

**SOFTROCK MINERALS LTD.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 and 2019**

**(Expressed in Canadian dollars)**

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**Softrock Minerals Ltd.****Financial Statements**

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**December 31, 2020 and 2019**

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## Independent Auditor's Report

To the Shareholders of Softrock Minerals Ltd.

### Opinion

We have audited the financial statements of Softrock Minerals Ltd. ("the Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019 and the statements of operations and comprehensive 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 December 31, 2020 and December 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 1 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.

## **Independent Auditor's Report (continued)**

### **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.

## **Independent Auditor's Report (continued)**

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 Todd Freer.

**Calgary, Canada  
April 15, 2021**

***“Crowe MacKay LLP”*  
Chartered Professional Accountants**

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**Softrock Minerals Ltd.****Statements of Operations and Comprehensive Loss**  
(Expressed in Canadian Dollars)

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<b>For the years ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>		
Royalty	\$ 142,466	\$ 101,688
Interest	1,013	960
	<b>143,479</b>	<b>102,648</b>
<b>Expenses</b>		
Exploration expense	32,466	51,813
Professional fees (note 13)	72,244	33,380
General and administrative (note 13)	44,926	43,743
Impairment of property, plant and equipment (note 6)	-	44,077
Impairment of exploration and evaluation assets (note 7)	-	88,794
Finance expense (note 8)	(11,887)	(19,469)
Stock based compensation (notes 10 (d) and 11)	21,340	-
	<b>159,089</b>	<b>242,338</b>
<b>Net and comprehensive loss</b>	<b>\$ (15,610)</b>	<b>\$ (139,690)</b>
<b>Loss per share</b>		
Basic and diluted (note 10 (c))	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

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## Softrock Minerals Ltd.

### Statements of Financial Position (Expressed in Canadian Dollars)

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December 31,	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 53,967	\$ 65,946
Accounts receivable	33,877	40,828
	87,844	106,774
Reclamation deposit (note 8)	40,623	39,610
Property, plant and equipment (note 6)	-	-
Exploration and evaluation assets (note 7)	-	-
	\$ 128,467	\$ 146,384

### Liabilities

<b>Current</b>		
Accounts payable and accrued liabilities (note 13)	\$ 38,196	\$ 29,956
Debentures payable (note 9)	-	70,000
Decommissioning liabilities (note 8)	54,433	66,320
	92,629	166,276

### Shareholders' equity (deficiency)

Share capital (note 10)	3,061,457	3,011,457
Contributed surplus (note 11)	237,228	215,888
Deficit	(3,262,847)	(3,247,237)
	35,838	(19,892)
	\$ 128,467	\$ 146,384

Nature of operations and going concern (note 1)  
Contingency (note 16)  
Subsequent event (note 17)

On behalf of the Board:

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"Stuart McDowall", Director

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"T. M. M. Bender", Director

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**Softrock Minerals Ltd.****Statements of Changes in Equity**  
(Expressed in Canadian Dollars)

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	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Total shareholders' equity (deficiency)</b>
December 31, 2018	\$ 2,999,457	\$ 215,888	\$ (3,107,547)	\$ 107,798
Shares issued on option agreement (note 7)	12,000	-	-	12,000
Net and comprehensive loss	-	-	(139,690)	(139,690)
<b>December 31, 2019</b>	<b>3,011,457</b>	<b>215,888</b>	<b>(3,247,237)</b>	<b>(19,892)</b>
Shares issued on settlement of debentures (notes 9 and 10(b))	50,000	-	-	50,000
Stock based compensation	-	21,340	-	21,340
Net and comprehensive loss	-	-	(15,610)	(15,610)
<b>December 31, 2020</b>	<b>\$ 3,061,457</b>	<b>\$ 237,228</b>	<b>\$ (3,262,847)</b>	<b>\$ 35,838</b>

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**Softrock Minerals Ltd.****Statements of Cash Flows**(Expressed in Canadian Dollars)

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**For the years ended December 31,** **2020** **2019**

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**Cash provided by (used for)****Operating activities**

Net loss for the year	<b>\$ (15,610)</b>	\$(139,690)
Items not affecting cash:		
Stock based compensation (note 11)	<b>21,340</b>	-
Impairment of property, plant and equipment	-	44,077
Impairment of exploration and evaluation assets	-	88,794
Finance expense (note 8)	<b>(11,887)</b>	(19,469)
	<b>(6,157)</b>	(26,288)
Change in non-cash working capital items:		
Accounts receivable	<b>6,951</b>	(17,403)
Prepaid expense	-	4,638
Accounts payable and accrued liabilities	<b>8,240</b>	(8,330)
Accrued interest on reclamation deposits	<b>(1,013)</b>	(960)
Cash flows provided by (used in) operating activities	<b>8,021</b>	(48,343)

