 29,167 finders' warrants have been estimated at \$7,667 using the Black-Scholes option pricing model, using the following assumptions: an average risk free interest rate of 1.56%; an average expected volatility factor of 122% based on historical trends; an expected dividend yield of nil; and an expected life of 2 years.

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**9. Share capital (continued)**

**(c) Stock options**

The Company maintains a stock option plan (the "Plan") pursuant to which options to purchase common shares may be granted for its eligible directors, officers and employees of the Company, as well as persons providing ongoing services to the Company.

The number of shares to be delivered upon the exercise of all options granted under the amended plan shall not exceed 10% of the aggregate number of common shares of the Company issued and outstanding.

Unless indicated otherwise by the Board at the time of grant, one-sixth of options granted shall vest every three months from the date of the grant.

In the event that an optionee ceases to be an eligible person prior to the expiry date of their respective options, the options shall expire 12 months after the termination date or on the expiry date, whichever comes first (except for persons providing investor relations activities who will remain subject to a 30-day expiry period). In the event of termination with cause, the options of an eligible person shall expire on the date of notice of termination.

The purchase price of the common shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors upon grant of each such option, but such price shall not be less than the market price at closing of transactions the day prior to the grant or any other regulations by the TSX-V. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination, not later than upon the tenth anniversary of the grant of the option.

The total number of options granted to any one individual in any 12-month period will not exceed 5% of the issued common shares. The total number of options granted to a consultant in any 12-month period will not exceed 2% of the issued common shares at the time of grant. The total number of options granted to persons providing investor relations activities in any 12-month period will not exceed 2% of the issued common shares at the time of grant. These options must vest in stages over a 12-month period from the date of grant with no more than 25% of the options vesting in any three-month period.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of changes of the Company's common share purchase options is presented below for the years ended August 31, 2020 and 2019:

	<b>Number of stock options</b>	<b>Weighted average exercise price</b>
Balance, August 31, 2018	220,000	\$ 1.00
Issued (i)	300,000	1.50
Expired	(60,000)	1.00
Balance, August 31, 2019	460,000	1.33
Issued (ii)(iii)(iv)	1,485,000	0.37
Forfeited	(130,000)	1.50
Balance, August 31, 2020	1,815,000	\$ 0.53

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**9. Share capital (continued)**

**(c) Stock options (continued)**

(i) On January 10, 2019, the Company granted 300,000 stock options to certain directors and officers of the Company exercisable at a price of \$1.50 per common share. The options vest immediately and expire in five years. The grant date fair value of \$278,916 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of \$1.00, expected dividend yield of 0%, expected volatility of 168%, which is based on historical volatility of the Company's share price, risk-free rate of return of 1.91% and an expected maturity of five years. For the year ended August 31, 2020, \$nil was expensed to share-based payments (year ended August 31, 2019 - \$278,916).

(ii) On February 27, 2020, the Company granted 1,025,000 stock options to certain directors and officers of the Company exercisable at a price of \$0.20 per common share. The options vest immediately and expire in five years. The grant date fair value of \$143,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of \$0.15, expected dividend yield of 0%, expected volatility of 165%, which is based on historical volatility of the Company's share price, risk-free rate of return of 1.14% and an expected maturity of five years. For the year ended August 31, 2020, \$143,000 was expensed to share-based payment.

(iii) On April 22, 2020, the Company granted 50,000 stock options to a consultant of the Company exercisable at a price of \$0.35 per common share. The options vest immediately and expire in three years. The grant date fair value of \$11,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of \$0.27, expected dividend yield of 0%, expected volatility of 154%, which is based on historical volatility of the Company's share price, risk-free rate of return of 0.35% and an expected maturity of 3 years. For the year ended August 31, 2020, \$11,000 was expensed to share-based payments.

(iv) On June 25, 2020, the Company granted 410,000 stock options to certain directors, officers and consultants of the Company exercisable at \$0.80 per common share. The options vest immediately and expire in three years. The grant date fair value of \$256,000 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of \$0.76, expected dividend yield of 0%, expected volatility of 157%, which is based on historical volatility of the Company's share price, risk-free rate of return of 0.32% and an expected maturity of 3 years. For the year ended August 31, 2020, \$256,000 was expensed to share-based payments.

