

DURANGO RESOURCES INC.
(An Exploration Company)
FINANCIAL STATEMENTS

YEAR ENDED JULY 31, 2021
(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Durango Resources Inc.

Opinion

We have audited the financial statements of Durango Resources Inc. ("the Company"), which comprise the statements of financial position as at July 31, 2021 and July 31, 2020 and the statements of comprehensive income (loss), changes in equity and cash flow 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 July 31, 2021 and July 31, 2020, 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, Canada
November 29, 2021**

Durango Resources Inc.
(An Exploration Stage Company)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

| | July 31, 2021 | July 31, 2020 |
|---|--------------------------|--------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 289,881 | \$ 476,434 |
| Amounts receivable | 238,036 | 16,356 |
| | 527,917 | 492,790 |
| Exploration and evaluation assets (Note 4) | 2,368,405 | 445,738 |
| Reclamation bond | 20,000 | 20,000 |
| Total assets | \$ 2,916,322 | \$ 958,528 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 69,988 | \$ 223,506 |
| Due to related parties (Note 7) | 12,848 | 34,506 |
| Flow-through premium (Notes 3 and 5) | 15,116 | 27,956 |
| | 97,952 | 285,968 |
| Shareholders' equity | | |
| Share capital (Note 5) | 9,591,763 | 7,475,600 |
| Contributed surplus (Note 5) | 1,182,773 | 825,373 |
| Deficit | (7,956,166) | (7,628,413) |
| | 2,818,370 | 672,560 |
| Total liabilities and shareholders' equity | \$ 2,916,322 | \$ 958,528 |

Nature of business and going concern (Note 1)
 Commitments (Notes 3 and 9)
 Subsequent events (Note 12)

Approved and authorized by the Board on November 29, 2021.

"Marcy Kiesman"
 Director

"Aimee Ward"
 CFO

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

Durango Resources Inc.
(An Exploration Stage Company)
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)

| | For the year ended, July 31, | |
|---|---------------------------------|---------------------|
| | 2021 | 2020 |
| Administrative expenses | | |
| Business consultants (Note 7) | \$ 395,427 | \$ 182,164 |
| Directors' fees (Note 7) | 19,000 | 20,000 |
| Internet and website | 13,324 | 17,262 |
| Investor relations and conferences | 66,158 | 49,547 |
| Listing and transfer agent fees | 61,658 | 38,374 |
| Meals | 3,416 | 1,606 |
| Office and miscellaneous | 21,444 | 41,320 |
| Professional fees (Note 7) | 67,046 | 59,099 |
| Rent (Notes 7 and 9) | 10,500 | 10,500 |
| Share-based payments (Notes 5 and 7) | 302,400 | 132,000 |
| Travel | 4,845 | 3,914 |
| Loss before other items | (965,218) | (555,786) |
| Other Items | | |
| Flow-through recovery | 637,465 | 20,794 |
| Mining tax credits received in excess of carrying value | - | 211,317 |
| Write off of exploration and evaluation assets (Note 4) | - | (7,963) |
| | 637,465 | 224,148 |
| Loss and comprehensive loss for the year | \$ (327,753) | \$ (331,638) |
| | | |
| Basic and diluted earnings loss per share | \$ (0.00) | \$ (0.01) |
| | | |
| Weighted average number of shares outstanding | | |
| - basic and diluted | 72,740,562 | 43,582,110 |

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

Durango Resources Inc.
(An Exploration Stage Company)
STATEMENTS OF CASH FLOW
(Expressed in Canadian Dollars)

| | For the year ended, July 31, | |
|--|---------------------------------|--------------|
| | 2021 | 2020 |
| Cash provided by (used in) | | |
| Operating activities | | |
| Net loss for the year | \$ (327,753) | \$ (331,638) |
| Items not affecting cash | | |
| Write off exploration and evaluation assets | - | 7,963 |
| Share-based payments | 302,400 | 132,000 |
| Flow-through recovery | (637,465) | (20,794) |
| Mining tax credits received in excess of carrying value | - | (211,317) |
| | (662,818) | (423,786) |
| Changes in non-cash working capital balances | | |
| Amounts receivable | (221,680) | 9,463 |
| Due to related parties | (21,658) | 11,633 |
| Accounts payable and accrued liabilities | (153,518) | 133,911 |
| | (1,059,674) | (268,779) |
| Investing activities | | |
| Exploration and evaluation costs | (1,922,667) | (132,597) |
| Mining tax credits received | - | 302,956 |
| | (1,922,667) | 170,359 |
| Financing activities | | |
| Proceeds from issuance of common shares, net of share issuance costs | 2,795,788 | 250,000 |
| | 2,795,788 | 250,000 |
| Increase (decrease) in cash | (186,553) | 151,580 |
| Cash, beginning of year | 476,434 | 324,854 |
| Cash, end of year | \$ 289,881 | \$ 476,434 |
| Supplemental cash flow information | | |
| Interest paid (received) | \$ - | \$ - |
| Income taxes paid (received) | \$ - | \$ - |