**Financing Activities**

Repayment of debentures (note 9)	<b>(20,000)</b>	-
Decrease in cash and cash equivalents	<b>(11,979)</b>	(48,343)
Cash and cash equivalents, beginning of year	<b>65,946</b>	114,289
Cash and cash equivalents, end of year	<b>\$ 53,967</b>	\$ 65,946

## Supplemental cash flow information:

Interest on debentures	<b>\$ 3,557</b>	\$ 3,946
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## Non-cash transactions:

Shares issued to settle debentures payable (note 9)	<b>\$ 50,000</b>	\$ -
Shares issued on option agreement (note 7)	<b>\$ -</b>	\$ 12,000

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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#### 1. Nature of operations and going concern

Softrock Minerals Ltd., (“Softrock” or the “Company”) is a public company incorporated under the Alberta Business Corporations Act with its shares traded on the TSX Venture Exchange. Softrock Minerals Ltd. carries on the business of oil and gas exploration and development in Canada. It has acquired mineral claims in Alberta, Manitoba and Ontario for the potential exploration and development of lithium, nickel and cobalt.

The registered and head office address of the Company is 4719 Nordegg Crescent NW, Calgary, Alberta T2K 2M2.

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 obligations in the normal course of operations.

The Company’s ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its operations and future business plans. To date, the Company is dependent on revenues from its gross overriding royalty (“GORR”) interests in certain wells located in Alberta, Canada. This revenue stream is highly dependent on global commodity prices and decisions by well operators that are outside of the control of management.

The Company continues to incur losses from operations and has a deficit at December 31, 2020 of \$3,262,847 (2019 - \$3,247,237). At December 31, 2020, the Company had cash on hand of \$53,967 (2019 - \$65,946) and a working capital deficit of \$4,785 (2019 – working capital deficit of \$59,502). The volatility of commodity prices and capital markets (Note 2) will continue to have a significant impact on the Company’s revenues and access to capital in the future. These factors give rise to a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern.

While Management believes the Company will have sufficient cash to discharge its obligations in the normal course of operations for the short-term, future operations will be dependent upon the raising of sufficient capital, the development of profitable operations and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these financial statements.

The Company has been successful to date in obtaining financing. However, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the statement of financial position classifications used.

#### 2. Impact of COVID -19

The outbreak has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility. Governments and central have responded with significant monetary and fiscal interventions designed to stabilize economic conditions.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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#### 2. Impact of COVID -19 (continued)

The outbreak and subsequent measures intended to limit the pandemic have contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand and commodity prices for crude oil, and access to capital. The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements. The most significant estimate and judgement impacted is the appropriateness of the going concern assumption.

The rapidly evolving event, including health and safety conditions, economic environment and resulting government measures, creates a high level of uncertainty and risk that may have a significant impact on the Company's activities, results of operations and financial condition. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. As such it is not possible to estimate the length and severity of these development and the impact on the financial results and condition of the Company and its operations in future periods.

#### 3. Basis of presentation

##### *(a) Statement of compliance*

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements as issued by the International Accounting Standards Board, and applicable International Accounting Standards ("IAS").

These financial statements were approved by the Board of Directors on April 15, 2021.

##### *(b) Basis of measurement*

The financial statements have been prepared on the historical cost basis except as detailed in the Company's accounting policies disclosed in Note 4. The accounting policies have been applied consistently to all periods presented in these financial statements.

##### *(c) Functional and reporting currencies*

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

##### *(d) Use of estimates and judgment*

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant accounting estimates and judgments used in the preparation of the financial statements are described in Note 5.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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#### 4. Significant accounting policies

##### Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term deposits that are redeemable at any time without penalty. There were no cash equivalents as at December 31, 2020 and 2019.

##### Revenue recognition

Softrock collects royalties on production from gross overriding royalty interests that are tied to underlying third-party mineral leases. The continuation of a lease is typically dependent on the holder thereof continuing to produce hydrocarbons and maintaining the lease in good standing. Accordingly, Softrock's performance obligations with respect to production royalties are satisfied over time, as petroleum and natural gas are produced.

