

**CAIRO RESOURCES INC.**

**Financial Statements**

**Years Ended February 28, 2021 and February 29, 2020**

(Expressed in Canadian Dollars)

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF CAIRO RESOURCES INC.

#### *Opinion*

We have audited the financial statements of Cairo Resources Inc. (the "Company"), which comprise:

- the statements of financial position as at February 28, 2021 and February 29, 2020;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of changes in shareholders' equity (deficiency) for the years then ended;
- the statements of cash flows for the years then ended; and
- the 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 February 28, 2021 and February 29, 2020, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

#### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$57,473 during the year ended February 28, 2021 and, as at that date, has an accumulated deficit of \$642,088. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### *Other Information*

Management is responsible for the other information. The other information comprises 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 Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

## *Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' report is Sukhjit Gill.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia

March 19, 2021

**CAIRO RESOURCES INC.**  
**Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

As at	February 28, 2021	February 29, 2020
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 313,674	\$ 19,090
GST receivable	483	460
Prepaid expenses	417	962
Loans receivable (note 8)	125,000	-
	\$ 439,574	\$ 20,512
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 6)	\$ 18,799	\$ 49,714
<b>Shareholders' Equity (Deficiency)</b>		
<b>Capital Stock</b> (note 5)	960,959	453,509
<b>Reserves</b> (note 5)	101,904	101,904
<b>Deficit</b>	(642,088)	(584,615)
	420,775	(29,202)
	\$ 439,574	\$ 20,512

**Proposed transaction** (note 8)

Approved on behalf of the Board:

"Darryl Cardey" (signed)

Director

"Michael Sadhra" (signed)

Director

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

**CAIRO RESOURCES INC.**  
**Statements of Loss and Comprehensive Loss**  
**Years Ended February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

	<b>2021</b>	<b>2020</b>
<b>Expenses</b>		
Filing fees	\$ 7,204	\$ 6,779
General and administrative (note 6)	25,792	14,627
Professional fees	13,812	11,401
Transaction costs	10,665	9,475
<b>Net Loss and Comprehensive Loss for the Year</b>	<b>\$ (57,473)</b>	<b>\$ (42,282)</b>
<b>Basic and Diluted Loss Per Common Share</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>3,680,447</b>	<b>1,581,474</b>

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

**CAIRO RESOURCES INC.**  
**Statements of Changes in Equity (Deficiency)**  
**February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

	Capital Stock		Reserves	Deficit	Equity (Deficiency)
	Number	Amount			
<b>Balance, February 28, 2019</b>	<b>1,881,473</b>	<b>\$ 453,509</b>	<b>\$ 101,904</b>	<b>\$ (542,333)</b>	<b>\$ 13,080</b>
Net loss for the year	-	-	-	(42,282)	(42,282)
<b>Balance, February 29, 2020</b>	<b>1,881,473</b>	<b>\$ 453,509</b>	<b>\$ 101,904</b>	<b>\$ (584,615)</b>	<b>\$ (29,202)</b>
Proceeds from issuance of common shares	3,375,000	540,000	-	-	540,000
Share issue costs	-	(32,550)	-	-	(32,550)
Net loss for the year	-	-	-	(57,473)	(57,473)
<b>Balance, February 28, 2021</b>	<b>5,265,473</b>	<b>\$ 960,959</b>	<b>\$ 101,904</b>	<b>\$ (642,088)</b>	<b>\$ 420,775</b>

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

**CAIRO RESOURCES INC.**  
**Statements of Cash Flows**  
**February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Loss for the year	\$ (57,473)	\$ (42,282)
Changes in working capital balances		
GST receivable	(23)	(31)
Prepaid expenses	545	(545)
Accounts payable and accrued liabilities	(33,165)	16,853
<b>Cash Used in Operating Activities</b>	<b>(90,116)</b>	<b>(26,005)</b>
<b>Investing Activity</b>		
Loans receivable	(125,000)	-
<b>Cash Used in Investing Activity</b>	<b>(125,000)</b>	<b>-</b>
<b>Financing Activities</b>		
Proceeds from issuance of common shares	540,000	-
Share issuance costs paid	(30,300)	-
<b>Cash Provided by Financing Activities</b>	<b>509,700</b>	<b>-</b>
<b>Inflow (Outflow) of Cash</b>	<b>294,584</b>	<b>(26,005)</b>
<b>Cash, Beginning of Year</b>	<b>19,090</b>	<b>45,095</b>
<b>Cash, End of Year</b>	<b>\$ 313,674</b>	<b>\$ 19,090</b>
<b>Supplementary information</b>		
Share issuance costs included in accounts payable	\$ 2,250	\$ -
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

