

DISTRICT METALS CORP.

Consolidated Financial Statements
For the years ended June 30, 2020 and 2019
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DISTRICT METALS CORP.

Opinion

We have audited the consolidated financial statements of District Metals Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at June 30, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flow for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2020 and 2019, and its consolidated 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 Consolidated 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 consolidated 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 consolidated financial statements, which indicates that the Company incurred a net loss of \$1,090,560 during the year ended June 30, 2020 and, as of that date, the Company has a deficit of \$56,129,095. 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 of Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated 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 consolidated 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, 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 Consolidated financial Statements

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

In preparing the consolidated 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 consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 18, 2020

DISTRICT METALS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	June 30, 2020	June 30, 2019
ASSETS		
Current assets		
Cash	\$ 2,512,091	\$ 784,845
GST receivable	2,927	21,397
Prepaid expenses and deposits	9,806	958
	2,524,824	807,200
Advances	89,593	-
Exploration and evaluation assets (Note 5)	2,116,429	355,288
TOTAL ASSETS	\$ 4,730,846	\$ 1,162,488
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6, 13)	\$ 262,747	\$ 118,772
TOTAL LIABILITIES	262,747	118,772
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	59,496,635	55,496,351
Reserve (Note 8)	1,100,559	585,900
Accumulated deficit	(56,146,784)	(55,038,535)
TOTAL SHAREHOLDERS' EQUITY	4,468,099	1,043,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,730,846	\$ 1,162,488

Subsequent Event (Note 14)

These condensed interim financial statements were authorized for issue by the Board of Directors on October 18, 2020. They are signed on behalf of the Board of Directors by:

"Joanna Cameron"
Director

"Garrett Ainsworth"
Director

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

DISTRICT METALS CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	For the Years Ended	
	June 30, 2020	June 30, 2019
EXPENSES		
General and administrative costs	\$ 11,890	\$ 7,922
Management fees and salaries	116,954	90,000
Consulting fees (Note 13)	132,810	199,215
Professional fees	169,425	25,424
Insurance	11,077	11,500
Shareholder information and investor relations	33,176	15,651
Stock-based compensation (Note 8, 13)	514,659	585,900
Travel	34,443	16,343
Transfer agent, regulatory and listing fees	50,480	15,713
Property investigation costs	15,646	-
	1,090,560	967,668
NET LOSS AND COMPREHENSIVE LOSS	\$ 1,090,560	\$ 967,668
Basic and diluted loss per share	\$ 0.03	\$ 0.03
Weighted average number of common shares outstanding	34,422,890	31,786,810

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

DISTRICT METALS CORP.
Consolidated Statements of Cash Flow
(Expressed in Canadian Dollars)

	For the Years Ended	
	June 30, 2020	June 30, 2019
Cash flows provided from (used in):		
OPERATING ACTIVITIES		
Net loss	\$ (1,090,560)	\$ (967,668)
Adjustments for item not affecting cash:		
Stock-based compensation (Note 8)	514,659	585,900
	(575,901)	(381,768)
Net changes in non-cash working capital items:		
GST receivable	18,470	(19,131)
Prepaid expenses and deposits	(8,848)	5,250
Accounts payable and accrued liabilities (Note 6, 13)	193,699	10,637
Net cash flows used in operating activities	(372,580)	(385,012)
INVESTING ACTIVITY		
Deposits	(89,593)	-
Exploration and evaluation assets (Note 5)	(150,545)	(263,121)
Net cash flows used in investing activity	(240,138)	(263,121)
FINANCING ACTIVITIES		
Proceeds on private placement (Note 7)	2,400,000	-
Share issue costs (Note 7)	(60,036)	(328)
Proceeds on warrants exercised (Note 8)	-	6,000
Net cash flows provided from financing activities	2,339,964	5,672
Net increase (decrease) in cash	1,727,246	(642,461)
Cash, beginning of year	784,845	1,427,306
Cash, end of year	\$ 2,512,091	\$ 784,845
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Taxes paid	-	-
Exploration and evaluation assets costs included in accounts payable and accrued liabilities	42,443	92,167
Non-cash share issuance for exploration and evaluation assets (Note 5)	\$ 1,660,320	\$ -

