

EMPIRE METALS CORP.

Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Empire Metals Corp.

Opinion

We have audited the consolidated financial statements of Empire Metals Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has not generated any revenues and incurred negative cash flow from operating activities during the year ended December 31, 2020 and, as of that date, the Company has an accumulated deficit of \$21,624,616. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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 Lonny Wong.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

May 6, 2021

EMPIRE METALS CORP.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2020 \$	December 31, 2019 \$
Assets		
Current assets		
Cash and cash equivalents	928,803	1,197,756
Marketable securities (Note 3)	4,000	4,000
Amounts receivable	21,708	17,639
Prepaid expenses	–	5,248
Total current assets	954,511	1,224,643
Non-current assets		
Exploration and evaluation assets (Note 4)	4,639,271	4,880,461
Total assets	5,593,782	6,105,104
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 5,6, and 7))	938,443	1,340,431
Loans payable (Note 6)	2,258	88,620
Total liabilities	940,701	1,429,051
Shareholders' equity		
Share capital	22,082,559	21,359,059
Share-based payment reserve	4,195,138	2,788,105
Deficit	(21,624,616)	(19,471,111)
Total shareholders' equity	4,653,081	4,676,053
Total liabilities and shareholders' equity	5,593,782	6,105,104

Nature of operations and continuance of business (Note 1)
Subsequent event (Note 15)

Approved and authorized for issuance on behalf of the Board of Directors on May 6, 2021:

/s/ "Mark Patchett"

Mark Patchett, Director

/s/ "Vincent Teo"

Vincent Teo, Director

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

EMPIRE METALS CORP.

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$
Expenses		
Accounting and audit fees	25,000	27,745
Corporate administration	36,477	41,338
Consulting	—	1,500
Impairment of exploration and evaluation assets (Note 4)	319,671	—
Interest and bank charges (Note 7)	173,552	48,900
Investor relations	—	24,000
Office and miscellaneous	15,070	21,711
Rent	33,600	33,600
Salaries (Note 7)	115,870	96,950
Share-based compensation (Note 10)	1,407,033	—
Transfer agent and filing fees	14,505	15,772
Total expenses	2,140,778	311,516
Loss before other income (expense)	(2,140,778)	(311,516)
Other income (expense)		
Interest expense (Note 7)	(32,633)	(44,258)
Interest income	19,906	—
Write-off of accounts payable	—	28,000
Total other income (expense)	(12,727)	(16,258)
Net loss and comprehensive loss for the year	(2,153,505)	(327,774)
Loss per share, basic and diluted	(0.03)	—
Weighted average shares outstanding	84,824,463	74,858,957

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

EMPIRE METALS CORP.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve \$	Share subscriptions receivable \$	Deficit \$	Total shareholders' equity \$
	Number of shares	Amount \$				
Balance, December 31, 2018	69,010,829	20,656,541	2,975,623	(224,800)	(19,143,337)	4,264,027
Share subscriptions received	—	—	—	224,800	—	224,800
Shares issued to acquire exploration and evaluation assets	100,000	15,000	—	—	—	15,000
Shares issued pursuant to the exercise of share purchase warrants	5,066,667	410,000	—	—	—	410,000
Shares issued pursuant to the exercise of stock options	900,000	277,518	(187,518)	—	—	90,000
Net loss for the year	—	—	—	—	(327,774)	(327,774)
Balance, December 31, 2019	75,077,496	21,359,059	2,788,105	—	(19,471,111)	4,676,053
Shares issued pursuant to private placement	15,000,000	525,000	—	—	—	525,000
Shares issued pursuant to the exercise of share purchase warrants	3,650,000	198,500	—	—	—	198,500
Share-based compensation	—	—	1,407,033	—	—	1,407,033
Net loss for the year	—	—	—	—	(2,153,505)	(2,153,505)
Balance, December 31, 2020	93,727,496	22,082,559	4,195,138	—	(21,624,616)	4,653,081