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

# CAIRO RESOURCES INC.

## Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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### 1. NATURE AND CONTINUANCE OF OPERATIONS

Cairo Resources Inc. (the "Company") was incorporated under the *Business Corporations Act* of British Columbia on February 8, 2010. The Company was classified as a capital pool corporation ("CPC"), as defined in TSX Venture Exchange Policy 2.4, and the Company's common shares traded on the TSX Venture Exchange (the "TSX-V"). As a CPC, the principal business of the Company is to identify, evaluate and then acquire an interest in a business or assets (the "Qualifying Transaction") within 24 months from the date the Company's shares were listed for trading on the TSX-V.

At an annual and special meeting of its shareholders held on November 27, 2013, the Company received majority disinterested shareholder approval to transfer to the TSX-V's NEX board (the "NEX"); and conditional upon listing on the NEX, to cancel 200,000 escrowed common shares held by principals of the Company. The Company's application to the TSX-V for transfer to NEX was accepted, and the TSX-V advised that the Company's trading symbol would change from "QAI.P" to "QAI.H".

On May 7, 2014, the Company announced that it was unable to complete a Qualifying Transaction within its 24-month deadline, including extensions, and that it was required by the TSX-V to transfer its listing from the Tier 2 board of the TSX-V to the NEX. Upon listing on the NEX, the Company cancelled 200,000 escrowed common shares held by the principals of the Company.

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended February 28, 2021, the Company realized a loss of \$57,473 (February 29, 2020 - \$42,282) and as at February 28, 2021 had a deficit of \$642,088 (February 29, 2020 - \$584,615).

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of or participation in an interest in properties, assets or businesses. At present, the Company has not completed its Qualifying Transaction within the required period and consequently has no current operating income or cash flows. Without additional financing, the Company will be unable to fund its ongoing operations for the next twelve months. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. The Company will need to raise sufficient working capital to maintain operations. These financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The head office and records office of the Company are located at 1430 – 800 West Pender Street, Vancouver, British Columbia, Canada, V6C 2V6.

**CAIRO RESOURCES INC.**  
**Notes to the Financial Statements**  
**For the Years Ended February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

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**2. BASIS OF PRESENTATION**

(a) Statement of compliance

These financial statements are prepared in accordance with IFRS, as issued by the IASB. These financial statements have been prepared on a historical cost basis, except for financial assets and liabilities classified as financial instruments at fair value through profit or loss ("FVTPL"), which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information

The significant accounting policies set out in note 3 have been applied consistently to all periods presented.

The Company's functional and presentation currency is the Canadian dollar.

(b) Approval of the financial statements

These financial statements of the Company were approved by the Board of Directors and authorized for issue on March 19, 2021.

(c) Critical accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include accrued liabilities, the recoverability of deferred tax assets and the collectability of loans receivable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the financial statements is included in the going concern assessment (see note 1).

**3. SIGNIFICANT ACCOUNTING POLICIES**

(a) Financial instruments

(i) Financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

## CAIRO RESOURCES INC.

### Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

(i) Financial assets (continued)

*Financial assets measured at amortized cost*

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

*Financial assets measured at fair value through other comprehensive income*

A financial asset measured at fair value through other comprehensive income ("FVTOCI") is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

*Fair value through profit or loss*

A financial asset measured at fair value through profit or loss ("FVTPL") is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the statement of income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

**CAIRO RESOURCES INC.**  
**Notes to the Financial Statements**  
**For the Years Ended February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments (continued)

(ii) Financial liabilities

The Company classifies its financial liabilities in the following categories:

*Borrowings and other financial liabilities*

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

The Company has made the following designations of its financial instruments:

Cash	FVTPL
Loans receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

As at February 28, 2021 and February 29, 2020, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these instruments.