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

DISTRICT METALS CORP.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of shares	Amount	Reserve	Accumulated deficit	Total
Balance, 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, June 30, 2019	31,823,303	\$ 55,496,351	\$ 585,900	\$ (55,038,535)	\$ 1,043,716
Balance, June 30, 2019	31,823,303	\$ 55,496,351	\$ 585,900	\$ (55,038,535)	\$ 1,043,716
Common shares issued for property payments (Note 5)	7,599,220	1,660,320	-	-	1,660,320
Share issued in private placement (Note 7)	20,000,001	2,400,000	-	-	2,400,000
Share issuance costs (Note 7)	-	(60,036)	-	-	(60,036)
Stock-based compensation (Note 8)	-	-	514,659	-	514,659
Net loss for the year	-	-	-	(1,090,560)	(1,090,560)
Balance, June 30, 2020	59,422,524	\$ 59,496,635	\$ 1,100,559	\$ (56,129,095)	\$ 4,468,099

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

1. NATURE OF OPERATIONS AND GOING CONCERN

District Metals Corp. (the “Company” or “District Metals”) was incorporated under the provincial laws of the Province 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 12th Floor – 200 Burrard Street, Vancouver, BC, V7X 1T2. The Company is listed on the TSX Venture Exchange (the “Exchange”) and trades under the symbol “DMX” and on the Frankfurt Stock Exchange under the symbol “DFPP”.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At June 30, 2020, the Company had cash of \$2,512,091 (June 30, 2019 - \$784,845) and its current assets exceeded its current liabilities by \$2,262,077 (2019 - \$688,428). The Company currently has no active business and is not generating any revenues. It has incurred losses (2020 - \$1,090,560; 2019 - \$967,668) and negative cash flows from operations since inception and had an accumulated deficit of \$56,129,095 as at June 30, 2020 (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 Company’s ability 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 future. These consolidated 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.

On March 11 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of presentation

These consolidated 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 consolidated 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 consolidated financial statements.

(c) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar. All amounts in these consolidated 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 consolidated financial statements are as follows:

(a) Basis of consolidation

The Company's consolidated financial statements include the accounts of the Company and its wholly owned subsidiary District Metals AB (Sweden). Subsidiaries are entities controlled by the Company, where control is achieved by the Company being exposed to, or having rights to, variable returns from its involvement with the entity and having the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

(b) 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 consolidated 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.

(c) Financial instruments

i) Classification and measurement

Financial asset

The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value less, for an item not at fair value through profit or loss, transaction costs directly attributable to its acquisition or issue, and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss.

Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method. The Company does not have any assets classified and measured at amortized cost.

Fair value through other comprehensive income ("FVTOCI")

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI. The Company does not have any assets classified and measured at FVTOCI.

Fair value through profit or loss ("FVTPL")

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. The Company's cash is classified in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

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 consolidated 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.

ii) Derecognition of financial assets

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).

iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(d) 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.

(e) 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)

(e) 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.

(f) 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 remaining balance, if any, to the reserve for warrants.

(g) 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; current market price of the underlying shares; expected life of the award; risk-free interest rate; forfeiture rate; and expected volatility.

(h) 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 consolidated 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 consolidated 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)

(h) 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.

(i) 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.

(j) 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.

(k) New accounting standards and interpretations

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 in the consolidated statement of financial position, unless the lease term is 12 months or less or the underlying asset has a low value. The Company does not have any leases, and as a result, this standard had no impact on the Company's consolidated financial statements on adoption.

(l) Accounting standards issued but not yet adopted

The following amendment 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 is currently evaluating the potential impact of these amendments.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Significant accounting 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 consolidated 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.

Impairment of long-lived assets

The carrying value and the recoverability of long-lived assets, including exploration and evaluation assets, are evaluated at each reporting date. Management assesses for indicators of impairment, which includes assessing whether facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.

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 consolidated 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, 2020 and 2019, 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.