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

EMPIRE METALS CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$
Operating activities		
Net loss	(2,153,505)	(327,774)
Items not involving cash:		
Impairment of exploration and evaluation assets	319,671	—
Share-based compensation	1,407,033	—
Write-off of accounts payable	—	(28,000)
Changes in non-cash operating working capital:		
Amounts receivable	(4,069)	(11,893)
Prepaid expenses	5,248	9,996
Accounts payable and accrued liabilities	(430,073)	(203,273)
Net cash used in operating activities	(855,695)	(560,944)
Investing activities		
Exploration and evaluation asset expenditures	(50,396)	(112,924)
Net cash used in investing activities	(50,396)	(112,924)
Financing activities		
Repayments of loans payable	(86,362)	(304,555)
Proceeds from shares issued / share subscriptions received	723,500	658,133
Net cash provided by financing activities	637,138	353,578
Change in cash	(268,953)	(320,290)
Cash and cash equivalents, beginning of year	1,197,756	1,518,046
Cash and cash equivalents, end of year	928,803	1,197,756
Cash and cash equivalents are comprised of:		
Cash in bank	928,803	22,756
Cashable guaranteed investment certificates	—	1,175,000
Total cash and cash equivalents	928,803	1,197,756
Non-cash investing and financing activities:		
Exploration and evaluation asset expenditures included in accounts payable	28,085	163,158
Share purchase warrants exercised to settle accounts payable	—	66,667
Shares issued for the acquisition of exploration and evaluation assets	—	15,000

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

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

Empire Metals Corp. (the "Company") was incorporated in the province of British Columbia. The Company's registered address is located at Suite 702, 889 West Pender Street, Vancouver, BC, V6C 3B2.

The Company is an exploration stage company in the process of exploring its mineral properties in Canada and has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of amounts spent for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its property, and upon future profitable production or proceeds from disposition of the properties. The operations of the Company will require various licences and permits from various governmental authorities which are or may be granted subject to various conditions and may be subject to renewal from time to time. There can be no assurance that the Company will be able to comply with such conditions and obtain or retain all necessary licences and permits that may be required to carry out exploration, development, and mining operations at its projects. Failure to comply with these conditions may render the licences liable to forfeiture.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company has not been significant, but management continues to monitor the situation.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2020, the Company has not generated any revenues and incurred negative cash flow from operating activities. As at December 31, 2020, the Company has an accumulated deficit of \$21,624,616. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is pursuing additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a going concern basis.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dominica Energy Minerals Inc. and Lithium Power Corp., companies incorporated in the province of Alberta. All significant inter-company balances and transactions have been eliminated on consolidation.

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(b) Use of Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes to the consolidated financial statements. Significant financial statement items which involve the use of estimates include the impairment of marketable securities, recoverability of amounts receivable, fair value of share-based payments, flow-through shares premium, recoverability of exploration and evaluation assets, and unrecognized deferred income tax assets. Actual results could differ from those estimates.

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions may change if new information becomes available. If information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the consolidated statement of operations in the period when the new information becomes available.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(d) Exploration and Evaluation Expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are charged to operations.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
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2. Significant Accounting Policies (continued)

(d) Exploration and Evaluation Expenditures (continued)

Mineral Property Options

The Company does not record any expenditures made by the optionee in its accounts. It also does not recognize any gain or loss on its exploration and evaluation option arrangements but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the optionee is credited against costs previously capitalized.

(e) Impairment of Non-Current Assets

At each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the consolidated statement of operations.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the consolidated statement of operations.

(f) Reclamation and Remediation Provisions

The Company recognizes a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant and equipment. These costs are depreciated using either the unit-of-production or straight-line method depending on the asset to which the obligation relates.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(f) Reclamation and Remediation Provisions (continued)

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in the consolidated statement of operations.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases, changes in interest rates, and as new information concerning the Company's closure and reclamation obligations becomes available.

(g) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of operations.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Marketable securities	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost

Financial Assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

Financial Assets

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

Financial Liabilities and Equity Instruments (continued)

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(h) Foreign Currency Translation

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

(i) Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
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2. Significant Accounting Policies (continued)

(j) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. As expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized in the consolidated statement of operations with a pro-rata portion of the deferred premium.

(k) Comprehensive Loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events, and circumstances from sources other than the Company's shareholders and includes items that are not included in the consolidated statement of operations.

(l) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at December 31, 2020, the Company had 37,924,000 (2019 – 31,813,666) potentially dilutive shares outstanding.

