

DISTRICT METALS CORP.

(formerly MK2 Ventures Ltd.)

Condensed Interim Financial Statements

For the three months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars - unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)

	As at	
	September 30, 2019 (unaudited)	June 30, 2019
ASSETS		
Current assets		
Cash	\$ 564,656	\$ 784,845
GST receivable	27,426	21,397
Prepaid expenses	8,194	958
	600,276	807,200
Exploration and evaluation assets (Note 3)	614,757	355,288
TOTAL ASSETS	\$ 1,215,033	\$ 1,162,488
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 98,474	\$ 118,772
TOTAL LIABILITIES	98,474	118,772
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	55,696,351	55,496,351
Reserve (Note 6)	790,915	585,900
Accumulated deficit	(55,370,707)	(55,038,535)
TOTAL SHAREHOLDERS' EQUITY	1,116,559	1,043,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,215,033	\$ 1,162,488

These condensed interim financial statements were authorized for issue by the Board of Directors on November 27, 2019. They are signed on behalf of the Board of Directors by:

"Robby Chang"
Director

"Garrett Ainsworth"
Director

The accompanying notes form an integral part of these condensed interim financial statements.

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)
Condensed Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars- unaudited)

	For the Three Months Ended	
	September 30, 2019	September 30, 2018
EXPENSES		
General and administrative costs	\$ 1,594	\$ 4,306
Management fees	22,500	22,500
Consulting fees (Note 7)	19,500	51,000
Professional fees	47,304	5,719
Property investigation costs	5,181	-
Insurance	3,690	-
Shareholder information and investor relations	13,110	-
Stock-based compensation (Notes 6 and 7)	205,015	585,900
Travel	8,739	-
Transfer agent, regulatory and listing fees	5,539	5,050
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ 332,172	\$ 674,475
Basic and diluted loss per share for the period	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding	31,988,138	31,783,303

The accompanying notes form an integral part of these condensed interim financial statements.

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)
Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars - unaudited)

	For the Three Months Ended	
	September 30, 2019	September 30, 2018
Cash flows provided from (used in):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (332,172)	\$ (674,475)
Adjustments for item not affecting cash:		
Stock-based compensation (Note 9)	205,015	585,900
	(127,157)	(88,575)
Net changes in non-cash working capital items:		
GST receivable	(6,029)	(2,766)
Prepaid expenses	(7,236)	(8,625)
Accounts payable and accrued liabilities (Note 7)	(20,298)	40,989
Net cash flows used in operating activities	(160,720)	(59,037)
INVESTING ACTIVITY		
Exploration and evaluation assets (Note 6)	(59,469)	-
Net cash flows used in investing activity	(59,469)	-
Net increase (decrease) in cash	(220,189)	(59,037)
Cash, beginning of year	784,845	1,427,306
Cash, end of year	\$ 564,656	\$ 1,368,269
Supplemental Disclosures with Respect to Cash Flows		
Exploration and evaluation assets costs included in accounts payable and accrued liabilities	\$ 20,442	\$ -

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DISTRICT METALS CORP.
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Condensed Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars - unaudited)

	Number of shares	Amount	Reserve	Accumulated deficit	Total
Balance at June 30, 2018	31,783,303	\$ 55,490,679	\$ -	\$ (54,070,867)	\$ 1,419,812
Stock-based compensation	-	-	585,900	-	585,900
Net loss for the year	-	-	-	(674,475)	(674,475)
Balance at September 30, 2018	31,783,303	\$ 55,490,679	\$ 585,900	\$ (54,745,342)	\$ 1,331,237
Balance at June 30, 2019	31,823,303	\$ 55,496,351	\$ 585,900	\$ (55,038,535)	\$ 1,043,716
Common shares issued for property payment	1,250,000	200,000	-	-	200,000
Stock-based compensation	-	-	205,015	-	205,015
Net loss for the year	-	-	-	(332,172)	(332,172)
Balance at September 30, 2019	33,073,303	\$ 55,696,351	\$ 790,915	\$ (55,370,707)	\$ 1,116,559

