# Holly Street Capital Ltd.
# (A Capital Pool Company)

## CONSOLIDATED FINANCIAL STATEMENTS

**For year ended September 30, 2021**

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charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of:
Holly Street Capital Ltd.

## Opinion

We have audited the consolidated financial statements of Holly Street Capital Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and 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 September 30, 2021 and 2020, 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 Auditor's 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 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 $77,669 during the year ended September 30, 2021 and, as of that date, the Company's total deficit was $234,214. The Company has not generated revenue from operations, and there is no assurance that the Company will identify a qualifying transaction under the policies of the TSX Venture Exchange. As stated in Note 1, these events and 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 the Management 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 audit of the consolidated financial statements, our responsibility is to read the other information 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. 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 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 financial reporting process.

**Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 Group 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 auditor's report is Melyssa Charlton.

Charlton & Company

**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC
December 15, 2021

**Holly Street Capital Ltd.**
(A CAPITAL POOL COMPANY)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| Cash | **258,560** | 353,022 |
| **Total assets** | **258,560** | 353,022 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | **14,752** | 31,545 |
| **Total liabilities** | **14,752** | 31,545 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 5) | **425,022** | 425,022 |
| Reserves (Note 5) | **53,000** | 53,000 |
| Deficit | **(234,214)** | (156,545) |
| **Total shareholders' equity** | **243,808** | 321,477 |
| **Total liabilities and shareholders' equity** | **258,560** | 353,022 |

Nature of and continuance of operations (Note 1)

Approved by the Board of Directors on December 15, 2021:

***"Damian Lopez"***
Director

***"Joel Freudman"***
Director

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

(Expressed in Canadian dollars)

| **For the year ended September 30,** | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Accounting and audit fees | **6,314** | 7,226 |
| Bank charges | **1,728** | 830 |
| Legal fees | **51,690** | 79,828 |
| Office and administrative | **2,490** | 601 |
| Regulatory and filing | **15,447** | 12,186 |
| Share-based compensation (Notes 5 and 8) | **-** | 40,000 |
| **Loss and comprehensive loss for the year** | **(77,669)** | (140,671) |
| **Loss per share** | | |
| Basic and diluted | **(0.01)** | (0.06) |
| **Weighted average number of common shares outstanding (basic and diluted) (Note 5)** | **7,510,000** | 2,312,623 |

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

(Expressed in Canadian dollars)

| | Number of shares outstanding | Share capital | Reserves | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance, September 30, 2019** | **2,000,000** | **100,000** | **-** | **(15,874)** | **84,126** |
| Initial public offering | 2,500,000 | 250,000 | - | - | 250,000 |
| Private placement | 3,010,000 | 150,500 | - | - | 150,500 |
| IPO agent– agent options | - | (13,000) | 13,000 | - | - |
| Share issuance costs | - | (62,478) | - | - | (62,478) |
| Share-based compensation | - | - | 40,000 | - | 40,000 |
| Loss for the year | - | - | - | (140,671) | (140,671) |
| **Balance, September 30, 2020** | **7,510,000** | **425,022** | **53,000** | **(156,545)** | **321,477** |
| Loss for the year | - | - | - | (77,669) | (77,669) |
| **Balance, September 30, 2021** | **7,510,000** | **425,022** | **53,000** | **(234,214)** | **243,808** |

(Expressed in Canadian dollars)

| For the year ended September 30, | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss for the year | (77,669) | (140,671) |
| Items not affecting cash: | | |
| Share-based compensation | - | 40,000 |
| Changes in non-cash working capital items: | | |
| Prepaid expense | - | 20,500 |
| Accounts payable and accrued liabilities | (16,793) | 8,642 |
| **Net cash used in operating activities** | (94,462) | (71,529) |
| | | |
| **Financing activities** | | |
| Proceeds from issuance of shares | - | 400,500 |
| Share issuance costs | - | (52,478) |
| **Net cash provided by financing activities** | - | 348,022 |
| | | |
| **Change in cash, for the year** | (94,462) | 276,493 |
| Cash - beginning of year | 353,022 | 76,529 |
| **Cash - end of year** | 258,560 | 353,022 |

There were no non-cash financing or investing activities for the year ended September 30, 2021.