(iv) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

## CAIRO RESOURCES INC.

### Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Share-based payments

The Company accounts for share-based payments using a fair value based method with respect to all share-based payments, to directors, employees and service providers. For directors and employees, the fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the options are earned. For service providers, the fair value of the options is measured at the fair value of the goods or services received, unless related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of capital stock. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured using the Black-Scholes option pricing model. The fair value is recognized as an expense with a corresponding increase in equity. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

Upon the exercise of the stock option, consideration received and the related amount transferred from reserves are recorded as capital stock.

(c) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(d) Capital stock

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share options and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, options or warrants are shown in equity as a deduction, net of tax, from the proceeds.

**CAIRO RESOURCES INC.**  
**Notes to the Financial Statements**  
**For the Years Ended February 28, 2021 and February 29, 2020**  
**(Expressed in Canadian Dollars)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(e) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income/loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

(f) Future accounting standards

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on its financial statements would not be significant.

**4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk exists with respect to the Company's cash and loans receivable.

Credit risk is minimized by ensuring that cash is placed with a major Canadian financial institution with a strong investment-grade rating by a primary ratings agency. The carrying amount of these financial assets represents the maximum credit exposure.

## CAIRO RESOURCES INC.

### Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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#### 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. At February 28, 2021, the Company had cash of \$313,674 (February 29, 2020 - \$19,090) available to meet short-term business requirements and current liabilities of \$18,799 (February 29, 2020 - \$49,714). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to significant market risk.

#### 5. CAPITAL STOCK

(a) Authorized

The Company has authorized an unlimited number of common shares without par value. As at February 28, 2021, the Company had outstanding 5,256,473 (February 29, 2020 - 1,881,473) shares.

(b) Issued and outstanding

*2021*

On July 16, 2020, the Company completed a non-brokered private placement of 3,375,000 common shares at a price of \$0.16 per share for gross proceeds of \$540,000. The Company incurred \$32,550 of share issue costs related to the private placement, which was offset against capital stock.

*2020*

There were no capital stock transactions during the year ended February 29, 2020.

(c) Escrow shares

As at February 28, 2021 and February 29, 2020, there are 299,999 common shares being held in escrow and are subject to a TSX-V mandated CPC Escrow Agreement. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities or in accordance with the CPC Escrow Agreement following the Company's completion of a Qualifying Transaction.

## CAIRO RESOURCES INC.

### Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

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#### 5. CAPITAL STOCK (continued)

(d) Stock option plan

The Company adopted a stock option plan (the "Plan") that allows the Company to issue options to certain directors, officers, employees and consultants of the Company. The Board shall specify the number of shares that will be placed under option, the option price and the period during which options may be exercised. The number of options granted to one person shall not exceed 5% of the outstanding shares at the time of granting the options. If employment with the Company is terminated, other than through death, options not exercised will expire within the later of 12 months after completion of the Qualifying Transaction and 90 days after the termination date. Until a Qualifying Transaction is completed, the maximum number of shares to be reserved under the Plan shall not exceed 495,647 which is 10% of the issued common shares of the Company at the closing of the Company's initial public offerings. Following the completion of a Qualifying Transaction the maximum number of shares reserved for issuance under the Plan shall not exceed 10% of the shares issued and outstanding as at the date of the grant of options.

(e) Stock options and warrants

During the years ended February 28, 2021 and February 29, 2020, the Company did not issue any warrants or grant any stock options. There were no warrants or options outstanding as at February 28, 2021 and February 29, 2020.

#### 6. RELATED PARTY TRANSACTIONS

The Company's related party and key management personnel consist of a company owned by the executive officer and directors as follows:

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	<b>Relationship</b>	<b>Nature of Transactions</b>
CDM Capital Partners Inc.	Partially owned by the President, CEO, CFO and a director of the Company	Rent

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During the year ended February 28, 2021, the Company paid \$9,000 (2020 - \$9,000) for rent to CDM Capital Partners Inc. and owed them \$Nil (February 29, 2020 - \$5,513) at year-end.

## **CAIRO RESOURCES INC.**

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

**For the Years Ended February 28, 2021 and February 29, 2020**

**(Expressed in Canadian Dollars)**

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#### **7. CAPITAL MANAGEMENT**

The Company is actively looking to acquire an interest in a business or assets, and this involves a high degree of risk. The Company has not determined whether it will be successful in its endeavours and does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations, and is not subject to any externally imposed capital requirements.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

The Company defines its capital as shareholders' equity (deficiency). Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid. There have been no changes to the Company's approach to capital management during the year.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this financing. The net proceeds raised to date will only be sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction. However, additional funds will be required to finance the Company's Qualifying Transaction.