The following table reflects the actual stock options issued and outstanding as of August 31, 2020:

<b>Expiry date</b>	<b>Exercise price (\$)</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number of options outstanding</b>	<b>Number of options vested (exercisable)</b>
May 31, 2021	1.00	0.75	160,000	160,000
April 22, 2023	0.35	2.64	50,000	50,000
January 10, 2024	1.50	3.36	170,000	170,000
February 27, 2025	0.20	4.50	1,025,000	1,025,000
June 25, 2023	0.80	2.82	410,000	410,000
	0.53	3.63	1,815,000	1,815,000

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**9. Share capital (continued)**

**(d) Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, August 31, 2018	2,781,000	\$ 0.80
Exercised	(20,000)	0.50
Expired	(761,000)	0.50
Balance, August 31, 2019 and August 31, 2020	2,000,000	\$ 0.85

The following warrants were outstanding and exercisable as of August 31, 2020:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of warrants outstanding	Number of warrants exercisable
June 8, 2021	0.85	0.77	2,000,000	2,000,000

**(e) Finders' warrants**

	Number of warrants	Weighted average exercise price
Balance, August 31, 2018	46,154	\$ 0.70
Issued	29,167	1.10
Balance, August 31, 2019	75,321	0.85
Expired	(46,154)	0.70
Balance, August 31, 2020	29,167	\$ 1.10

The following finders' warrants were outstanding and exercisable as of August 31, 2020:

Expiry date	Exercise price (\$)	Weighted average remaining contractual life (years)	Number of warrants outstanding	Number of warrants exercisable
April 2, 2021	1.10	0.59	29,167	29,167

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**10. Related party transactions**

The Company's related parties include companies controlled by officers and close family members of directors and key management, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Company's key management personnel are members of the Board of Directors (of which the president of the Company is a member), as well as the chief financial officers and the corporate secretary. Key management compensation is as follows:

	Year Ended August 31, 2020	Year Ended August 31, 2019
Consulting and management fees (i)	\$ 30,000	\$ -
Professional fees (ii)	32,477	35,311
Regulatory fees (ii)	19,341	27,533
Total short-term compensation	81,818	62,844
Share-based payments	199,195	278,916
Total key management compensation	\$ 281,013	\$ 341,760

As at August 31, 2020, the balance due to related parties amounted to \$30,787 (August 31, 2019 - \$6,196) and was recorded in accounts payable and accrued liabilities.

(i) Management fees to the Company's CEO are paid pursuant to a 2020 consulting agreement under which Silverwater Capital Corp., a company controlled by the Company's CEO, receives a monthly fee of \$5,000. The Company can terminate the agreement with three months' notice.

(ii) During the year ended August 31, 2020, the Company paid professional fees and regulatory fees of \$51,818 (year ended August 31, 2019 - \$62,844) to Marrelli Support Services Inc. ("MSSI"), DSA Corporate Services Inc. ("DSA Corp") and DSA Filing Services Limited ("DSA Filing"), together known as the "Marrelli Group", for:

- Eric Myung, an employee of Marrelli Group, to act as the CFO of the Company;
- Bookkeeping services;
- Regulatory filing services;
- Corporate secretarial services.

**11. Supplemental disclosure with respect to cash flows**

	Year Ended August 31, 2020	Year Ended August 31, 2019
Common shares issued for exploration and evaluation assets	\$ 61,500	\$ -
Finders' warrants	\$ -	\$ 7,667
Fair value of warrants exercised	\$ -	\$ 2,000
Accounts payable and accrued liabilities related to share issue costs	\$ 54,000	\$ -
Subscription receivable related to share capital	\$ 699,999	\$ -

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**12. Commitments and contingencies**

In connection with the flow-through share financing in August 2020, the Company has committed to incur qualifying Canadian Exploration Expenditures (as such term is defined in the Income Tax Act (Canada)) of a total of \$699,999 by December 31, 2021. If the Company does not incur the required qualifying expenditures, it will be required to indemnify the holders of the flow-through shares for any tax and other costs payable by them as a result of the Company not making the required expenditures.

As at August 31, 2020, the Company is required to incur qualifying exploration expenditures exceeding \$699,999 by December 31, 2021.

**13. Financial instruments**

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The carrying values of cash, other receivables, marketable securities and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by levels within the fair value hierarchy:

<b>August 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Marketable securities	\$ 40,000	\$ -	\$ 300,000	\$ 340,000

  

<b>August 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Marketable securities	\$ 190,000	\$ -	\$ 300,000	\$ 490,000

Investment in IR Battery, a private entity, shares cost approximates the fair value as there is insufficient more recent information available to measure fair value.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

**(a) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing at major Canadian financial institutions. The Company's maximum exposure to credit risk at August 31, 2020 was \$523,862 (2019 - \$1,023,410). Subsequent to August 31, 2020, the Company collected the \$699,999 of subscription receivable.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2020 equal \$105,209 (2019 - \$26,382). All of the liabilities presented as accounts payable are due within 30 days of August 31, 2020. The cash available is sufficient to meet the Company's financial obligations at year end.

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## **Melkior Resources Inc.**

### **Notes to Financial Statements**

**Years Ended August 31, 2020 and 2019**

**(Expressed in Canadian Dollars)**

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#### **13. Financial instruments (continued)**

##### **(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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 optimizing the return on capital.

- (i) Currency risk - The Company has no funds held in a foreign currency and as a result is not exposed to significant currency risk on its financial instruments at year-end.
- (ii) Interest rate risk - Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates and, therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.
- (iii) Other price risk - Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to other price risk with respect to its marketable securities.

##### **(d) Capital management**

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the years ended August 31, 2020 and 2019. The Company is not subject to externally imposed capital requirements.