Royalty revenue from the sale of crude oil, natural gas liquids and natural gas is recognized as it accrues in accordance with the terms of the royalty agreement, which is generally in the month when the product is produced. Royalty revenue is measured at fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the royalty agreement. An accrual is included in revenue and accounts receivable for amounts not received at the reporting date based on reported production volumes and current market prices. Differences between the estimates and actual amounts are adjusted and recorded in the period when the actual amounts are received.

##### Income taxes

The Company follows the liability method of accounting for income taxes whereby deferred income taxes are recorded for unused tax losses, tax credits and the effect of differences between the accounting and income tax basis of an asset or liability. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates at the statement of financial position date that are anticipated to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. Changes to these balances are recognized in income in the period which they occur. Investment tax credits are recorded as an offset to the related expenditures. Deferred income tax assets are recognized to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized.

##### Mineral exploration and evaluation expenditures

###### Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

###### Exploration and evaluation expenditures

Exploration expenditures are expensed as incurred until an economic feasibility study has established the presence of proven and probable reserves, at which time exploration expenditures incurred on the property thereafter are capitalized.

Costs relating to the acquisition and claim maintenance of mineral properties, including option payments and annual fees to maintain the property in good standing, are capitalized as intangible assets and deferred by property until the project to which they relate is sold, abandoned, impaired or placed into production.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Mineral exploration and evaluation expenditures (continued)

###### *Exploration and evaluation expenditures (continued)*

The Company assesses its capitalized mineral property costs for indications of impairment each reporting period and when events and circumstances indicate a risk of impairment. A property is written down or written off when the Company determines that an impairment of value has occurred or when exploration results indicate that no further work is warranted.

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, or title may be affected by undetected defects.

##### Oil and natural gas exploration and evaluation expenditures

###### *Recognition and measurement*

Costs of exploring for and evaluating oil and natural gas properties are initially capitalized within exploration and evaluation assets. Such exploration and evaluation costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses and the projected costs of retiring the assets (if any), but do not include exploration or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to net income or loss as they are incurred.

Exploration and evaluation assets are not amortized, but are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the net book value exceeds the recoverable amount. These assets are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is no longer considered commercially viable, the assets may be transferred to intangible assets when it meets the recognition criteria for intangible assets. Not proceeding with development of the asset is an impairment indicator, and as a result of the decision, impairment testing would be performed.

When management determines with reasonable certainty that an exploration and evaluation asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals, the asset is first tested for impairment and then reclassified to property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items.

The costs to acquire developed or producing oil and gas properties and to develop oil and gas properties, including completing geological and geophysical surveys and drilling development wells, and the costs to construct and install dedicated infrastructure such as wellhead equipment and supporting assets, are capitalized as oil and gas properties within property, plant and equipment.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Oil and natural gas exploration and evaluation expenditures (continued)

###### Recognition and measurement (continued)

The costs of major inspection, overhaul and work-over activities that maintain property, plant and equipment and benefit future years of operations are capitalized. Similar recurring planned maintenance managed on shorter intervals is expensed. Replacements outside major inspection, overhaul or work-overs are capitalized when it is probable that future economic benefits will flow to the Company and the associated net book value of the replaced asset is derecognized.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, and intangible exploration assets, are determined by comparing the proceeds from disposal with its net book value and are recognized within "other income" or "other expenses" in net income or loss.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in net income or loss using the effective interest method.

Capitalization of borrowing costs ceases when the asset is in the location and condition necessary for it to be capable of operating as intended. Capitalization of borrowing costs is suspended when the construction of an asset is ceased for extended periods.

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's borrowings during the year.

###### Depletion and depreciation

The net book value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated annually by independent reserve engineers and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a more than 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable. The equivalent statistical probability for the proved component is 90%.

Such reserves may be considered economically producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production;

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Oil and natural gas exploration and evaluation expenditures (continued)

###### *Depletion and depreciation (continued)*

- evidence that necessary production, transmission and transportation facilities are available or can be made available; and
- the availability of capital to develop reserves.

Reserves may only be considered proved and probable if supported by either actual production or a conclusive formation test. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data.

In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of unproved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successfully tested by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

##### Other equipment

For other equipment, depreciation is recognized in net income or loss on a declining balance basis over its estimated useful life at rates varying from 10% to 100%.

Depreciation methods, useful lives and residual values are reviewed annually.

##### Impairment of non-financial assets

The net book value of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the net book value exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

##### Impairment of non-financial assets (continued)

In assessing fair value less cost to sell, the fair value reflects the price a market participant would be willing to pay to acquire the asset or CGU less selling costs to complete the transaction. Fair value is generally determined based on recent transactions, crown land sales and other market metrics.