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

Durango Resources Inc.
(An Exploration Stage Company)
STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

| | Share Capital | | | | Total Shareholders' Equity |
|--|-------------------|---------------------|------------------------|-----------------------|----------------------------------|
| | Shares | Amount | Contributed Surplus | Deficit | |
| Balance, July 31, 2019 | 41,603,000 | \$ 7,244,350 | \$ 693,373 | \$ (7,296,775) | \$ 640,948 |
| Shares issued for flow-through private placement | 625,000 | 50,000 | - | - | 50,000 |
| Shares issued for non flow-through private placement | 4,000,000 | 200,000 | - | - | 200,000 |
| Flow-through premium | - | (18,750) | - | - | (18,750) |
| Share-based payments | - | - | 132,000 | - | 132,000 |
| Net loss for the year | - | - | - | (331,638) | (331,638) |
| Balance, July 31, 2020 | 46,228,000 | 7,475,600 | 825,373 | (7,628,413) | 672,560 |
| Shares issued for flow-through private placement | 13,150,000 | 1,610,875 | - | - | 1,610,875 |
| Shares issued for non flow-through private placement | 16,250,000 | 1,218,750 | - | - | 1,218,750 |
| Shares issued for warrant | 1,077,500 | 119,813 | - | - | 119,813 |
| Flow-through premium | - | (624,625) | - | - | (624,625) |
| Share issuance cost | - | (208,650) | 55,000 | - | (153,650) |
| Share-based payments | - | - | 302,400 | - | 302,400 |
| Net loss for the year | - | - | - | (327,753) | (327,753) |
| Balance, July 31, 2021 | 76,705,500 | \$ 9,591,763 | \$ 1,182,773 | \$ (7,956,166) | \$ 2,818,370 |

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

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

1. Nature of Business and Going Concern

Durango Resources Inc. (the "Company") was incorporated on August 21, 2006 under the Business Corporations Act of British Columbia and is listed on the TSX Venture Exchange under the symbol "DGO". The Company is engaged in the business of exploring precious and base mineral properties in Canada. At July 31, 2021, the Company is considered an exploration stage company. The head office and principal address of the Company is PO Box 31880, Richmond, BC.

These financial statements have been prepared on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at July 31, 2021, the Company has not recognized revenue, has working capital of \$429,965 (2020 – \$206,822), has accumulated operating losses of \$7,956,166 (2020 – \$7,628,413) since its inception, and has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continuation of the Company is dependent upon the continuing financial support of shareholders, obtaining long-term financing to complete exploration and development and the existence of economically recoverable reserves, and upon future profitable production. While the Company is using its best efforts to achieve the above plans, there is significant doubt regarding the outcome of these matters. Based on its current plans, budgeted expenditures, and cash requirements, the Company does have sufficient cash to finance its current plans. The Company expects that it may need to raise additional capital to accomplish its business plan over the next several years. The Company may seek additional financing through equity financing. There can be no assurance as to the availability or terms upon which such financing might be available. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and; specifically, the regional economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. These factors, among others, could have a significant impact on the Company's operations.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might arise from this uncertainty.

2. Basis of Presentation

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars, which is the Company's functional currency.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies

Significant Accounting Estimates and Judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future periods if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and impairment charge, if any, of the exploration and evaluation assets.
- ii) The estimated amounts of reclamation and environmental obligations.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The Company's management made the following critical accounting judgments:

- i) The Company's ability to continue as a going concern, as disclosed in Note 1.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits, cashable guaranteed investment certificates and all highly liquid investments with a maturity of three months or less at the date of purchase. Due to the short time to maturity of cash equivalents, their carrying amounts approximate their fair value.

Exploration and Evaluation Assets

The Company is in the exploration stage in respect to its exploration and evaluation assets.