(m) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The fair value of the options is measured at the grant date using the Black-Scholes option pricing model. The fair value is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. When the options are exercised, any proceeds received are credited to share capital along with the amount reflected in share-based payment reserve.

EMPIRE METALS CORP.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(n) Accounting Standards Issued But Not Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2020, and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. Marketable Securities

	2019 Fair value \$	Additions \$	Disposals \$	Unrealized gain \$	2020 Fair value \$
Marketable securities	4,000	—	—	—	4,000

	2018 Fair value \$	Additions \$	Disposals \$	Unrealized gain \$	2019 Fair value \$
Marketable securities	4,000	—	—	—	4,000

4. Exploration and Evaluation Assets

	Buck Lake Project \$	Fox Creek Lithium Project \$	Gwyn Lake Property \$	Graphite West Claims \$	Total \$
<i>Acquisition costs:</i>					
Balance, December 31, 2019	590,306	468,575	21,350	287,000	1,367,231
Impairment	—	—	—	(287,000)	(287,000)
Balance, December 31, 2020	590,306	468,575	21,350	—	1,080,231
<i>Exploration costs:</i>					
Balance, December 31, 2019	1,597,074	888,145	995,340	32,671	3,513,230
Claim maintenance	1,800	30,000	—	—	31,800
Geological consulting	30,085	16,596	—	—	46,681
Impairment	—	—	—	(32,671)	(32,671)
Balance, December 31, 2020	1,628,959	934,741	995,340	—	3,559,040
Net carrying value, December 31, 2020	2,219,265	1,403,316	1,016,690	—	4,639,271

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Notes to the Consolidated Financial Statements
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4. Exploration and Evaluation Assets (continued)

	Buck Lake Project \$	Fox Creek Lithium Project \$	Gwyn Lake Property \$	Graphite West Claims \$	Total \$
<i>Acquisition costs:</i>					
Balance, December 31, 2018	564,456	468,575	21,350	287,000	1,341,381
Additions	25,850	—	—	—	25,850
Balance, December 31, 2019	590,306	468,575	21,350	287,000	1,367,231
<i>Exploration costs:</i>					
Balance, December 31, 2018	1,451,436	783,201	980,690	32,671	3,247,998
Administration	3,155	—	—	—	3,155
Assays (Note 7)	4,680	—	—	—	4,680
Claims maintenance	700	—	250	—	950
Geological consulting	7,200	64,800	—	—	72,000
Equipment rental (Note 7)	1,397	—	—	—	1,397
Property exploration (Note 7)	116,944	40,144	14,400	—	171,488
Travel and accommodations (Note 7)	11,562	—	—	—	11,562
Balance, December 31, 2019	1,597,074	888,145	995,340	32,671	3,513,230
Net carrying value, December 31, 2019	2,187,380	1,356,720	1,016,690	319,671	4,880,461

Buck Lake Project, Thunder Bay, Ontario, Canada

The Company holds a 100% interest in the Buck Lake Project located near Thunder Bay, Ontario, Canada. The Buck Lake Project is subject to a 2.5% net smelter return royalty in favour of the original vendors.

On August 20, 2018, the Company acquired additional claims for \$7,500 and issuance of 35,000 common shares, subject to a 1.5% net smelter return royalty.

On July 9, 2019, the Company acquired additional claims for \$10,800 and issuance of 100,000 common shares, subject to a 1% net smelter return royalty.

NAP and Jordain Claims – Ontario, Canada

The Company holds a 100% interest in two groups of mineral claims known as the NAP and Jordain Claims. The NAP and Jordain Claims subject to a 1% net smelter return royalty.

Orbit Lake Claims – Ontario, Canada

The Company holds a 100% interest in 2 mineral claim units known as the Orbit Lake claims located in the Thunder Bay Mining Division, Ontario, Canada, subject to a 1.5% net smelter return royalty.

The Orbit Lake claims are situated about 22 kilometres south of the Company's Buck Lake Project and near the NAP and Jordain Claims.