During the year ended September 30, 2020, the Company issued agents options with a fair value of $13,000, which are recorded as finders' fees and $10,000 in share issuance costs were outstanding in accounts payable and accrued liabilities.

During the years ended September 30, 2021 and 2020, the Company paid $nil in interest and taxes.

## 1. Nature and continuance of operations

***Nature of operations***

Holly Street Capital Ltd. (the "Company" or “Holly”) was incorporated under the British Columbia Corporations Act on July 31, 2019. The Company is intending to be classified as a Capital Pool Company as defined in the TSX Venture Exchange (the “Exchange”) Policy 2.4. The principal business of the Company is the identification and evaluation of a Qualifying Transaction (“QT”) and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

On December 17, 2019, the Company completed its Initial Public Offering (“IPO”) on the Exchange raising gross proceeds of $250,000 through the issuance of 2,500,000 common shares at $0.10 per share. The Company’s common shares were approved for listing on the Exchange and commenced trading effective December 19, 2019 under the symbol “HSC.P”.

The head office, principal address and registered office of the Company are located at Suite 1500 - 1055 West Georgia St., P.O. Box 11117, Vancouver, B.C., V6E 4N7.

***Going concern***

These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has not generated revenues from operations, and there is no assurance that the Company will identify a QT under the policies of the Exchange. If a QT is not completed, the Company will need to identify other sources of financing to remain as a going concern. As at September 30, 2021, the Company has a working capital surplus of $243,808 (2020 - $321,477). The Company has incurred losses from inception. During the year ended September 30, 2021, the Company recorded a loss of $77,669 (2020 - $140,671) and has a deficit of $234,214 (2020 - $156,545). These circumstances have resulted in a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

## 2. Basis of presentation and significant accounting policies

**Basis of Presentation**

***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”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

***Basis of Presentation***

These consolidated financial statements have been prepared on a historical cost basis, except for any financial assets and liabilities held at fair value, as explained in the accounting policies set out below. These consolidated financial statements are presented in Canadian Dollars, which is also the Company and it’s subsidiary’s functional currency.

## 2. Basis of presentation and significant accounting policies (continued)

***Statement of Consolidation***

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary 2812239 Ontario Inc. During the year ended September 30, 2021, the Company incorporated a new, wholly owned subsidiary in Canada. There were no transactions in the subsidiary. All intercompany transactions and balances have been eliminated on consolidation.

**Significant accounting policies**

***Financial instruments***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Classification*

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

*Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Consolidated Statement of Loss and Comprehensive Loss in the period in which it arises.

## 2. Basis of presentation and significant accounting policies (continued)

***Financial instruments (continued)***

At present, the Company's cash is measured as FVTPL and its accounts payable and accrued liabilities are measured at amortized cost.

*Impairment of Financial Assets at Amortized Cost*

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 of 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 the twelve month expected credit losses. The Company shall recognize in the consolidated statements of 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.

*Derecognition*

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.

***Loss per share***

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

***Income Taxes***

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used are those that are substantively enacted by the end of the reporting date.

Deferred income tax is calculated based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting. The change in the net deferred income tax asset or liability is included in income except for deferred income tax relating to equity items which is recognized directly in equity. The income tax effects of differences in the periods when revenue and expenses are recognized, in accordance with Company's accounting practices, and the periods they are recognized for income tax purposes are reflected as deferred income tax assets or liabilities. Deferred income tax assets and liabilities are measured using the substantively enacted statutory income tax rates which are expected to apply to taxable income in the years in which the assets are realized or the liabilities settled. A valuation allowance is recorded against any deferred tax asset if it is not probable to be utilized against future taxable profit.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and are intended to be settled on a net basis.