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

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

Where the Company has entered into option agreements for the acquisition of an interest in exploration and evaluation assets which provided for periodic payments, such unpaid amounts are not recorded as a liability since they are payable entirely at the Company's discretion. Although the Company has taken steps to verify title to the exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. The exploration and evaluation assets may be subject to prior undetected agreements or transfers and title may be affected by such defects.

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

The Company assesses exploration and evaluation assets for impairment at each reporting date.

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

Any incidental revenue earned in connection with exploration activities is applied as a reduction to capitalized exploration costs. Any operational income earned in connection with exploration activities is recognized in profit or loss.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Exploration and Evaluation Assets (continued)

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized. However, for corporate income tax purposes, the Company has no right to claim these costs as tax-deductible expenses.

Mining exploration tax credits for certain exploration expenditures incurred in BC and Quebec are treated as a reduction of the exploration and development costs of the respective resource property. The amounts are recorded in the year received.

Impairment of Non-Current Assets

Non-current assets are evaluated at each reporting date by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating recoverable amounts, if applicable, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social, legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Reversal of Impairment

An impairment loss is reversed if there is an indication that 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 carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Provision for Environmental Rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as interest expense.

The Company does not have any provisions for reclamation obligations.

Income Taxes

Deferred income tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for which relate to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Flow-through Shares

The Company has from time to time, issued flow-through common shares to finance its exploration program. 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 eligible expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability and deferred tax expense for the amount of tax reduction renounced to the shareholders. The reduction of the premium previously recorded is recognized as flow-through recovery.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Flow-through Shares (continued)

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Tax Act). As of July 31, 2021, the Company has an unspent flow-through commitment of \$40,309 (2020 - \$105,298).

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Lookback Rule, in accordance with the Tax Act. When applicable, this tax is accrued as a financial expense until paid.

Share Capital

The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company. The Company's common shares, share warrants and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings (Loss) per Share

The Company applies the "Treasury Stock Method" to calculate loss per common share. Under this method, the basic loss per share is calculated based on the weighted average aggregate number of common shares outstanding during each period. The diluted loss per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period and proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share warrants and options had an anti-dilutive impact in 2021 and 2020.

Valuation of Warrants

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The following table shows the classification under IFRS 9:

| Financial assets/liabilities | Classification and measurement |
|--|--------------------------------|
| Cash, Amounts receivable, Reclamation bond | Amortized cost |
| Accounts payable and accrued liabilities, due to related parties | Amortized cost |

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the profit or loss in the period in which they arise.

Impairment of financial assets at amortized cost

The Company assesses on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For accounts receivable, the Company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Durango Resources Inc.
(An Exploration Stage Company)
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
For the Year Ended July 31, 2021

3. Significant Accounting Policies (continued)

Financial Instruments (continued)

Measurement (continued)

Derecognition

The Company derecognizes a financial asset only when the contractual rights to the cash flows for the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

New and amended accounting pronouncements adopted

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 the standards and amendments effective August 1, 2020 had no material impact on the financial statements.

New standards issued but not yet effective

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 and are expected to have no significant impact on the Company.

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4. Exploration and Evaluation Assets

| | Mayner's Fortune | Dianna Lake | Windfall | | | Nemaska Claims | Total |
|-------------------------------|---------------------|----------------|---------------------|---------------------|-----------------|-------------------|---------------------|
| | BC | Sask | Trove | Lake | Decouverte | Quebec | |
| Balance, July 31, 2019 | \$ 110,632 | \$ - | \$ 230,653 | \$ 13,809 | \$ - | \$ 57,649 | \$ 412,743 |
| Deferred exploration costs | | | | | | | |
| Assay & Exploration | - | - | 4,738 | 6,433 | 5,963 | - | 17,134 |
| Professional Services | - | 2,000 | - | 113,463 | - | - | 113,463 |
| Current year additions | - | 2,000 | 4,738 | 119,896 | 5,963 | - | 132,597 |
| Tax credit and cost recovery | - | - | (34,959) | (56,680) | - | - | (91,639) |
| Write-off of costs | - | (2,000) | - | - | (5,963) | - | (7,963) |
| Balance, July 31, 2020 | 110,632 | - | 200,432 | 77,025 | - | 57,649 | 445,738 |
| Deferred exploration costs | | | | | | | |
| Assay & Exploration | 9,691 | - | 935,874 | 963,776 | 8,546 | 780 | 1,918,667 |
| Professional Services | - | - | 4,000 | - | - | - | 4,000 |
| Current year additions | 9,691 | - | 939,874 | 963,776 | 8,546 | 780 | 1,922,667 |
| Balance, July 31, 2021 | \$ 120,323 | \$ - | \$ 1,140,306 | \$ 1,040,801 | \$ 8,546 | \$ 58,429 | \$ 2,368,405 |

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4. Exploration and Evaluation Assets (continued)

Mayner's Fortune claims, British Columbia

In July 2015, the Company entered into an agreement for the acquisition of the Mayner's Fortune property situated in northern British Columbia. Consideration was the issuance of 1,400,000 common shares and 125,000 common shares as a finder's fee (issued). During the year ended July 31, 2021, \$9,691 in exploration expenditures were completed on the property (2020 - nil).