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Notes to the Consolidated Financial Statements
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4. Exploration and Evaluation Assets (continued)

Fox Creek Lithium Project – Fox Creek, Alberta, Canada

The Company holds a 70% interest in certain metallic and industrial mineral permits located in the Fox Creek area in the province of Alberta, Canada. The Company is responsible for incurring the first \$2,000,000 in development, production, and all other expenses with respect to the permits. The permits are subject to a 2.2% royalty in favour of one of the original vendors of the permits.

Well Permit – Alberta, Canada

The Company holds a 100% interest in the Well Permit, a metallic and industrial mineral permit adjacent to and contiguous with the Company's Fox Creek Lithium Project located in Fox Creek, Alberta, subject to a 2% net smelter return royalty.

Gwyn Lake Property - Ontario, Canada

The Company holds a 100% interest in the Gwyn Lake claims located in the Thunder Bay Mining District of Ontario. The claims are subject to a 1% net smelter returns royalty which the Company may purchase at any time for \$500,000.

The Company also holds a 100% interest in certain additional mineral claims contiguous to the Gwyn Lake Claims. These claims are also subject to a 1% net smelter return royalty.

The Company holds a 30% interest in the Beardmore Gold Property, which comprises a portion of the Gwyn Lake claims. The Beardmore Gold Property is subject to a 1% net smelter return royalty.

Graphite West Claims – Ontario, Canada

On November 4, 2015, the Company entered into an option agreement to acquire an 80% interest in 16 mineral claim units referred to as the Graphite West Project located in the Porcupine Mining Division, Ontario, Canada.

Under the terms of the option agreement, the Company can acquire an 80% interest in the Graphite West Project, subject to a 1% net smelter return royalty, by paying \$20,000 (paid) and issuing a total of 1,800,000 common shares to the optionor (issued), and is responsible for incurring exploration and related business development expenditures totalling \$400,000 over four years. During the year ended December 31, 2020, the Company recorded an impairment of \$319,671 due to no budgeted exploration work to be performed on the property.

5. Accounts Payable and Accrued Liabilities

	2020 \$	2019 \$
Trade payables	673,773	895,936
Related party payables (Note 7)	135,960	198,773
Accrued liabilities	12,000	12,000
Accrued interest payable (Notes 6 and 7)	116,710	233,722
	938,443	1,340,431

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6. Loans Payable

- (a) As at December 31, 2020, the amount of \$2,258 (2019 - \$2,258) is owed to various unrelated parties. The amounts due are non-interest bearing, unsecured, and due on demand.
- (b) As at December 31, 2020, the amount of \$nil (2019 - \$69,138) is owed to a former significant shareholder who is also the former President and CEO of the Company and companies controlled by the shareholder. As at December 31, 2020, accrued interest of \$nil (2019 - \$16,869) is included in accounts payable and accrued liabilities.
- (c) On February 16, 2016, the Company entered into a loan agreement with a company with common directors at the time, for proceeds of \$200,000. The loan is unsecured, bears interest at a rate of 20% per annum compounded quarterly, and was due one year from the date of the agreement. This company is a significant shareholder of the Company and where the former President and CEO of the Company is a majority shareholder. During the year ended December 31, 2019, the Company repaid the full principal of the loan. As at December 31, 2020, accrued interest of \$116,710 (2019 - \$186,751) is included in accounts payable and accrued liabilities.
- (d) As at December 31, 2020, the amount of \$nil (2019 - \$17,224) is owed to a significant shareholder of the Company and where the former President and CEO of the Company is a majority shareholder. The amount is unsecured, bears interest at 8% per annum and due on demand. As at December 31, 2020, accrued interest of \$nil (2019 - \$3,841) is included in accounts payable and accrued liabilities.

7. Related Party Transactions

- (a) As at December 31, 2020, the amount of \$135,960 (2019 - \$198,773) was owed to companies controlled by a former significant shareholder who is also the former President and CEO of the Company, which was recorded in accounts payable and accrued liabilities.
- (b) As at December 31, 2020, accrued interest of \$nil (2019 - \$25,002) owed to a significant shareholder of the Company and where the former President and CEO of the Company is a majority shareholder, which is included in accounts payable and accrued liabilities.
- (c) During the year ended December 31, 2020, the Company incurred salary of \$nil (2019 - \$79,457) to a former significant shareholder who is also the former President and CEO of the Company.
- (d) During the year ended December 31, 2020 the Company incurred salary of \$60,000 (2019 - \$15,000) to the President and CEO of the Company.
- (e) During the year ended December 31, 2020, the Company incurred the following expenditures to companies controlled by a former significant shareholder who is also the former President and CEO of the Company:
 - Interest of \$nil (2019 - \$40,025)
 - Interest and bank charges of \$nil (2019 - \$1,318);
 - Assays of \$nil (2019 - \$3,400);
 - Equipment rental of \$nil (2019 - \$1,397);
 - Property exploration of \$nil (2019 - \$52,360); and
 - Travel and accommodations of \$nil (2019 - \$6,801).