Exploration and evaluation assets are allocated to the CGUs on a geographical basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to petroleum and natural gas properties in property, plant and equipment.

An impairment loss is recognized if the net book value of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income or loss. Impairment losses recognized in respect of CGUs reduce the net book value of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss recognized in prior years is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's net book value does not exceed the net book value that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

##### Joint venture contributions

Joint venture contributions related to exploration and evaluation assets are applied to reduce the related carrying cost such that the accounts reflect only the Company's interest in such activities.

##### Flow-through shares

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 a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax deduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

##### Basic and diluted per share amounts

Basic per share amounts are calculated by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated using the treasury stock method which adjusts the weighted average number of common shares outstanding by the effects of all dilutive potential common shares, which comprise, warrants, and share options granted to employees.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

##### Financial instruments

Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debentures payable. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred all risks and rewards of ownership.

##### a. Financial assets

###### *Classification and measurement*

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company classifies its financial assets:

- Amortized Cost: Includes assets that 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 represent solely payments of principal and interest;
- Fair value through other comprehensive income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- Fair Value through Profit and Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership

The Company has classified its cash and cash equivalents and accounts receivable as financial assets at amortized cost.

###### *Impairment of financial assets*

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Financial instruments (continued)

###### b. Financial liabilities

Financial liabilities include accounts payable and accrued liabilities and debentures payable. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

###### *Classification and measurement of financial liabilities*

A financial liability is initially classified and measured at amortized cost or FVTPL. A financial liability is classified and measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable. Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

The Company has classified its accounts payable and accrued liabilities and debentures payable as financial liabilities at amortized cost.

##### **Share capital**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial asset or liability. The Company's common shares, warrants, options and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

##### **Valuation of equity instruments issued in private placements**

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements are determined to be the more easily measurable component and as such are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any is allocated to the attached warrants and is recorded as such.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Share-based compensation

###### (i) Stock option awards

Share-based compensation is recorded in net income or loss for all options granted on a graded basis over the vesting period of the option with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values of the options at the time of the grant as determined using a Black-Scholes option pricing model. The Company incorporates an estimated forfeiture rate when determining compensation expense for stock options that will not vest.

Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

###### (ii) Stock unit awards

Stock unit awards are only payable in cash. Obligations are accrued based on the vesting period of the stock unit awards using the market value of the Company's common shares. The obligations are revalued each reporting period based on the change in the fair value of the Company's common shares and the number of vested stock unit awards outstanding. The Company reduces the liability when the units are surrendered for cash.

##### Convertible debentures

The proceeds received on the issuance of convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. The remainder of the proceeds is allocated to the conversion option and is recognized accordingly within shareholders' equity, net of income tax effects. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguished on conversion or maturity of the instrument.

##### Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Provisions are not recognized for future operating losses. Further details on specific provisions are as follows:

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

##### Provisions (continued)

###### (i) Decommissioning liabilities

The Company recognizes the estimated liability associated with decommissioning at the time the asset is acquired and the liability is incurred. The estimated present value of the future payments of the decommissioning liability is recorded as a long term liability, with a corresponding increase in the net book value of property, plant and equipment. Amounts are discounted using the risk-free rate. The capitalized amount is depleted on a unit-of-production method over the life of proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to net income or loss in the period. The liability can also increase or decrease due to changes in the estimates of timing of cash flows, changes to the risk-free rate or changes in the original estimated undiscounted cost. The change in the provision as a result of these changes is capitalized in the net book value of the related asset. Actual costs incurred upon settlement of decommissioning liabilities are charged against the decommissioning liability to the extent of the liability recorded.

###### (ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

##### Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a Right-of Use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Statements of Operations and Comprehensive Loss if the carrying amount of the ROU asset has been reduced to zero.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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

##### Leases (continued)

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Statements of Operations and Comprehensive Loss on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net loss that reflects the proportionate decrease in scope.

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

During the year ended December 31, 2020, the Company expensed \$5,735 (2019 - \$6,018) for short-term leases and paid \$5,735 (2019 - \$6,018) related to short-term leases.

##### Newly adopted accounting standards and pronouncements

The Company adopted the following amendments effective January 1, 2020:

##### Amendments to IFRS 3 Business Combinations

Amendments to IFRS 3, Business Combinations assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. The adoption of these amendments had no material impact on the Company's financial statements upon adoption.

##### Future accounting standards and pronouncements

##### Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting periods beginning on or after January 1, 2022.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

##### Future accounting standards and pronouncements (continued)

##### Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

#### 5. Significant accounting estimates and judgments

The timely preparation of the financial statements requires that management make estimates and assumptions, and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgments used in the preparation of the financial statements include, but are not limited to, those areas discussed below.