Nemaska/NMX East claims, Quebec

During the year ended July 31, 2015, the Company staked 383 hectares in northern Quebec. During the year ended July 31, 2016, the Company staked and purchased additional claims. The Company decided to focus on a portion of the claims; accordingly wrote off a portion of the capitalized cost in the year ended July 31, 2018. During the year ended July 31, 2021, \$780 in exploration expenditures were completed on the property (2020 - nil).

Windfall claims, Quebec

In February 2017, the Company entered into an agreement for the acquisition of the Windfall Lake Trilogy which are 2,600 hectares in size and are located in the Windfall Lake gold camp area of northern Quebec. Consideration included the issuance of 1,000,000 common shares (issued) and 100,000 finder's fees (issued). Additional claims were acquired in the area for a deemed cost of \$27,500 (500,000 common shares). During the year ended July 31, 2019, the Company decided to focus on a portion of the claims; accordingly wrote off a portion of the capitalized cost. During the year ended July 31, 2021, \$963,776 in exploration expenditures were completed on the property (2020 - \$119,896).

Trove claims, Quebec

The Company has 100% ownership of the Trove property claims in the Windfall Lake area in Quebec. During the year ended July 31, 2021, \$939,874 (2020 - \$200,432) in exploration expenditures were completed on the property.

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4. Exploration and Evaluation Assets (continued)

Decouverte claims, Quebec

On November 10, 2010, the Company entered into an agreement for the acquisition of the Decouverte Property situated in Quebec. Consideration included the issuance of 2,750,000 common shares (issued) and a \$200,000 work commitment to be completed one year from TSXV approval. The Company owns 100% of the property. During the year ended July 31, 2019, the property was written down to zero.

5. Share Capital

Authorized: Unlimited number of common shares without par value

- a. During the year ended July 31, 2021, the Company:
- i. Completed a non-brokered private placement of 13,150,000 flow-through units at a price of \$0.1225 per unit for gross proceeds of \$1,610,875. Each unit consisted of one common share and one-half share purchase warrant exercisable at \$0.15 for a period of three years, expiring August 13, 2023. A flow-through premium of \$624,625 was recognized upon the issuance.
 - ii. Completed a non-brokered private placement of 16,250,000 non-flow-through units at a price of \$0.075 per unit for gross proceeds of \$1,218,750. Each unit consisted of one common share and one-half share purchase warrant exercisable at \$0.15 for a period of three years, expiring August 16, 2023.
 - iii. Issued 1,077,500 shares pursuant to warrant exercises. 415,000 shares are related to warrant exercises at \$0.10 per share, 562,500 warrants at \$0.125 per share, and 100,000 warrants at \$0.08 per share for total proceeds of \$119,813.
 - iv. Paid cash finders' fee in the amount of \$153,650 and issued 738,458 broker warrants valued at \$55,000 in connection with the aforementioned private placements. Each broker warrant is exercisable at \$0.15 for a period of three years.

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5. Share Capital (continued)

- b. During the year ended July 31, 2020, the Company:
- i. Completed a non-brokered private placement of 625,000 flow-through units at a price of \$0.08 per unit for gross proceeds of \$50,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.125 for a period of two years from the closing date. A flow-through premium of \$18,750 was recognized upon the issuance.
 - ii. Completed a non-brokered private placement of 4,000,000 non-flow-through units at a price of \$0.05 per unit for gross proceeds of \$200,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.08 for a period of two years from the closing date.

c. Stock options

The Company has adopted an incentive stock option plan, whereby options may be granted from time to time to directors, officers, employees and consultants of the Corporation with common shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares with no one individual being granted options for more than 5% of the issued and outstanding common shares. Stock options granted have a maximum term of ten years according to the TSX Venture rules. The fair value of each grant of stock options during the years ended July 31, 2021 and 2020, was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions:

| <u>July 31, 2021</u> | <u>Weighted Average</u> |
|------------------------------|-------------------------|
| Estimated life | 5 years |
| Share price at date of grant | \$0.13 |
| Option exercise price | \$0.12 |
| Risk-free interest rate | 1.00% |
| Estimated annual volatility | 100% |
| Option fair value | \$0.09 |
| Fair value | \$302,400 |