DISTRICT METALS CORP.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2020 and 2019
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

	Tomtebo Property		Bakar Property		Total
Acquisition Costs					
Balance, June 30, 2018	\$ -		\$ -		\$ -
Additions	-		35,086		35,086
Balance, June 30, 2019	-		35,086		35,086
Additions	1,499,090		240,000		1,739,090
Balance, June 30, 2020	\$ 1,499,090		\$ 275,086		\$ 1,774,176
Deferred Exploration Costs					
Balance, June 30, 2018	\$ -		\$ -		\$ -
Geophysical survey	-		181,925		181,925
Consulting	-		18,594		18,594
Exploration	-		119,683		119,683
Balance, June 30, 2019	-		320,202		320,202
Consulting	-		19,469		19,469
Exploration	-		2,582		2,582
Balance, June 30, 2020	\$ -		\$ 342,253		\$ 342,253
Total					
Balance, June 30, 2019	\$ -		\$ 355,288		\$ 355,288
Balance, June 30, 2020	\$ 1,499,090		\$ 617,339		\$ 2,116,429

a) Tomtebo Property

On June 30, 2020, the Company completed its acquisition of 100% ownership of the Tomtebo and Trollberget properties ("Tomtebo Property") from Viad Royalties AB, a wholly-owned subsidiary of EMX Royalty Corp. ("EMX"), for \$35,000 and the issuance of 5,882,830 common shares of the Company, with a fair value of \$1,353,050 ("Tomtebo Purchase Agreement" or the "Transaction"). EMX retained a 2.5% net smelter royalty on each of the properties. The Company also entered into a shareholder rights agreement with EMX pursuant to which, among other things, EMX has been granted a top-up right (the "Top-Up Right") to maintain its proportionate shareholding in the Company at no additional consideration until the earlier of the five year anniversary of the closing of the Transaction and completion of a financing raising gross proceeds of at least \$600,000, up to a maximum of 3,000,000 common shares in the capital of the Company.

To retain the Tomtebo Property, the Company must:

- i) incur \$1,000,000 of eligible expenditures on the Tomtebo Property within two years of the closing of the proposed Transaction; and
- ii) complete a minimum of 2,000 m of drilling within three years of completion of the proposed Transaction and an aggregate of 5,000 m within five years of completion of the proposed Transaction.

Also in connection with the closing of the Transaction, pursuant to the previously announced services agreement between the Company, Vector Geological Solutions Inc., (the "Consultant") and Daniel MacNeil, as principal of the Consultant, the Company issued 466,390 common shares in the capital of the Company, with a fair value of \$107,270, to the Consultant (the "Finder Shares") and agreed to issue up to an additional 33,610 shares on the issuance of at least 448,134 common shares pursuant to the Top-Up Right, on or before 12 months following the closing date. The Consultant is at arm's length to the Company.

5. EXPLORATION AND EVALUATION ASSETS (continued)

b) 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 retained a 2% net smelter royalty on the property. The Company had six months from the closing date of July 12, 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"). These expenditures were completed during the year-ended June 30, 2019. As at June 30, 2020, the Company had 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.

The Company will pay Longford Exploration Services Ltd. ("Longford Exploration") for work performed (plus disbursements) (the "Work Fee"). In addition to the Work Fee, the Company will pay Longford Exploration a management fee (and, collectively with the Work Fee, the "Fees") as a percentage of the aggregate Work Fee (the "Project Costs") in accordance with the following:

- 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.

Subsequent to June 30, 2020, the Company entered into a definitive agreement to sell 80% of its interest in the Bakar Property (Note 14).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At June 30, 2020 and 2019, the Company's accounts payable and accrued liabilities are comprised of the following:

	June 30, 2020	June 30, 2019
Trade payables	\$ 132,318	\$ 4,983
Accrued liabilities	130,429	113,789
	\$ 262,747	\$ 118,772

7. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued

On June 30, 2020, the Company issued 5,882,830 common shares with a fair value of \$1,353,050 pursuant to its acquisition of the Tomtebo Property. In connection with the acquisition, the Company also issued 466,390 Finder Shares with a fair value of \$107,270 (Note 5).