The determination of current and deferred taxes requires interpretations of tax legislation, estimates of expected timing of reversal of deferred tax assets and liabilities, and estimates of future earnings.

## 2. Basis of presentation and significant accounting policies (continued)

***Related party transactions***

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

***Share capital and share issuance costs***

The Company's common shares and any future offerings of share warrants and options are classified as equity instruments. Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to profit or loss if the shares are not issued.

***Share-based compensation***

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee. The Company accounts for share-based payments using the fair value method. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

The fair value of the share-based compensation awards is determined at the date of grant using the Black-Scholes option pricing model. The fair value of the award is charged to profit or loss, unless they are considered to be share issuance costs in which case they are booked as a reduction to share capital, and credited to reserves rateably over the vesting period, after adjusting for the number of awards that are expected to vest. Expenses recognized for forfeited awards are reversed. For awards that are cancelled, any expense not yet recognized is recognized immediately in profit or loss. Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment arrangement as measured at the date of modification, over the remainder of the vesting period.

***Warrants***

Warrants issued to agents in connection with a financing are recorded at fair value using the Black-Scholes option pricing model and charged as share issuance costs associated with the offering with an offsetting credit to share-based payment and warrants reserve.

Proceeds of the exercise of these warrants are credited to share capital together with the corresponding amount, if any, of the original warrant charge included in share-based payment and warrants reserve.

## 2. Basis of presentation and significant accounting policies (continued)

**Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The Company does not recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

As at September 30, 2021 and 2020, the Company does not have any leases.

**New accounting standards interpretations issued and applicable but not yet adopted**

IAS 1 – Presentation of Financial Statements ("IAS 1"), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023, with early application permitted. The Company is currently assessing the impact of this amendment.

## 3. Significant Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. Management believes the estimates and assumptions used in these consolidated financial statements are reasonable; however, actual results could differ from those estimates and could have a material impact on future results of the Company's consolidated financial statements.

## 3. Significant Accounting Estimates and Judgments (continued)

The Company's significant accounting judgments and estimates have been applied in these consolidated financial statements:

***Judgments***

The evaluation of the Company's ability to continue as a going concern.

***Estimations***

The measurement of deferred income tax assets and liabilities; and

The inputs used in accounting for share-based compensation expense and for agents' options recorded in share capital and reserves.

## 4. Qualifying Transaction

***Current Proposed Transaction***

*US Critical Metals Corp.*

Subsequent to year end, the Company entered into a binding letter of intent ("LOI") with US Critical Metals Corp. ("USCM") on October 22, 2021. The LOI contemplates the parties will negotiate and enter into a definitive agreement whereby, the Company will acquire all the issued and outstanding shares of USCM by way of a three-cornered amalgamation. The Proposed Transaction will result in a reverse takeover transaction (the "Proposed Transaction").

Prior to the closing of the Proposed Transaction with USCM, Holly will consolidate its outstanding Holly Shares on the basis of one (1) new Holly Share for each one and one half (1.5) old Holly Shares, such that, prior to closing of the Proposed Transaction, Holly would have approximately, 5,006,666 Holly Shares issued and outstanding. It is intended that Holly Shares would be issued to holders of USCM on the basis of one (1) post-consolidation Holly Share for every one (1) USCM, resulting in the issuance of an aggregate 27,500,000 post-consolidation Holly Shares to the shareholders of USCM. In addition, 25,000,000 post-consolidation resulting issuer warrants will be issued to the current holders of USCM warrants on the same terms and conditions as the current USCM warrants.

Concurrent with the Proposed Transaction, USCM will arrange a concurrent financing of Holly Street to USCM for gross proceeds of a minimum of $2,000,000 at a price no less than $0.25 per common share. In addition, USCM reserves the right to include a share purchase warrant as part of the financing.

