

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)

Financial Statements
For the years ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DISTRICT METALS CORP. (FORMERLY MK2 VENTURES LTD.)

Opinion

We have audited the financial statements of District Metals Corp. (formerly MK2 Ventures Ltd.) (the "Company"), which comprise the statements of financial position as at June 30, 2019 and 2018, the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its 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 \$967,668 during the year ended June 30, 2019 and, as of that date, the Company has a deficit of \$55,038,535. 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 of 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 audits 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 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 Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 24, 2019

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

	As at	
	June 30, 2019	June 30, 2018
ASSETS		
Current assets		
Cash	\$ 784,845	\$ 1,427,306
GST receivable	21,397	2,266
Prepaid expenses	958	6,208
	807,200	1,435,780
Exploration and evaluation assets (Note 6)	355,288	-
TOTAL ASSETS	\$ 1,162,488	\$ 1,435,780
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 118,772	\$ 15,968
TOTAL LIABILITIES	118,772	15,968
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	55,496,351	55,490,679
Reserve (Note 9)	585,900	-
Accumulated deficit	(55,038,535)	(54,070,867)
TOTAL SHAREHOLDERS' EQUITY	1,043,716	1,419,812
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,162,488	\$ 1,435,780

These financial statements were authorized for issue by the Board of Directors on October 24, 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 financial statements.

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

	For the Years Ended	
	June 30, 2019	June 30, 2018
EXPENSES		
General and administrative costs	\$ 7,922	\$ 1,285
Management fees	90,000	55,000
Consulting fees (Note 14)	199,215	-
Professional fees (Note 14)	25,424	18,751
Insurance	11,500	10,542
Shareholder information and investor relations	15,651	1,417
Stock-based compensation (Notes 9 and 14)	585,900	-
Travel	16,343	-
Transfer agent, regulatory and listing fees	15,713	15,620
	967,668	102,615
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	\$ 967,668	\$ 102,615
Basic and diluted loss per share for the year	\$ 0.03	\$ 0.00
Weighted average number of common shares outstanding	31,786,810	27,744,947

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

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

	For the Years Ended	
	June 30, 2019	June 30, 2018
Cash flows provided from (used in):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (967,668)	\$ (102,615)
Adjustments for item not affecting cash:		
Stock-based compensation (Note 9)	585,900	-
	(381,768)	(102,615)
Net changes in non-cash working capital items:		
GST receivable	(19,131)	(1,307)
Prepaid expenses	5,250	(6,208)
Accounts payable and accrued liabilities (Note 7)	10,637	(16,893)
Net cash flows used in operating activities	(385,012)	(127,023)
INVESTING ACTIVITY		
Exploration and evaluation assets (Note 6)	(263,121)	-
Net cash flows used in investing activity	(263,121)	-
FINANCING ACTIVITIES		
Proceeds on warrants exercised (Note 8)	6,000	-
Share issue costs (Note 8)	(328)	(2,825)
Proceeds on issuance of units (Note 8)	-	550,000
Net cash flows provided from financing activities	5,672	547,175
Net increase (decrease) in cash	(642,461)	420,152
Cash, beginning of year	1,427,306	1,007,154
Cash, end of year	\$ 784,845	\$ 1,427,306

Supplemental Disclosures with Respect to Cash Flows

Exploration and evaluation assets costs included in accounts payable and accrued liabilities

\$	92,167	\$	-
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The accompanying notes form an integral part of these financial statements.

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of shares	Amount	Reserve	Accumulated deficit	Total
Balance at June 30, 2017	27,383,303	\$ 54,943,504	\$ -	\$ (53,968,252)	\$ 975,252
Units issued for cash	4,400,000	550,000	-	-	550,000
Share issuance costs	-	(2,825)	-	-	(2,825)
Net loss for the year	-	-	-	(102,615)	(102,615)
Balance at June 30, 2018	31,783,303	55,490,679	-	(54,070,867)	1,419,812
Shares issued on exercise of warrants	40,000	6,000	-	-	6,000
Share issuance costs	-	(328)	-	-	(328)
Stock-based compensation	-	-	585,900	-	585,900
Net loss for the year	-	-	-	(967,668)	(967,668)
Balance at June 30, 2019	31,823,303	\$ 55,496,351	\$ 585,900	\$ (55,038,535)	\$ 1,043,716

The accompanying notes form an integral part of these 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 Suite 907 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. 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 June 30, 2019, the Company had cash of \$784,845 (2018 - \$1,427,306) and working capital of \$688,428 (2018 - \$1,419,812). 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 \$55,038,535 as at June 30, 2019 (2018 - \$54,070,867). 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. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

Effective July 1, 2018, the Company adopted IFRS 9 *Financial Instruments* (“IFRS 9”). IFRS 9 was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of the standard. As a result of the application of IFRS 9, the Company changed its accounting policies for financial assets and impairment thereon as described in Note 3.