#### **8. PROPOSED TRANSACTION**

On January 26, 2021, the Company entered into a binding letter agreement (the "Letter Agreement") with Bangles Gold Pty Ltd. ("Bangles") in respect of a proposed business combination (the "Proposed Transaction"). It is anticipated that the Proposed Transaction will constitute the Cairo's "Qualifying Transaction" pursuant to Policy 2.4 of the TSX-V.

Bangles is the holder of a 100% legal and beneficial interest in three exploration licence applications ("ELA's") located in New South Wales ("NSW"), Australia. ELA 6056, ELA 6058 and ELA 6059 cover an area of ~680 km<sup>2</sup> over sections of the mineralised Koonenberry Fault and associated secondary faults and splays located in NSW, Australia. The Koonenberry region is an emerging gold district.

## **CAIRO RESOURCES INC.**

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

**For the Years Ended February 28, 2021 and February 29, 2020**

**(Expressed in Canadian Dollars)**

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#### **8. PROPOSED TRANSACTION (continued)**

##### **Summary of the Proposed Transaction**

The Letter Agreement contemplates that Cairo and Bangles will negotiate and enter into a definitive agreement in respect of the Proposed Transaction (the “Definitive Agreement”), pursuant to which it is anticipated that Cairo will acquire all of the issued and outstanding common shares of Bangles, and the shareholders of Bangles will receive Cairo common shares in exchange for their Bangles common shares.

Pursuant to the Proposed Transaction, Cairo intends to issue an aggregate of 5,000,000 Cairo common shares and \$112,500 of cash consideration will be paid pro rata to the shareholders of Bangles in exchange for 100% of the Bangles Shares. A finder’s fee of 386,161 Cairo common shares will be payable by Cairo to an arm’s length third party in connection with the closing of the Proposed Transaction.

The completion of the Proposed Transaction remains subject to a number of terms and conditions. Upon completion of the Proposed Transaction, it is anticipated that the Resulting Issuer will be listed as a Tier 2 Mining Issuer on the TSX-V, with Bangles as its primary operating subsidiary.

In connection with the Proposed Transaction, Cairo and Bangles entered a Promissory Note Agreement dated February 4, 2021. Under the terms of the Promissory Note Agreement, Cairo will advance secured loans of up to \$250,000 to Bangles, which are non-interest bearing and have a term of one year. In the event that the Definitive Agreement is terminated, these loans will be due on demand and bear interest at 10%, compounded monthly. The loans are secured by the common shares of Bangles, of which there are currently 1,500,000 outstanding. The loans will be used by Bangles for working capital purposes. During the year ended February 28, 2021, the Company advanced \$125,000 to Bangles under the terms of the Promissory Note Agreement.

In connection with the Proposed Transaction, the parties will arrange a concurrent financing of units of Cairo (“Units”) for gross proceeds of \$2,100,000 or such lesser or greater amount agreed to by the parties, at a price of \$0.28 per Unit. Each Unit will consist of one Cairo common share and one-half of a share purchase warrant of Cairo (“Warrants”), with each whole Warrant exercisable for a period of eighteen months at a price of \$0.40 per Cairo common share.

## CAIRO RESOURCES INC.

### Notes to the Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

#### 9. INCOME TAXES

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 27.0% (2020 - 27%) as follows:

	2021	2020
Net loss for the year	\$ (57,473)	\$ (42,282)
Statutory income tax rate	27.0%	27.0%
Income tax recovery at Canadian statutory rate	(15,518)	(11,416)
Under provided in prior years'	2,687	7,827
Unused tax losses	12,831	3,589
Total income tax recovery	\$ -	\$ -

The significant components of the Company's temporary differences and unused tax losses that have not been included on the statements of financial position are as follows:

	2021	2020
Non-capital losses	\$ 471,404	\$ 416,581
Share issuance costs	26,126	875
	\$ 497,530	\$ 417,456

At February 29, 2020, the Company has tax loss carry-forwards of approximately \$471,400 which expire between 2031 and 2041.

#### 10. COVID-19

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness which may impact the Company's ability to obtain external financing as required for the Proposed Transaction described in note 8. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.