USCM is a private company existing under the laws of B.C. and is based in Vancouver, British Columbia. USCM's material assets comprise of two mineral property option agreements. The agreements would provide the option to acquire 100% of the right, title and interest of the Haynes Stellite Project, comprising 23 lode claims located in Idaho, USA, subject to a 3.0% net-smelter royalty and an option to acquire 100% of the right, title and interest of the Clayton Ridge Lithium Project, comprising 90 unpatented mining claims located in Esmerelda County, Nevada, USA, subject to a 3.0% gross overriding royalty.

***Previously Proposed Transactions***

*Wolf Acquisition Corp.*

On June 2, 2020, the Company and Wolf Acquisition Corp. ("WOLF.P") entered into a binding letter of intent ("LOI") with Jasper Studios Inc. in respect of a proposed business combination. The LOI was terminated on July 15, 2020 by the Company and WOLF.P to focus on identifying another transaction which would constitute a QT in accordance with Policy 2.4 – Capital Pool Companies of the Exchange.

## 4. Qualifying Transaction (continued)

*Southern Sky Resources Corp.*

On February 5, 2021, the Company entered in an amalgamation agreement with Southern Sky Resources Corp. ("Southern Sky") in respect of a proposed business combination which would constitute a QT (the "Proposed Combination"). Southern Sky is a private company existing under the laws of Ontario and is based in Toronto, Ontario.

Pursuant to the amalgamation agreement, the Company, Southern Sky and 2812239 Ontario Inc. would enter into a three cornered amalgamation and the Company would acquire all of the issued and outstanding Southern Sky Shares in exchange for the Company's common shares (the "Holly Shares"), resulting in a reverse takeover transaction.

On April 15, 2021, the Definitive Agreement was terminated between the parties and the Proposed Combination was not carried out.

## 5. Share Capital and Reserves

***Authorized***

The Company is authorized to issue an unlimited number of common shares without par value.

***Share issuances***

*For the year ended September 30, 2021*

There were no share issuances during the year.

*For the year ended September 30, 2020*

On August 19, 2020, the Company completed a non-brokered private placement through the issuance of 3,010,000 common shares at a price of $0.05 per share for gross proceeds of $150,500.

The Company completed its IPO of 2,500,000 common shares at $0.10 per share for gross proceeds of $250,000 pursuant to a prospectus dated November 29, 2019 filed with the British Columbia, Alberta and Ontario Securities Commissions. Pursuant to the IPO, the Company paid a cash commission of $25,000, paid corporate finance fee of $20,500, incurred an additional $16,978 in share issuance costs, and granted 250,000 agent options with a fair value of $13,000.

***Stock option plan***

The Company has a stock option plan whereby the Company may grant options with a maximum term of ten years, for up to 10% of the Company's issued and outstanding common shares, to directors, officers, employees and consultants at exercise prices to be determined by the market value on the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Incentive stock options issued have an immediate vesting term, unless vesting is imposed by the Company's Board of Directors.

*Agents' Options*

Concurrent with the completion of the IPO (Note 1), the Company granted 250,000 agent options exercisable at a price of $0.10 per share expiring two years from the listing date of December 19, 2019. The fair value of these agents' options granted was determined to be $13,000 using the Black-Scholes valuation model and the following inputs: exercise price of $0.10, stock price of $0.10, volatility of 100%, risk free rate of 1%, and a term of two years. The fair market value of these agents' options has been included as a reduction against share capital. The remaining life of the agents' options as at September 30, 2021 is 0.22 years.

## 5. Share Capital and Reserves (continued)

*Stock Options*

Concurrent with the completion of the IPO (Note 1), the Company granted 450,000 stock options to officers and directors exercisable at a price of $0.10 per share expiring ten years from the listing date of December 19, 2019. The fair value of these stock options granted was determined to be $40,000 using the Black-Scholes valuation model and the following inputs: exercise price of $0.10, stock price of $0.10, volatility of 100%, risk free rate of 1% and a term of ten years. The fair market value of these stock options has been included as in share-based compensation. The remaining life of the stock options as at September 30, 2021 is 6.39 years.