On June 8, 2020, the Company closed a non-brokered private placement and issued 20,000,001 common shares for gross proceeds of \$2,400,000. In connection with the Private Placement, the Company paid a total of \$60,036 in finders fees.

On July 12, 2019, the Company issued 1,250,000 common shares with a fair value of \$200,000 in accordance with the Bakar Purchase Agreement (Note 5).

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 share. The Company's share price on the date of exercise was \$0.16. The Company incurred \$328 of share issuance costs.

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8. OPTIONS AND WARRANTS

a) Options

The Black-Scholes option pricing model inputs for options granted and vested during the year ended June 30, 2020 and 2019 are as follows:

Grant Date	Expiry Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield	Fair Value
2-Jun-2020	2-Jun-2025	\$0.21	0.39%	5	145%	0	\$0.20
12-Aug-2019	12-Aug-2024	\$0.20	1.20%	5	164%	0	\$0.19
11-Jul-2018	11-Jul-2021	\$0.30	2.02%	3	183%	0	\$0.29

The risk-free interest rate is based on the Canadian government bond rate for a similar term as the expected life of the stock options. The forfeiture rate assumption of 0% is based on historical results and the annualized volatility is based on the Company's historical share prices.

Total stock-based compensation expense recognized during the year ended June 30, 2020 was \$514,659 (2019 - \$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 granted options are fixed by the Board of Directors and are not to exceed ten years. The exercise price of 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, 2020 and 2019 are as follows:

	June 30, 2020		June 30, 2019	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	2,050,000	\$ 0.30	-	\$ -
Granted	2,930,000	0.21	2,050,000	0.30
Outstanding, end of year	4,980,000	\$ 0.24	2,050,000	\$ 0.30
Exercisable, end of year	4,270,000	\$ 0.25	2,050,000	\$ 0.30

At June 30, 2020, the Company had outstanding stock options exercisable to acquire common shares of the Company as follows:

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (in years)
July 11, 2021	2,050,000	2,050,000	\$ 0.30	1.03
August 12, 2024	1,065,000	355,000	\$ 0.20	4.12
June 2, 2025	1,865,000	1,865,000	\$ 0.21	4.93

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8. OPTIONS AND WARRANTS (continued)

b) Warrants

A continuity schedule of the Company's outstanding common share purchase warrants for the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2020		June 30, 2019	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	4,400,000	\$ 0.15
Issued	-	-	-	-
Exercised	-	-	(40,000)	0.15
Expired	-	-	(4,360,000)	0.15
Outstanding, end of year	-	\$ -	-	\$ -

9. INCOME TAXES

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

	June 30, 2020	June 30, 2019
Net loss for the year	\$ (1,090,560)	\$ (967,668)
Canadian federal and provincial statutory income tax rate	27.00%	27.00%
Income tax benefit based on Canadian statutory income tax rates	(294,451)	(261,270)
Effects of the following:		
Non-deductible expenditures	139,326	158,705
Changes in unrecognized deferred tax assets	171,336	102,654
Changes in timing differences	(16,211)	(89)
Income tax benefit	\$ -	\$ -

At June 30, 2020 and 2019, the Company had deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized as follows:

	June 30, 2020	June 30, 2019
Non-capital loss carry-forwards	\$ 10,260,743	\$ 9,671,326
Deductible temporary differences relating to:		
Exploration and evaluation assets, property and equipment	4,210,841	4,210,841
Share issue cost	51,593	6,430
Capital losses	16,484,659	16,484,659
	\$ 31,007,836	\$ 30,373,256

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9. INCOME TAXES (continued)

The Canadian non-capital losses at June 30, 2020 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	209,400
2039	384,100
2040	589,400
	\$ 10,258,000

10. 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, 2020.

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.

11. FINANCIAL INSTRUMENTS

a) Categories of financial instruments and fair value measurements

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

	June 30, 2020	June 30, 2019
Financial assets:		
<i>Fair value through profit and loss</i>		
Cash	\$ 2,512,091	\$ 784,845
Financial liabilities:		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	\$ 262,747	\$ 118,772

The amount of accounts payable and accrued liabilities includes amounts due to related parties (Note 13).