(b) Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss (“FVTPL”), 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 significant accounting policies, as disclosed, have been applied consistently to all periods presented in these financial statements.

(c) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar. All amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated.

(d) Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and assumptions about the future and to exercise judgment in applying the Company’s accounting policies. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. The impacts of changes to estimates are recognized in the period estimates are revised and in future periods affected. The critical judgments and assumptions made by management and other major sources of measurement uncertainty are discussed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Foreign currency transactions

Transactions in currencies other than the Canadian dollar ("foreign currencies"), the Company's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are denominated in foreign currencies and measured at other than fair value are translated using the rates of exchange at the transaction dates. Foreign exchange gains and losses are included in net loss for the period.

(b) Financial instruments

The Company adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") on a retroactive basis in accordance with the transitional provisions. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard promulgates a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial instruments on the transition date, and therefore, comparative figures have not been restated.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial Asset/Liabilities	Original Classification IAS 39	New Classification IFRS 9
Cash	Fair value through Profit or loss ("FVTPL")	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Financial Assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value, net of transaction costs that are directly attributable to its acquisition, except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

De-recognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

Other financial liabilities are non-derivatives and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statements of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Accounts payable and accrued liabilities are included in this category and represent liabilities for goods and services provided to the Company prior to the end of the year that are unpaid.

(c) Restoration, rehabilitation, and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration 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 restoration asset will be depreciated on the same basis as other assets.

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

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

(d) Exploration and evaluation expenditures

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

Government tax credits are recorded as a reduction to the cumulative costs incurred and capitalized on the related property in the period it is received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration and evaluation expenditures (continued)

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

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

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

(e) Share capital

Common shares

Common shares issued are classified as share capital, a component of shareholders' equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from share capital.

Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the residual value method. Under the residual value method, proceeds are allocated to the common shares up to their fair value, determined by reference to the quoted market price of the common shares on the issuance date, and the balance, if any, to the reserve for warrants.

(f) Share options and warrants

All share options and warrants are included in reserves, a component of shareholders' equity, until exercised. Upon exercise, the consideration received plus the amounts in reserves attributable to the options and/or warrants being exercised are credited to share capital. When share options and warrants expire unexercised or are cancelled, other than cancellations resulting from forfeitures when vesting conditions are not satisfied, the amounts recognized in reserves are reclassified to accumulated deficit.

Stock-based compensation to employees are measured at the fair value of the instruments granted. Stock-based compensation is measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to reserves. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors:

- Exercise price
- Expected life of the award
- Forfeiture rate
- Current market price of the underlying shares
- Risk-free interest rate
- Expected volatility

(g) Income taxes

Income tax on profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on taxable income for the period.

Deferred tax is provided for using the asset and liability method of accounting, whereby deferred tax assets and liabilities are recognized for the future tax effects of differences between the carrying amounts of assets and liabilities in the statement of financial position and the tax bases of the assets and liabilities (temporary differences), unused tax losses and other income tax deductions. Temporary differences on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss are not provided for. Deferred tax assets and liabilities are measured based on the expected manner of realization or settlement of the carrying amounts of the related assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes (continued)

Income tax on profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss, except deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(h) Loss per share

Loss per share is calculated by dividing loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

Impairment of non-financial assets

Impairment tests on non-financial assets, including exploration and evaluation assets are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent it reverses gains previously recognized in profit or loss.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments

The critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements are as follows:

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The key assumptions management has made about the future and other major sources of estimation uncertainty at the date of the statement of financial position that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Income taxes

The Company recognizes deferred tax assets for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and other income tax deductions can be utilized. In assessing the probability of realizing the income tax benefits of deductible temporary differences, unused tax losses and other income tax deductions, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

As at June 30, 2019 and 2018, the Company has not recognized any deferred tax assets for deductible temporary differences. Changes in any of the above-mentioned estimates can materially affect the amount of income tax assets recognized. In addition, where applicable tax laws and regulations are either unclear or subject to varying interpretations, changes in these estimates can occur that materially affect the amounts of income tax assets recognized. The Company reassesses unrecognized income tax assets at the end of each reporting period.