##### (a) Oil and gas reserves and resources

Certain depletion, depreciation, impairment and decommissioning and restoration charges are measured based on the Company's estimate of oil and gas reserves and resources. The estimation of reserves and resources is an inherently complex process and involves the exercise of professional judgment. Reserves and resources have been evaluated at December 31, 2020 by independent petroleum consultants in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The reserves and resources estimates are based on the definitions and guidelines contained in the Canadian Oil and Gas Evaluation Handbook.

Oil and gas reserves and resources estimates are based on a range of geological, technical and economic factors, including projected future rates of production, estimated commodity prices, engineering dates, and the timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at each annual reporting date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

##### (b) Exploration and evaluation costs

Certain exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Unsuccessful drilling, or changes to project economics, resource quantities, expected production techniques, production costs and required capital expenditures, are important factors when making this determination. If a judgment is made that the extraction of resources is not viable, the associated exploration and evaluation costs are impaired and charged to net income or loss.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2020 and 2019

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#### 5. Significant accounting estimates and judgments (continued)

##### (c) Decommissioning liabilities and other provisions

The Company recognizes liabilities for the future decommissioning and restoration of property, plant and equipment. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration, technological advances and the possible future use of the site. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented. Other provisions are recognized in the period in which it becomes probable that there will be a future cash outflow.

##### (d) Deferred taxes

Deferred tax assets are recognized when it is considered probable that unused tax losses, tax credits and deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax asset could be impacted.

Deferred tax liabilities are recognized for taxable temporary differences. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and the tax laws in the jurisdiction which the Company operates.

##### (e) Share-based compensation

Expenses recorded for share-based compensation is based on the historical volatility of the Company's share price which may not be indicative of the future volatility. Accordingly, those amounts are subject to measurement uncertainty.

##### (f) Impairment of assets

The allocation of assets into cash generating units ("CGU's") requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of fair value less costs to sell and value in use. The key assumptions the Company uses in estimating future cash flows for recoverable amounts are anticipated future commodity prices, expected production volumes and future operating and development costs. Changes to these assumptions will affect the recoverable amounts of CGU's and individual assets and may then require a material adjustment to their related net book value.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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#### 6. Property, plant and equipment

	2020	2019
Cost, beginning and end of year	\$ 1,233,759	\$ 1,233,759
Accumulated depletion and impairment, beginning of year	1,233,759	1,189,682
Impairment	-	44,077
Accumulated depletion and impairment, end of the year	1,233,759	1,233,759
Carrying value, end of the year	\$ -	\$ -

At December 31, 2019, the Company determined that the carrying value of its property, plant and equipment were impaired based on an economic assessment by management resulting in an impairment charge of \$44,077 (2020 - \$nil).

#### 7. Exploration and evaluation assets

The following table reconciles the Company's exploration and evaluation assets:

	Oil and gas properties	Mineral properties	Total
Cost, December 31, 2018	\$ 36,198	\$ 40,596	\$ 76,794
Additions (note 10)	-	12,000	12,000
<b>Cost, December 31, 2019 and 2020</b>	<b>\$ 36,198</b>	<b>\$ 52,596</b>	<b>\$ 88,794</b>
Accumulated impairment, December 31, 2018	\$ -	\$ -	\$ -
Impairments	36,198	52,596	88,794
<b>Accumulated impairment, December 31, 2019 and 2020</b>	<b>\$ 36,198</b>	<b>\$ 52,596</b>	<b>\$ 88,794</b>
Carrying value, December 31, 2019	\$ -	\$ -	\$ -
<b>Carrying value, December 31, 2020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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#### 7. Exploration and evaluation assets (continued)

During the year ended December 31, 2018, the Company entered into an Option Agreement (the "Agreement") to acquire a 100% interest in 135 mineral claims in a solid block at Dagny Lake, 80 kilometers east of Kenora, Ontario. The claims cover 2,763 hectares of virgin territory and highlighted by the Ontario Geological Survey as most prospective for nickel – cobalt ores.

The Agreement stipulates the following terms:

- Issuance of 400,000 common shares upon the execution of the Agreement (issued in fiscal 2018)
- cash payment of \$16,000 upon execution of the Agreement (paid in fiscal 2018);
- cash payment of \$12,000 on or before the 1<sup>st</sup> anniversary of the Agreement (issued 600,000 common shares of capital stock in lieu of cash payment in fiscal 2019 (note 10); and
- cash payment of \$20,000 on or before the 2<sup>nd</sup> anniversary of the Agreement.