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Notes to the Consolidated Financial Statements
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8. Share Capital

Authorized: unlimited common shares without par value

Share transactions for the year ended December 31, 2020:

- (a) On May 8, 2020, the Company issued 8,857,142 non flow-through units and 6,142,858 flow-through units at \$0.035 per unit for total proceeds of \$525,000. Each non flow-through unit consisted of one common share and one transferable share purchase warrant entitling the holder to purchase one additional common share at \$0.05 per share expiring on May 8, 2025. Each flow-through unit consisted of one flow-through common share and one transferable share purchase warrant entitling the holder to purchase one additional flow-through common share at \$0.05 per share expiring on May 8, 2025. As non flow-through and flow-through common units were issued at the same price, there is no flow-through share premium. Included in the issuance were 4,571,429 flow-through units for \$160,000 to a company with common directors.
- (b) On July 16, 2020, the Company issued 15,000 common shares for proceeds of \$750 pursuant to the exercise of share purchase warrants.
- (c) On December 10, 2020, the Company issued 100,000 common shares for proceeds of \$5,000 pursuant to the exercise of flow-through share purchase warrants. It was determined that there was no flow-through share premium.
- (d) On December 22, 2020, the Company issued 100,000 common shares for proceeds of \$21,000 pursuant to the exercise of flow-through share purchase warrants. It was determined that there was no flow-through share premium.
- (e) On December 29, 2020, the Company issued 3,435,000 common shares for proceeds of \$171,750 pursuant to the exercise of 1,750,000 flow-through share purchase warrants and 1,685,000 non flow-through share purchase warrants. Included in the issuance were 700,000 common shares issued to a director of the Company for \$35,000, and 200,000 common shares issued to a company controlled by the Corporate Secretary of the Company for \$10,000. It was determined that there was no flow-through share premium.

Share transactions for the year ended December 31, 2019:

- (f) On January 4, 2019, the Company issued 4,166,667 common shares for proceeds of \$333,333 pursuant to the exercise of share purchase warrants. The Company also issued 833,333 common shares to settle accounts payable pursuant to the exercise of share purchase warrants.
- (g) On January 25, 2019, the Company issued 900,000 common shares for proceeds of \$90,000 pursuant to the exercise of stock options. The fair value of the stock options exercised of \$187,518 was transferred from share-based payment reserve to share capital upon exercise.
- (h) On July 9, 2019, the Company issued 100,000 common shares with a fair value of \$15,000 pursuant to an agreement to acquire additional mineral claims for the Buck Lake Project.
- (i) On December 31, 2019, the Company issued 66,667 common shares for proceeds of \$10,000 pursuant to the exercise of share purchase warrants.

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Notes to the Consolidated Financial Statements
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9. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Balance, December 31, 2018	35,083,333	0.14
Exercised	(5,066,667)	0.08
Expired	(1,600,000)	0.15
Balance, December 31, 2019	28,416,666	0.18
Issued	15,000,000	0.05
Exercised	(3,650,000)	0.05
Expired	(10,766,666)	0.25
Balance, December 31, 2020	29,000,000	0.10

As at December 31, 2020, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date	
4,000,000	0.30	May 27, 2021	(2,000,000 exercisable into flow-through shares)
10,000,000	0.105	October 9, 2023	(2,812,500 exercisable into flow-through shares)
15,000,000	0.05	May 8, 2025	(6,142,858 exercisable into flow-through shares)
<u>29,000,000</u>			

10. Stock Options

On July 15, 2016, the Company adopted a new stock option pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. The exercise price is determined by the Board of Directors, subject to the Discounted Market Price policies of the TSX Venture Exchange. The aggregate number of shares issuable pursuant to stock options granted under the plan is limited to 10% of the issued and outstanding shares at the time of grant. Options are granted for a maximum term of 10 years and are fully vested when granted unless otherwise stated.