Valuation of stock-based compensation

The Company uses the Black-Scholes option pricing model for valuation of stock-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

5. ACCOUNTING STANDARDS NOT YET EFFECTIVE

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended June 30, 2019 and have not been applied in preparing these financial statements, including IFRS 16 – Leases (effective for annual periods beginning on or after January 1, 2019). The Company anticipates that the application of the above new and revised standard, amendment and interpretation will have no material impact on its results and financial position. Other accounting standards or amendments to existing accounting standards that have been issued and have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

6. EXPLORATION AND EVALUATION ASSETS

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, 2017 and 2018	\$	-
Additions		35,086
Balance, June 30, 2019	\$	35,086
Deferred Exploration Costs		
Balance, June 30, 2017 and 2018	\$	-
Geophysical Survey		181,925
Consulting		18,594
Exploration		119,683
Balance, June 30, 2019	\$	320,202
Total		
Balance, June 30, 2017 and 2018	\$	-
Balance, June 30, 2019	\$	355,288

As at June 30, 2019, the Company paid \$10,000 of the \$50,000 cash purchase price.

Subsequent to June 30, 2019, the Company and Longford Capital amended the closing date of the Bakar Purchase Agreement to July 14, 2019. On July 12, 2019, the Company paid the remaining \$40,000 cash and issued 1,250,000 common shares to acquire a 100% interest in the Bakar Property (Note 15).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2019		June 30, 2018	
Trade payables and accrued liabilities	\$	118,772	\$	15,968
	\$	118,772	\$	15,968

DISTRICT METALS CORP.
(formerly MK2 Ventures Ltd.)
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued

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.

On June 1, 2018, the Company issued 4,400,000 units at a price of \$0.125 per unit for proceeds of \$550,000. The Company incurred \$2,825 of share issuance costs. Each unit consists of one common share and one share purchase warrant exercisable at \$0.15 for a period of 12 months. The warrants were assigned a residual value of \$nil in accordance with the Company's accounting policy.

9. OPTIONS AND WARRANTS

(a) Options

The Black-Scholes option pricing model inputs for options granted and vested during the year ended June 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
11-Jul-2018	11-Jul-2021	\$0.32	\$0.30	2.02%	3	183%	0	\$0.29

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 year ended June 30, 2019 were \$585,900 (2018 - \$nil) 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 years ended June 30, 2019 and 2018 are as follows:

	June 30, 2019		June 30, 2018	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	-	\$ -
Granted	2,050,000	0.30	-	-
Outstanding and exercisable, end of year	2,050,000	\$ 0.30	-	\$ -

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9. OPTIONS AND WARRANTS (continued)

(a) Options (continued)

At June 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	2.03

(b) Warrants

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

	June 30, 2019		June 30, 2018	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	4,400,000	\$ 0.15	-	\$ -
Issued	-	-	4,400,000	0.15
Exercised	(40,000)	0.15	-	-
Expired	(4,360,000)	0.15	-	-
Outstanding, end of year	-	\$ -	4,400,000	\$ 0.15

10. INCOME TAXES

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

	June 30, 2019	June 30, 2018
Net loss for the year	\$ (967,668)	\$ (102,615)
Canadian federal and provincial statutory income tax rate	27.00%	26.50%
Income tax benefit based on Canadian statutory income tax rates	(261,270)	(27,193)
Effects of the following:		
Non-deductible expenditures	158,705	-
Changes in unrecognized deferred tax assets	102,654	325,549
Effect of change in tax rates	-	(298,872)
Under provided in prior years	-	1,799
Changes in timing differences	(89)	(1,283)
Income tax benefit	\$ -	\$ -

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10. INCOME TAXES (continued)

At June 30, 2019 and 2018, the Company had deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized as follows:

	June 30, 2019	June 30, 2018
Non-capital loss carry-forwards	\$ 9,671,326	\$ 9,287,224
Deductible temporary differences relating to:		
Exploration and evaluation assets, property and equipment	4,210,841	4,211,063
Share issue cost	6,430	10,330
Capital losses	16,484,659	16,484,660
	\$ 30,373,256	\$ 29,993,277

The Canadian non-capital losses at June 30, 2019 expire as follows:

Expiry date	Amount
2026	\$ 759,200
2027	1,165,500
2028	55,700
2029	1,046,800
2031	1,111,900
2032	1,530,000
2033	811,800
2034	1,056,800
2035	940,600
2036	348,700
2037	248,100
2038	212,100
2039	384,100
	\$ 9,671,300

11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to continue its business and maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company's capital includes the components of its shareholders' equity.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash. In order to preserve cash, the Company does not pay any dividends.