The Company has not made the 2<sup>nd</sup> anniversary payment and is in discussions with the vendor on amending the Agreement.

Also during fiscal 2018, Softrock staked two claims in the Shatford Lake area, 282 kilometers north of Winnipeg, Manitoba. The claims cover an area of 472 hectares and are prospective for lithium. Subsequent to year-end, the Company entered into an agreement with a third party to sell the Shatford Lake claims (note 17).

At December 31, 2019, the Company determined that indications of impairment existed since the Company does not plan on incurring substantive expenditures on further exploration for and evaluation of mineral resources on the Company's exploration and evaluation assets at this time. As such, the properties were written down resulting in an impairment of \$88,794 (2020 - \$nil) being recorded in the Statement of Operations and Comprehensive Loss.

#### 8. Decommissioning liabilities

The Company's decommissioning liabilities result from working interests in oil and natural gas wells. As at December 31, 2020, the Company estimates the total undiscounted amount of cash required to settle its liabilities to be approximately \$53,770 (2019 - \$66,320).

	2020	2019
Balance, beginning of year	\$ 66,320	\$ 85,789
Accretion	74	1,724
Revisions	(11,961)	(21,193)
Balance, end of year	\$ 54,433	\$ 66,320

Accretion expense is included in finance expense in the Statements of Operations and Comprehensive Loss.

During the years ended December 31, 2020 and 2019, the provision for decommissioning liabilities was revised for changes in the estimated reclamation costs and expected timing for reclamation. The assets to which the revisions relate to were impaired in a previous fiscal year. As such, these revisions have been included in finance expense in the Statements of Operations and Comprehensive Loss.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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#### 8. Decommissioning liabilities (continued)

Due to the uncertainty with respect to the timing of the reclamation, the costs have not been discounted at December 31, 2020 and 2019 and are recorded as a current liability. The Company expects to settle the obligations over the next twelve to eighteen months.

As at December 31, 2019, \$40,623 (2019 - \$39,610) is held as a reclamation deposit with the applicable regulatory body as security for the settlement of these obligations.

#### 9. Debentures payable

On June 15, 2017, the Company issued 5% convertible debentures in the principal amount of \$70,000 to officers and directors, and a family member of an officer and director. The debentures were unsecured and were originally set to mature 12 months from the date of issuance, which was extended by the debenture holders to June 15, 2020.

The debenture were convertible at the holder's option into common shares of the Company at a conversion price of \$0.05 per common share at any time prior to the maturity date. On maturity, the Company may, at its option, elect to satisfy its obligation to repay all or any portion of the principal amount outstanding by issuing that number of common shares determined by dividing the principal amount being repaid by 95% of the market price, which is defined as the 20 day volume-weighted average trading price ending on the 5<sup>th</sup> day preceding the date of maturity.

The fair value of the debentures was allocated solely to the liability as it was determined they did not meet the "fixed-for-fixed" criteria specified in IAS 32. The debentures have been classified as a financial liability carried at amortized cost.

During the year ended December 31, 2020, the Company settled the debentures through the payment of \$20,000 in cash and the issuance of 5,000,000 common shares at \$0.01 per common share (note 10).

#### 10. Share capital

##### (a) Authorized

Unlimited number of:  
Common shares without nominal or par value  
First and second preferred shares issuable in series

##### (b) Issued and outstanding common shares

	2020		2019	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	39,852,927	\$3,011,457	39,252,927	\$ 2,999,457
Issued on settlement of debentures	5,000,000	50,000	-	-
Issued on option agreements	-	-	600,000	12,000
<b>Balance, end of year</b>	<b>44,852,927</b>	<b>\$3,061,457</b>	<b>39,852,927</b>	<b>\$ 3,011,457</b>

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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#### 10. Share capital (continued)

##### (b) Issued and outstanding common shares (continued)

On June 15, 2020, the Company issued 5,000,000 shares at \$0.01 per share to settle debentures payable (note 9).

On October 21, 2019 the Company issued 600,000 shares at \$0.02 per share as part of the mineral Option Agreement entered into on the Dagny Lake property in Ontario (note 7).

##### (c) Per share amounts

The following table summarizes the weighted average common shares used in calculating comprehensive loss per common share:

	2020	2019
Basic	<b>42,462,217</b>	39,376,215

The Company has dilutive instruments outstanding, which consist of stock options and debentures payable. The dilutive impact of these instruments using the treasury stock method results in anti-dilution as a result of the Company incurring losses during the years presented. As a result, diluted loss per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in these financial statements.