11. FINANCIAL INSTRUMENTS (continued)

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, 2020 and 2019, the Company had no financial assets measured and recognized on the consolidated statement of financial position at fair value belonging in Level 2 or Level 3 of the fair value hierarchy.

c) Management of financial risks

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

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, 2020, the Company was exposed to credit risk on its cash.

The Company's cash is held with a high credit quality financial institution in Canada and as at June 30, 2020, management considers its exposure to credit risk to be low.

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 and expenditures.

At June 30, 2020, the Company had cash of \$2,512,091 (2019 - \$784,845) and accounts payable and accrued liabilities of \$262,747 (2019 - \$118,772) with contractual maturities of less than one year. The Company had sufficient cash to meet its current liabilities as at June 30, 2020. The Company assessed its liquidity risk as low as at June 30, 2020.

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.

The Company's financial assets and financial liabilities are not exposed to interest rate risk due to their short-term nature and maturity. The Company is not exposed to interest rate risk as at June 30, 2020.

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, 2020, the Company had limited exposure to foreign currency risk, as the majority of balances are denominated in Canadian dollars. The Company assessed its financial currency risk as low as at June 30, 2020.

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12. SEGMENTED INFORMATION

The Company is organized into business units based on exploration and evaluation assets and has two reportable operating segments, being that of acquisition and exploration and evaluation activities in Canada and Sweden. The Company is in the exploration stage and has no reportable segment revenues or operating results.

The Company's total assets are segmented geographically as follows:

	Sweden		Canada		Total
As at June 30, 2020					
Current Assets	\$ 3,673		\$ 2,521,151		\$ 2,524,824
Advances	89,593		-		89,593
Exploration and evaluation assets	1,499,090		617,339		2,116,429
	\$ 1,592,356		\$ 3,138,490		\$ 4,730,846
As at June 30, 2019					
Current Assets	\$ -		\$ 807,200		\$ 807,200
Exploration and evaluation assets	-		355,288		355,288
	\$ -		\$ 1,162,488		\$ 1,162,488

13. 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 years ended June 30, 2020 and 2019 were as follows:

	For the Years Ended	
	June 30, 2020	June 30, 2019
Salary	\$ 24,455	\$ -
Short-term benefits	\$ 110,000	\$ 116,750

During the year ended June 30, 2020, the Company incurred \$110,000 (2019 - \$116,750), for consulting fees provided by the Company's Chief Executive Officer ("CEO"). The Company entered into an employment agreement with the Company's CEO effective June 1, 2020, pursuant to which, if the Company experiences a change of control the CEO is entitled to 24 months of salary.

(b) During the year ended June 30, 2020, the Company incurred stock-based compensation expense of \$400,911 (2019 - \$385,837), related to stock options granted to officers and directors of the Company.

(c) At June 30, 2020, the Company had \$87,183 (2019 - \$nil) owing to related parties.

14. SUBSEQUENT EVENTS

The Company entered into the following transactions subsequent to June 30, 2020:

On August 18, 2020, the Company announced that it had entered into a definitive agreement to sell an 80% interest in its Bakar Property to Sherpa II Holdings Corp. ("Sherpa II") (the "Bakar Sale Agreement"). Pursuant to the Bakar Sale Agreement, Sherpa II will acquire an 80% interest in the Bakar Property for the following consideration:

- \$50,000 cash payment;
- 1,000,000 common shares of Sherpa II;
- \$200,000 in work expenditures within six months of closing; and
- Carry over of the 2.0% NSR from the royalty agreement dated July 12, 2019 between the Company and Longford Capital Corp. on one of the eight mineral claims that comprises Bakar, which covers 1,352 hectares (ha) out of the 15,687 ha Property. The 2.0% NSR may be repurchased entirely for \$6,500,000 cash.

On October 7, 2020, the Company granted 300,000 stock options to a director of the Company.