On September 30, 2020, the Company granted 6,700,000 stock options to directors, officers, employees, and consultants exercisable at \$0.19 per common share expiring on September 22, 2025.

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Notes to the Consolidated Financial Statements
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10. Stock Options (continued)

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price \$
Outstanding, December 31, 2018	4,897,000	0.14
Exercised	(900,000)	0.10
Expired	(600,000)	0.10
Outstanding, December 31, 2019	3,397,000	0.16
Granted	6,700,000	0.19
Cancelled	(1,173,000)	0.14
Outstanding, December 31, 2020	8,924,000	0.19

Additional information regarding stock options outstanding as at December 31, 2020, is as follows:

Range of exercise prices \$	Outstanding and exercisable		
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.17	2,224,000	2.1	0.17
0.19	6,700,000	4.7	0.19
	8,924,000	4.1	0.19

During the year ended December 31, 2020, the Company recognized share-based compensation expense of \$1,407,033 (2019 - \$nil) incurred to key management personnel. For the year ended December 31, 2020, the weighted average grant date fair value was \$0.21 (2019 - \$nil) per option.

The fair value of stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends or forfeitures and using the following weighted average assumptions:

	2020	2019
Risk-free interest rate	0.33%	—
Expected volatility	176%	—
Expected life (years)	4.98	—

11. Segmented Information

The Company operates in one industry and geographic segment, the mineral resource industry with all current exploration activities conducted in Canada.

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Notes to the Consolidated Financial Statements
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12. Financial Instruments and Risk Management

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at December 31, 2020 as follows:

	Fair value measurements using			Balance, December 31, 2020 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	
Marketable securities	4,000	—	—	4,000

The fair values of other financial instruments, which includes cash and cash equivalents, accounts payable and accrued liabilities, and loans payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company is not exposed to any significant foreign exchange rate risk.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk as it does not have any liabilities with variable rates.

(e) 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 currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(f) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

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Notes to the Consolidated Financial Statements
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13. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2019.

14. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2020 \$	2019 \$
Canadian statutory income tax rate	27%	27%
Income tax recovery at statutory rate	(581,446)	(88,499)
Tax effect of:		
Permanent differences and other	437,948	—
True up of prior year differences	—	1,474,769
Change in unrecognized deferred income tax assets	143,498	(1,386,270)
Income tax provision	—	—

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

	2020 \$	2019 \$
Deferred income tax assets		
Non-capital losses carried forward	2,853,089	2,736,627
Marketable securities	12,400	12,400
Property and equipment	694	881
Resource pools	(1,125,371)	(1,153,632)
Share issuance costs	1,369	2,407
Total gross deferred income tax assets	1,742,181	1,598,683
Unrecognized deferred income tax assets	(1,742,181)	(1,598,683)
Net deferred income tax asset	—	—

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Notes to the Consolidated Financial Statements
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14. Income Taxes (continued)

As at December 31, 2020, the Company has Canadian non-capital losses carried forward of \$10,566,995, which are available to offset future years' taxable income. These losses expire as follows:

	\$
2032	451,066
2033	969,325
2034	514,456
2035	1,291,026
2036	721,416
2037	954,778
2038	4,901,080
2039	332,508
2040	431,340
	10,566,995

The Company also has available mineral resource related expenditure pools totalling \$471,231, which may be deducted against future taxable income on a discretionary basis.

15. Subsequent Events

- (a) On February 23, 2021, the Company issued 4,571,429 common shares for proceeds of \$228,571 to a company with common directors pursuant to the exercise of flow-through share purchase warrants.
- (b) On February 23, 2021, the Company entered into an agreement with Blizzard Finance Corp. ("Blizzard"), a significant shareholder of the Company, whereby the Company has agreed to acquire the remaining 30% interest in the Fox Creek Project (refer to Note 4) from Blizzard. for \$880,000 to be paid through the issuance of 5,500,000 common shares. The closing of the agreement is subject to TSX Venture Exchange approval.