The accompanying notes form an integral part of these condensed interim financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

District Metals Corp. (formerly MK2 Ventures Ltd.) (the “Company” or “District Metals”) was incorporated under the provincial laws of Alberta on July 24, 1989 and continued in the province of British Columbia on March 31, 2006. The Company’s registered office is located at 10th Floor – 595 Howe Street, Vancouver, BC, V6C 2T5. The Company is listed on the TSX Venture Exchange (the “Exchange”) and trades under the symbol “DMX”.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At September 30, 2019, the Company had cash of \$564,656 (June 30, 2019 - \$784,845) and working capital of \$501,802 (June 30, 2019 - \$688,428). The Company currently has no active business and is not generating any revenues. It has incurred losses and negative cash flows from operations since inception and had an accumulated deficit of \$55,370,707 as at September 30, 2019 (June 30, 2019 - \$55,038,535). Whether and when the Company can obtain profitability and positive cash flows from operations is uncertain. These uncertainties cast significant doubt on the ability of the Company to continue as a going concern.

The Company’s ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements. While the Company has been successful in raising equity in the past, there can be no guarantee that it will be able to raise sufficient funds to fund its activities and general and administrative costs in the next twelve months and in the future. These financial statements do not give effect to the required adjustments to the carrying amounts and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed, and therefore these financial statements should be read in conjunction with the Company’s June 30, 2019 audited annual consolidated financial statements and the notes to such financial statements.

These financial statements are based on the IFRS issued and effective as of November 27, 2019, the date these financial statements were authorized for issuance by the Company’s Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policies disclosed below:

a) New accounting standard and interpretation

The Company adopted the following new accounting standard and interpretation:

IFRS 16, Leases (effective January 1, 2019) introduced new requirements for the classification and measurement of leases. Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases on the condensed consolidated statement of financial position, unless the lease term is 12 months or less or the underlying asset has a low value. The Company has applied a modified retrospective transition approach. The Company does not have any leases, and as a result, this standard had no impact on the Company’s financial statements on adoption.

IFRIC 23, Uncertainty over Income Tax Treatments (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. This interpretation did not have an impact on the Company’s financial statements.

b) Accounting standards issued but not yet adopted

The Company has not applied the following amendment that has been issued but is not yet effective:

Amendments to IFRS 3, Business Combinations (effective January 1, 2020) 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 Company has not elected to apply this amendment early.

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3. EXPLORATION AND EVALUATION ASSETS

Bakar Property

On May 1, 2019, the Company entered into a purchase agreement with Longford Capital Corp. ("Longford Capital") and James Douglas Rogers to acquire a 100% interest in the Bakar Property for \$50,000 and the issuance of 1,250,000 common shares of the Company ("Bakar Purchase Agreement"). Longford Capital shall retain a 2% net smelter royalty on the property. The Company has six months from the closing date of June 15, 2019 to incur \$200,000 of expenditures on the property and register and record such expenditures with the British Columbia Minerals Title Branch (the "Expenditures").

The Company will pay Longford Exploration Services Ltd. for the work (plus disbursements) (the "Work Fee") as billed in accordance with the contractor's billing practices from time to time.

In addition to the Work Fee, the Company will pay a management fee (and, collectively with the Work Fee, the "Fees") as a percentage of the aggregate Work Fees (the "Project Costs"). The amount of management fee based on the Project Cost as follows:

- 15% if the Project Cost is less than \$200,000;
- 12% if the Project Cost is greater than \$200,000 and less than \$650,000;
- 10% if the Project Cost is equal to or greater than \$650,000.