**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

**14. Income tax**

The relationship between the expected tax recovery based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the statement of comprehensive loss can be reconciled as follows:

	Year Ended August 31, 2020	Year Ended August 31, 2019
Income (loss) before income taxes	\$ (636,361)	\$ 14,399
Expected tax payable (recovery) at 27%	(171,817)	3,888
Adjustments for the following items:		
Items not (taxable) deductible for tax purposes	103,761	(101,595)
Expiry of non-refundable mining investment tax credit	31,373	106,046
Change in unrecognized deferred income tax benefits	36,683	(8,339)
Deferred income tax recovery	\$ -	\$ -

Available temporary differences for which no deferred tax assets were recorded are as follows:

	August 31, 2020	August 31, 2019
Exploration and evaluation assets	\$ 896,000	\$ 969,000
Property and equipment	6,000	6,000
Marketable securities	9,000	28,000
Share issue costs	30,000	28,000
Non-capital losses	1,455,000	1,374,000
Deductible capital losses	201,000	183,000
Non-refundable investment tax credit	299,000	331,000
Refundable tax credits reduced but not received yet	8,000	-
Unrecognized deductible temporary differences	\$ 2,904,000	\$ 2,919,000

The Company has non-capital losses that are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded in the statement of financial position that can be carried over the following years:

2026	\$ 97,000
2027	263,000
2028	292,000
2029	470,000
2030	820,000
2031	676,000
2032	610,000
2033	423,000
2034	302,000
2035	210,000
2037	267,000
2038	154,000
2039	506,000
2040	301,000
	<u>\$ 5,391,000</u>

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**Melkior Resources Inc.**  
**Notes to Financial Statements**  
**Years Ended August 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**14. Income tax (continued)**

As at August 31, 2020, accumulated capital losses of approximately \$1,492,000 (2019 - \$1,352,000) are available to be applied against future taxable capital gains. These losses may be carried forward indefinitely.

The Company has unrecorded investment tax credits of \$299,000 (2019 - \$331,000), which are available up to 2024 to reduce the federal income taxes payable.

**15. Subsequent events**

On September 28, 2020, the Company completed a strategic partnership with Kirkland Lake Gold Ltd ("Kirkland"). Under the terms of the option agreement (the "Kirkland Option Agreement") between the Company and Kirkland, the Company granted Kirkland the right to earn-in up to a 75% interest in the Carscallen Project and acquire up to 1,250,000 units of the Company on a private placement basis.

Under the terms of the Kirkland Option Agreement, Kirkland has an option to earn a 50% interest in the Carscallen Project in consideration for completing \$10 million in exploration expenditures over a period of 5 years (the "Phase 1 Expenditures"). Kirkland has a minimum commitment of \$3 million during the first 2 years of the option period. Should Kirkland fail to incur the Phase 1 Expenditures during the option period, Kirkland's option to acquire the 50% interest shall expire.

Upon Kirkland completing the Phase 1 Expenditures and earning its 50% interest, the parties shall enter into a joint venture agreement to carry on operations with respect to the Carscallen Project (the "Joint Venture"). Upon the formation of a Joint Venture, Kirkland will have the right to earn an additional 25% interest in the Carscallen Project by incurring exploration expenditures of \$100 million within the first 5 years of the formation of the Joint Venture. Any additional funds required beyond the \$100 million will be contributed by the Joint Venture parties based on their proportional joint venture interests.

The Company also closed a subscription by Kirkland of 1,250,000 units of the Company at \$0.80 per unit on a private placement basis for total gross proceeds of \$1 million. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle Kirkland to purchase one additional common share of the Company at a price of \$1.20 per share for a period of 2 years from the date of issue.

On November 20, 2020, the Company announced the closing of an option and joint venture agreement with Barrick Gold Inc. ("Barrick"), a wholly-owned subsidiary of Barrick Gold Corporation. Under the terms of the option agreement entered into between the Company and Barrick (the "Barrick Option Agreement"), Melkior has granted Barrick the right to earn-in up to a 75% interest in the Hemlo Project located 20 kilometres east of Barrick's Hemlo Mine.

Under the terms of the Barrick Option Agreement, Barrick has an option to earn a 75% interest in the Property in consideration for completing \$4 million in exploration expenditures over a period of 5 years. Barrick has a minimum commitment of \$0.5 million during the first 2 years of the option period. Barrick will act as the operator of the Hemlo Project during the option period. All expenditures beyond the minimum commitment are optional. Should Barrick fail to incur the expenditures during the option period, Barrick's option to acquire the 75% interest shall expire.

Upon Barrick completing the expenditures and earning its 75% interest, the parties shall enter into a joint venture agreement to carry on operations with respect to the Hemlo Project. Funds required for further development will be contributed by the joint venture parties based on their proportional joint venture interests. Dilution of a shareholder's interest below 10% will result in the conversion of the interest to a NSR royalty of either 1% or 2% on certain claims dependent on pre-existing royalties.