##### (d) Stock options

Under the Company's stock option plan, the Company may grant options to employees, officers and directors up to 10% of its issued and outstanding common stock. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares (2% in the case of consultants and employees conducting investor relations). Under the plan, options are exercisable upon issuance and an option's maximum term is five years.

		2020		2019
	Stock options	Weighted average exercise price (\$)	Stock options	Weighted average exercise price (\$)
Outstanding, beginning of year	200,000	0.05	1,200,000	0.05
Expired	(200,000)	0.05	(1,000,000)	0.05
Granted	3,600,000	0.05	-	-
Outstanding, end of year	<b>3,600,000</b>	<b>0.05</b>	200,000	0.05

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

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#### 10. Share capital (continued)

##### (d) Stock options (continued)

On April 14, 2020, the Company granted 2,100,000 options to officers and directors. The options have a term of 5 years and an exercise price of \$0.05 and were valued using the Black Scholes model using an average volatility of 177%, a risk-free rate of 0.42% and a dividend rate of nil%. The options vest 1/3 immediately and 1/3 on each of the first and second anniversary of the grant date and were granted when the stock price was trading at \$0.01. Total compensation expense recognized during the year ended December 31, 2020 in respect of these options was \$10,518. At December 31, 2020, the total unvested stock based compensation expense with respect to these options was \$3,738.

On June 22, 2020, the Company granted 1,500,000 options to officers and directors. The options have a term of 5 years and an exercise price of \$0.05 and were valued using the Black Scholes model using an average volatility of 180%, a risk-free rate of 0.33% and a dividend rate of nil%. The options vest 1/3 immediately and 1/3 on each of the first and second anniversary of the grant date and were granted when the stock price was trading at \$0.015. Total compensation expense recognized during the year ended December 31, 2020 in respect of these options was \$10,822. At December 31, 2020, the total unvested stock based compensation expense with respect to these options was \$6,142.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2020

Number outstanding at December 31, 2020	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2020	Exercise price (\$)	Expiry date
2,100,000	4.28	700,000	0.05	April 13, 2025
1,500,000	4.47	500,000	0.05	June 21, 2025

##### (e) Common share purchase warrants

A summary of the status of the common share purchase warrants as of December 31, 2020 and 2019 and changes during the years then ended is presented as follows:

	2020	2019		
	Weighted average exercise price (\$)	Weighted average exercise price (\$)		
	Number of warrants	Number of warrants		
<b>Outstanding, beginning and end of year</b>	<b>15,093,781</b>	<b>0.05</b>	15,093,781	0.05

During the year ended December 31, 2020, the Company received approval to extend the maturity date of the common share purchase warrants. The warrants were originally set to expire on June 15, 2020 and will now expire on June 15, 2022. The weighted average remaining contractual life of the issued and outstanding warrants at December 31, 2020 was 1.45 years.

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

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#### 11. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2020 and 2019 and the changes during the years then ended is presented below:

	2020	2019
Balance, beginning and end of year	\$ 215,888	\$ 215,888
Stock based compensation	21,340	-
Balance, end of year	\$ 237,228	\$ 215,888

#### 12. Income taxes

##### (a) Deferred income taxes

The provision for income tax reflects an effective income tax rate which differs from federal and provincial statutory income tax rates and is reconciled as follows:

	2020	2019
Loss before income taxes	\$ (15,609)	\$ (139,690)
Enacted income tax rate	24%	26.5%
Expected income tax recovery	\$ (4,000)	\$ (37,000)
Increase (decrease) in taxes resulting from:		
Non-deductible stock based compensation	5,000	-
Change in substantively enacted tax rates	-	94,000
Other	-	5,000
Unrecognized deferred tax assets	(1,000)	(62,000)
Deferred income tax recovery	\$ -	\$ -

##### (b) Components of the net deferred tax asset

Temporary differences and carry forwards that give rise to deferred tax assets as of December 31, 2020

As at December 31,	2020	2019
Non-capital losses	\$ 267,000	\$ 261,000
Property, plant and equipment	303,000	306,000
Share issue costs	7,000	11,000
Capital loss	2,000	2,000
Total gross deferred tax assets	579,000	580,000
Non-recognition of deferred tax assets	(579,000)	(580,000)
Net deferred tax assets	\$ -	\$ -

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

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#### 12. Income taxes (continued)

##### (b) Components of the net deferred tax asset

The unrecognized deferred tax assets offset the gross deferred tax assets for which there is no assurance of recovery. The unrecognized deferred tax assets are evaluated considering positive and negative evidence about whether the deferred tax assets will be realized. At the time of evaluation, the amount is either increased or reduced.