Due to the resignation of a director on July 22, 2021, 112,500 of the 450,000 stock options will expire on July 22, 2022, as per the Company's stock option plan.

*Escrow Shares*

On July 31, 2019, the Company issued 2,000,000 common shares to the founders of the Company at a price of $0.05 per share for gross proceeds of $100,000. During the year ended September 30, 2021, the Company adopted the new CPC rules, whereby the escrow term for founder's shares was reduced to 18 months and are no longer contingently returnable. Thus they have been included in the weighted average number of shares outstanding as at September 30, 2021.

## 6. Financial Instruments

As at September 30, 2021, the Company's financial instruments consist of cash and accounts payable and accrued liabilities. The Company believes that the carrying values of cash, and accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

The Company's cash is considered to be Level 1 within the fair value hierarchy (as discussed below).

Level 1– fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during the years ended September 30, 2021 and 2020.

The risk exposure arising from these financial instruments is summarized as follows:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. As the Company's cash is held in one bank, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As of September 30, 2021, the Company's exposure to credit risk is minimal.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's ability to continue to meet its liabilities when due, beyond the current cash balance, is dependent on future support of shareholders through equity offerings. There is no assurance of continued access to significant equity funding.

## 6. Financial Instruments (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or value of its holdings or financial instruments. The Company's activities have only been transacted in Canadian dollars since incorporation; in addition, the Company carries no interest-bearing debt. As such, the Company has minimal market risks facing it at present.

## 7. Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the identification and evaluation of a QT and continue as a going concern. The Company considers capital to be all accounts in equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Additional funds may be required to finance the Company's QT. In accordance with Policy 2.4 of the Exchange, the proceeds raised from the sale of securities may only be used to identify and evaluate assets or businesses, and obtain shareholder approval for a QT, with the exception that up to the lesser of 30% of the gross proceeds realized by the Company in respect of the sale of its securities, may be used for purposes other than such identification and evaluation of businesses or assets. These restrictions apply until completion of a QT by the Company as defined under Policy 2.4 of the Exchange.

## 8. Related Party Transactions

Key management personnel are the persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly, including entities controlled by such persons. The key management personnel include the Company's executive management team and the Board of Directors.

During the year ended September 30, 2021, the Company recognized $Nil (2020 - $40,000) in share-based compensation.

## 9. Income Taxes

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

| | | **2021** | | **2020** |
|---|---|---|---|---|
| Loss for the year | $ | **(77,669)** | $ | (140,671) |
| Expected income tax recovery – 27% (2020 – 27%) | | **(21,000)** | | (38,000) |
| Share issuance costs | | **-** | | (17,000) |
| Permanent differences | | **-** | | 11,000 |
| Change in unrecognized deductible temporary differences | | **21,000** | | 44,000 |
| **Total income tax expense (recovery)** | **$** | **-** | **$** | **-** |

(Expressed in Canadian dollars)

**9. Income Taxes (continued)**

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

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Share issuance costs | $ | **10,000** | $ | 13,000 |
| Non-capital losses available for future period | | **59,000** | | 35,000 |
| | | **69,000** | | 48,000 |
| Unrecognized deferred tax assets | | **(69,000)** | | (48,000) |
| **Net deferred tax assets** | **$** | **-** | **$** | **-** |

Deferred tax assets have not been recognized in respect of the above for the years ended September 30, 2021 and 2020 because the amount of future taxable profit that will be available to realize such assets is not probable.

The significant components of the Company's unused temporary differences and tax losses are as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Temporary differences** | | | | |
| Share issuance costs | **37,000** | **2025** | 50,000 | 2025 |
| Non-capital losses available for future periods | **219,000** | **2039 to 2041** | 129,000 | 2039 to 2040 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.