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5. Share Capital (continued)

c. Stock options (continued)

July 31, 2020

| | |
|------------------------------|-----------|
| Estimated life | 5 years |
| Share price at date of grant | \$0.07 |
| Option exercise price | \$0.10 |
| Risk-free interest rate | 1.00% |
| Estimated annual volatility | 100% |
| Option fair value | \$0.05 |
| Fair value | \$132,000 |

The expected volatility was determined based on the volatility of companies in the same industry with similar size and transactions.

Stock Options Outstanding

| | Number of Options | Weighted Average Exercise Price |
|----------------------------------|----------------------|---------------------------------------|
| Outstanding July 31, 2019 | 3,150,000 | \$ 0.08 |
| Expired/Cancelled | (1,900,000) | 0.09 |
| Granted | 2,800,000 | 0.10 |
| Outstanding July 31, 2020 | 4,050,000 | 0.09 |
| Expired/Cancelled | (200,000) | 0.10 |
| Granted | 3,200,000 | 0.12 |
| Outstanding July 31, 2021 | 7,050,000 | \$ 0.11 |

A summary of the Company's options outstanding and exercisable at July 31, 2021 is as follows:

| Number of options outstanding | Number of options exercisable | \$ per share | Expiry date |
|----------------------------------|----------------------------------|----------------|--------------------|
| 250,000 | 250,000 | \$0.060 | September 17, 2021 |
| 600,000 | 600,000 | \$0.070 | December 4, 2021 |
| 200,000 | 200,000 | \$0.070 | December 12, 2021 |
| 1,600,000 | 1,600,000 | \$0.100 | February 19, 2025 |
| 1,200,000 | 1,200,000 | \$0.100 | June 28, 2025 |
| 3,000,000 | 3,000,000 | \$0.125 | September 25, 2025 |
| 200,000 | 200,000 | \$0.100 | January 18, 2026 |
| 7,050,000 | 7,050,000 | \$0.110 | |

Durango Resources Inc.
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5. Share Capital (continued)

d. Warrants

| Warrants Outstanding | Number of Warrants | Weighted Average Exercise Price |
|----------------------------------|---------------------------|--|
| Outstanding July 31, 2019 | 8,488,044 | \$ 0.12 |
| Expired | (2,148,133) | 0.15 |
| Issued | 4,625,000 | 0.09 |
| Outstanding July 31, 2020 | 10,964,911 | 0.10 |
| Expired | (4,590,152) | 0.10 |
| Exercised | (1,077,500) | 0.11 |
| Issued | 15,438,458 | 0.15 |
| Outstanding July 31, 2021 | 20,735,717 | \$ 0.14 |

During the year ended July 31, 2021, a total of 1,077,500 warrants were exercised for gross proceeds of \$119,813 in exchange for the issuance of 1,077,500 common shares.

A summary of the Company's warrants outstanding at July 31, 2021 is as follows:

| Number of warrants outstanding | \$ per share | Expiry date |
|--------------------------------|----------------|-------------------|
| 401,666 | \$0.125 | March 28, 2022 |
| 933,093 | \$0.125 | July 22, 2022 |
| 62,500 | \$0.125 | November 27, 2021 |
| 3,900,000 | \$0.080 | March 11, 2022 |
| 7,035,250 | \$0.150 | August 13, 2023 |
| 8,403,208 | \$0.150 | August 16, 2023 |
| 20,735,717 | \$0.135 | |

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6. Capital Disclosures

The Company includes cash and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended July 31, 2021. The Company is not subject to externally imposed capital requirements.

7. Related Party Transactions

The following transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

Key management personnel compensation

| For the year ended July 31, | 2021 | 2020 |
|---|-------------------|-------------------|
| Consulting fees with a company controlled by the President of the Company | \$ 120,000 | \$ 120,000 |
| Share based payments to directors and officers | 200,150 | 114,333 |
| Rental fees with a company with a common director of the Company | 10,500 | 10,500 |
| Director's and accounting fees | 43,000 | 44,000 |
| | \$ 373,650 | \$ 288,833 |

As at July 31, 2021 amounts due to related parties \$12,848 (2020 - \$34,506) were owed to the CEO, CFO and directors of the Company. The amounts due are non-interest bearing, unsecured, and due on demand.