Costs incurred with respect to the property are summarized below:

Acquisition Costs	Bakar Property	
Balance, June 30, 2019	\$	35,086
Additions		240,000
Balance, September 30, 2019	\$	275,086
Deferred Exploration Costs		
Balance, June 30, 2019	\$	320,202
Consulting		19,469
Balance, September 30, 2019	\$	339,671
Total		
Balance, June 30, 2019	\$	355,288
Balance, September 30, 2019	\$	614,757

As at September 30, 2019, the Company paid the entire \$50,000 cash purchase price and issued 1,250,000 common shares with a fair value of \$200,000 to acquire a 100% interest in the Bakar Property.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At September 30, 2019 and 2018, the Company's accounts payable and accrued liabilities are comprised of the following:

	September 30, 2019		June 30, 2019	
Trade payables and accrued liabilities	\$	98,474	\$	118,772
	\$	98,474	\$	118,772

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5. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

On July 12, 2019, the Company issued 1,250,000 common shares with a fair value of \$200,000 to complete the payments for the Bakar Purchase Agreement.

On May 28, 2019, the Company issued 40,000 common shares for proceeds of \$6,000 upon the exercise of warrants at \$0.15 per common shares. The Company's share price on the date of exercise was \$0.16. The Company incurred \$328 of share issuance costs.

6. OPTIONS AND WARRANTS

(a) Options

The Black-Scholes option pricing model inputs for options granted and vested during the three months ended September 30, 2019 is as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield	Fair Value
12-Aug-2019	12-Aug-2024	\$0.20	\$0.20	1.20%	5	185%	0	\$0.19

The risk-free rate of periods within the expected life of the stock option is based on the Canadian government bond rate. The forfeiture rate assumption is based on historical results and the annualized volatility is based on comparable companies' historical share prices.

Total expenses arising from stock-based compensation recognized during the three months ended September 30, 2019 were \$205,015 (2018 - \$585,900) using the Black-Scholes option pricing model.

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The terms of the options granted are fixed by the Board of Directors, and are not to exceed ten years. The exercise prices of the options are determined by the Board of Directors, but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the options are granted, less any discount permitted by the Exchange.

Options granted under the plan may vest immediately on grant, or over a period as determined by the Board of Directors or, in respect of options granted for investor relations services, as prescribed by Exchange policy.

A continuity schedule of the Company's outstanding stock options for the three months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019		September 30, 2018	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of period	2,050,000	\$ 0.30	-	\$ -
Granted	1,065,000	0.20	2,050,000	0.30
Outstanding and exercisable, end of period	3,115,000	\$ 0.27	2,050,000	\$ 0.30

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6. OPTIONS AND WARRANTS (continued)

(a) Options (continued)

At September 30, 2019, the Company had outstanding stock options exercisable to acquire common shares of the Company as follows:

Expiry date	Options outstanding	Exercise price	Weighted average remaining contractual life (in years)
July 11, 2021	2,050,000	\$ 0.30	1.78
August 12, 2024	1,065,000	\$ 0.20	4.88

(b) Warrants

A continuity schedule of the Company's outstanding common share purchase warrants for the years ended September 30, 2019 and 2018 is as follows:

	September 30, 2019		September 30, 2018	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of period	-	\$ -	4,400,000	\$ 0.15
Issued	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding, end of period	-	\$ -	4,400,000	\$ 0.15

7. RELATED PARTY TRANSACTIONS

The Company's related parties consist of its key management personnel, including its directors and officers.

During the normal course of business, the Company enters into transactions with its related parties that are considered to be arm's length transactions and made at normal market prices and on normal commercial terms.

(a) Key management compensation for the three months ended September 30, 2019 and 2018 were as follows:

	For the Three Months Ended	
	September 30, 2019	September 30, 2018
Short-term benefits	\$ 27,938	\$ 15,000

(b) During the three months ended September 30, 2019 and 2018, the Company incurred \$10,000 and \$28,875, respectively, for consulting fees provided by the Company's Chief Executive Officer.

(c) During the three months ended September 30, 2019 and 2018, the Company incurred stock-based compensation expense of \$182,877 and \$385,836, respectively, related to stock options granted to officers and directors of the Company.

(d) At September 30, 2019 and June 30, 2019, the Company had no fees owing to related parties.