The Company is not subject to any externally imposed capital requirements. The Company did not change their capital management approach during the year ended June 30, 2019.

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.

12. FINANCIAL INSTRUMENTS

(a) Classifications

The Company's financial assets and liabilities are classified as follows:

	June 30, 2019	June 30, 2018
Financial assets:		
<i>Fair value through profit and loss</i>		
Cash	\$ 784,845	\$ 1,427,306
Financial liabilities:		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	\$ 118,772	\$ 15,968
	\$ 118,772	\$ 15,968

(b) Fair value information

The fair values of the Company's cash and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments.

IFRS 7 *Financial Instruments: Disclosures* establishes a fair value hierarchy that reflects the significance of inputs used in measuring fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

At June 30, 2019 and 2018, the Company had no financial assets measured and recognized on the statement of financial position at fair value belonging in Level 2 or Level 3 of the fair value hierarchy.

(c) Financial instrument risk exposure

The Company's financial instruments expose the Company to certain financial risks, including credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risk.

(i) 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. At June 30, 2019 and 2018, the Company's cash exposes the Company to credit risk.

The Company limits its exposure to credit risk by maintaining its cash with high credit quality financial institutions in Canada.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining adequate cash and managing its capital (Note 11). At June 30, 2019, the Company had cash of \$784,845 (2018 - \$1,427,306) and accounts payable and accrued liabilities of \$118,772 (2018 - \$15,968) with contractual maturities of less than one year.

12. FINANCIAL INSTRUMENTS (continued)

(iii) Market risk

Market risk consists of interest rate risk, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and

(ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate cash flow risk due to their short-term nature and maturity.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that it has monetary assets and liabilities denominated in foreign currencies. As at June 30, 2019 and 2018, the Company is not exposed to currency risk as all balances are denominated in Canadian dollars.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. As at June 30, 2019 and 2018, the Company is not exposed to significant other price risk.

13. SEGMENTED INFORMATION

The Company is organized into business units based on exploration and evaluation assets and has one reportable operating segment, being that of acquisition and exploration and evaluation activities in Canada. The Company's non-current assets as at June 30, 2019 are all in Canada.

As at June 30, 2018, the Company did not have any reportable operating segments.

14. RELATED PARTY TRANSACTIONS

The Company's related parties consist of its key management personnel, including its directors, officers and the following companies with common directors or officers:

Related party	Nature of transactions
Elysian Enterprises Ltd.	Management fees
Owen Bird Law Corporation	Legal and professional services

Both of these companies ceased to be related parties during the year ended June 30, 2018.

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 years ended June 30, 2019 and 2018 were as follows:

	For the Years Ended	
	June 30, 2019	June 30, 2018
Short-term benefits	\$ 116,750	\$ 15,000

- (b) During the year ended June 30, 2019, the Company incurred \$Nil (2018 - \$15,000) for management fees provided by Elysian Enterprises Ltd., an entity controlled by the Company's former Chief Executive Officer. As at June 30, 2018, this entity is no longer a related party.
- (c) During the year ended June 30, 2019, the Company incurred \$Nil (2018 - \$3,660) for legal fees and other professional services provided by Owen Bird Law Corporation, an entity in which a former director of the Company is a shareholder. As at June 30, 2018, this entity is no longer a related party.
- (d) During the year ended June 30, 2019, the Company incurred \$116,750 (2018 - \$Nil) for consulting fees provided by the Company's Chief Executive Officer.
- (e) During the year ended June 30, 2019, the Company incurred stock-based compensation expense of \$385,836 related to stock options granted to officers and directors of the Company.
- (f) At June 30, 2019 and 2018, the Company had no fees owing to related parties.

15. SUBSEQUENT EVENTS

On August 12, 2019, the Company issued 1,065,000 incentive stock options to directors, officers and consultants of the Company. The options vested immediately and are exercisable at \$0.20 for a period of 5 years from the grant date.

In July 2019, the Company completed the option payments for the Bakar Purchase Agreement by paying \$40,000 cash and issuing 1,250,000 common shares (Note 6).