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8. Non-cash Financing and Investing Transactions

| | 2021 | 2020 |
|------------------------|-----------|------|
| Broker warrants issued | \$ 55,000 | \$ - |

9. Commitments

The Company entered into a contract on June 1, 2017 with Steveston Finance, wholly owned by the President (Marcy Kiesman) of the Company. The contract obligates the Company to pay \$10,000 per month for management services until terminated.

The Company entered into a consulting agreement on December 5, 2018 with the CFO of the company that includes change of control clause. In the case of a change of control, the officer is entitled to an amount equal to twelve times the monthly cash payment. As at July 31, 2021, the monthly cash payment under the agreement is \$2,000 per month.

The Company entered into an office lease agreement on September 10, 2013 with a corporation with a common director. The contract obligates the Company to pay rent of \$875 per month on a year-to-year basis.

10. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | 2021 | 2020 |
|---|--------------|--------------|
| Net income (loss) for the year before income tax | \$ (327,753) | \$ (331,638) |
| Combined federal and provincial tax rate | 27.00% | 27.00% |
| Expected income tax expense (recovery) at statutory rates | (88,493) | (89,542) |
| Non-deductible items for tax purposes | (90,006) | 30,242 |
| True-up | (31,162) | (17,989) |
| Change in unrecognized deferred tax benefits | 209,661 | 77,289 |
| Deferred income taxes expense (recovery) | \$ - | \$ - |

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10. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

| | July 31, 2021 | July 31, 2020 |
|--|----------------------|----------------------|
| Deferred income tax assets (liabilities) | | |
| Share issue costs and others | \$ 33,000 | \$ - |
| Capital losses | 32,000 | 50,000 |
| Non-capital losses | 1,451,000 | 1,264,000 |
| Resource pool | (27,000) | 358,000 |
| | <u>1,489,000</u> | <u>1,672,000</u> |
| Tax benefits not recognized | (1,489,000) | (1,672,000) |
| Net deferred income tax assets | <u>\$ -</u> | <u>\$ -</u> |

As of July 31, 2021, the Company has available non-capital losses of approximately \$5,372,000 (July 31, 2020 - \$4,680,000) for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses expire as follows:

| | |
|------|---------------------|
| 2027 | \$ 108,000 |
| 2028 | 108,000 |
| 2029 | 141,000 |
| 2030 | 479,000 |
| 2031 | 502,000 |
| 2032 | 459,000 |
| 2033 | 377,000 |
| 2034 | 293,000 |
| 2035 | 217,000 |
| 2036 | 341,000 |
| 2037 | 278,000 |
| 2038 | 486,000 |
| 2039 | 466,000 |
| 2040 | 425,000 |
| 2041 | 692,000 |
| | <u>\$ 5,372,000</u> |

The Company has available mineral resource related expenditure pools totaling approximately \$2,267,000 which may be deducted against future taxable income on a discretionary basis.

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11. Financial Instruments

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, liquidity risk and currency risk.

a. Credit risk

The Company is exposed to credit risk by holding cash. The maximum exposure to credit risk is equal to the carrying value of the financial assets. This risk is minimized by holding the investments in large Canadian financial institutions or with Canadian governments. The Company has minimal accounts receivable exposure, and its various refundable credits are due from Canadian governments and accordingly, the Company has minimal credit risk.

b. Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations.

c. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. As at July 31, 2021 the Company was holding cash of \$289,881 to satisfy accounts payable and amounts due to related parties of \$82,836. The Company plans to obtain cash inflows from share capital financings. There can be no guarantee that management's efforts to raise additional funds will be successful.

d. Commodity price risk

The Company's ability to raise capital to develop its mineral properties is subject to risks associated with fluctuations in the market prices of precious metals, graphite, base metals and rare earth elements.

e. Currency rate risk

The Company's functional currency is the Canadian dollar. There is no significant foreign exchange risk to the Company. The Company does not engage in any form of derivative or hedging instruments.

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11. Financial Instruments (continued)

f. Fair value hierarchy

Financial instruments recorded at fair value on the Statements of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- i. Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- ii. Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- iii. Level 3 – Input for assets and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company had no financial instrument recorded at fair value as at July 31, 2021 and 2020.

12. Subsequent Events

In September 2021, 250,000 stock options exercisable at \$0.06 expired unexercised.

In November 2021, 62,500 warrants exercisable at \$0.125 expired unexercised.