##### (c) Tax pools

As at December 31, 2020, the Company has available for deduction, the following tax pools against future taxable income, and the approximate amounts:

Operating loss carry forwards	\$	1,156,000
Canadian exploration expenditures		274,000
Foreign exploration and development expenditures		934,000
Capital loss		18,000
Capital cost allowances		58,000
Share issue costs		31,000

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The operating loss carry forwards expire from 2026 to 2040.

#### 13. Related party transactions and key management compensation

The Company has entered into transactions with related parties in the normal course of business, which were valued at the exchange amount established and agreed to by the related parties. During the year, the Company paid to its directors and officers, either directly, or indirectly, the following amounts:

	2020	2019
For accounting and administrative services (professional fees)	\$ 11,840	\$ 5,550
Interest on debentures (general and administrative expenses)	\$ 1,807	\$ 3,500
Rent (general and administrative expenses)	\$ 3,500	\$ -

At December 31, 2020, accounts payable and accrued liabilities included \$nil (2019 - \$1,575) owing to a company controlled by an officer and director for accounting services and \$nil (2019 - \$1,750) in accrued but unpaid interest on debentures payable to related parties (note 9).

Key management compensation paid to officer and directors consisted of the following:

	2020	2019
Consulting fees	\$ 11,840	\$ 5,550
Stock-based compensation	21,340	-
	\$ 33,180	\$ 5,550

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## Softrock Minerals Ltd.

### Notes to the Financial Statements

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#### 14. Financial instruments

The Company is exposed to normal financial risks inherent within the oil and gas industry, including credit risk, interest rate risk and liquidity risk. The nature of the financial risks and the Company's strategy for managing these risks has not changed significantly from the prior year. The Company does not utilize derivative instruments to manage risks.

##### i) Credit risk

Credit risk is the risk a third party fails to meet its contractual obligations that could result in the Company incurring a loss. The Company's accounts receivable are primarily with joint venture partners and the Canadian federal government. Receivables from operators arise from the Company's ownership of a gross overriding royalty on certain oil and gas interests. Receivables from the Canadian federal government arise from input tax credits for Goods and Services taxes. As at December 31, 2020 and 2019, there were no allowances for expected credit losses.

##### ii) Interest rate risk

The Company is not exposed to interest rate risk as a result of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations as the Company does not maintain any cash equivalents. The debentures payable are at a fixed interest rate and therefore do not expose the Company to interest rate risk.

##### iii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. The Company's current liabilities consist of trade payables and accruals, debentures payable and decommissioning liabilities, which are incurred in the normal course of business. The Company has sufficient liquidity to meet its ongoing obligations as they become due

##### iv) Fair value of financial instruments

The Company's financial instruments as at December 31, 2020 and 2019 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debentures payable. The fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity.

##### v) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, will affect the Company's income or the value of its financial instruments. Commodity prices for petroleum and natural gas are impacted by world and regional economic and other events that dictate the level of supply and demand. Changes in commodity prices, which are outside of the Company's control, impact production decisions by operators and, ultimately, royalty income. The Company has no commodity hedges in place as at December 31, 2020 and 2019.

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## **Softrock Minerals Ltd.**

### **Notes to the Financial Statements**

(Expressed in Canadian Dollars)

**December 31, 2020 and 2019**

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#### **15. Risk management and capital management**

The Company is a junior oil and gas and mineral exploration company and considers items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or make special distributions to shareholders. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company currently receives royalty income from gross overriding royalties held. Revenues are sufficient to meet ongoing obligations. In order to fund future projects and pay for administrative costs, the Company is required to raise additional funds as needed in the equity markets and/or rely on advances from directors. As at December 31, 2020, the Company had a working capital deficit of \$4,785 (2019 – working capital deficit of \$59,502) and shareholders' equity of \$35,838 (2019 – shareholders' deficiency of \$19,892).

#### **16. Contingency Environmental regulations**

The Company's activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing in Canada and generally are becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations and has recorded its best estimate of decommissioning liabilities (note 8).

#### **17. Subsequent event**

Subsequent to year-end, the Company sold its interest in the Shatford Lake mining claims located in Manitoba (note 7) for \$25,000. The purchaser granted the Company a 2% Net Smelter Return Royalty on the claims, one-half of which can be re-purchased at the discretion of the acquirer for \$1,000,000.