

HEADWATER GOLD INC.

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020

UNAUDITED

(Expressed in Canadian Dollars)

NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor.

HEADWATER GOLD INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020
(UNAUDITED – SEE “NOTICE TO READER” BELOW)

NOTICE TO READER OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements of Headwater Gold Inc. and the accompanying condensed consolidated interim statements of financial position as at August 31, 2021 and the condensed consolidated interim statements of comprehensive loss, statements of changes in equity and cash flows for the six months ended August 31, 2021 and 2020 are the responsibility of the Company’s management.

The financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with IAS 34 *Interim Financial Reporting* under International Financial Reporting Standards as issued by the IASB. The Audit Committee of the Board of Directors, consisting of three members, has reviewed the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

“Caleb Stroup”

Caleb Stroup
Chief Executive Officer

October 21, 2021

“Sandra Wong”

Sandra Wong
Chief Financial Officer

October 21, 2021

HEADWATER GOLD INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
(Expressed in Canadian Dollars)

| | Note | August 31, 2021 \$ | February 28, 2021 \$ |
|--------------------------------------|------|-----------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 3,196,060 | 326,410 |
| Restricted cash | 9 | 5,025 | 4,075,342 |
| Marketable securities | 4 | 786,349 | 3,024,625 |
| Amounts and other receivable | 11 | 49,516 | 3,050 |
| Prepaid expenses and deposits | | 76,203 | 3,782 |
| Deferred share issuance costs | 9 | - | 183,616 |
| | | 4,113,153 | 7,616,825 |
| Non-current assets | | | |
| Office lease | 8 | 122,347 | - |
| Deposits | 5 | 132,479 | - |
| Equipment | 6 | 53,983 | - |
| Exploration and evaluation assets | 7 | 2,403,116 | 1,451,151 |
| Total assets | | 6,825,078 | 9,067,976 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 11 | 287,545 | 283,288 |
| Income taxes payable | | - | 187,738 |
| Lease liability | 8 | 70,542 | - |
| | | 358,087 | 471,026 |
| Non-current liabilities | | | |
| Lease liability | 8 | 70,547 | - |
| Deferred income taxes payable | | 207,214 | 208,331 |
| Total liabilities | | 635,848 | 679,357 |
| Equity | | | |
| Share capital | 9 | 7,183,585 | 3,296,978 |
| Subscription receipts | 9 | - | 4,070,224 |
| Reserves | 9 | 485,912 | 323,079 |
| Accumulated other comprehensive loss | | (102,017) | (68,243) |
| Retained earnings (deficit) | | (1,378,250) | 766,581 |
| | | 6,189,230 | 8,388,619 |
| Total liabilities and equity | | 6,825,078 | 9,067,976 |

Nature of operations and going concern (Note 1)
Subsequent events (Note 15)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on October 21, 2021 and are signed on its behalf by:

/s/ "Alistair Waddell" Director /s/ "Caleb Stroup" Director

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

HEADWATER GOLD INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

| | Note | Three months ended | | Six months ended | |
|--|------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | August 31, 2021 \$ | August 31, 2020 \$ | August 31, 2021 \$ | August 31, 2020 \$ |
| Expenses | | | | | |
| Accounting and audit | | 17 | 21,000 | 1,118 | 33,000 |
| Accretion of office lease liability | | 3,590 | - | 4,787 | - |
| Consulting | | 48,592 | (2) | 71,853 | 3,606 |
| Depreciation | | 24,278 | - | 24,636 | - |
| Filing fees | | 12,951 | 3,657 | 41,426 | 4,171 |
| General exploration | | 12,728 | 19,256 | 73,349 | 35,836 |
| Investor communication | | 45,145 | 5,240 | 50,937 | 8,549 |
| Legal | | 11,489 | 3,903 | 55,682 | 5,134 |
| Management | | 42,350 | 12,082 | 84,959 | 24,676 |
| Office | | 13,129 | 15,126 | 56,221 | 26,741 |
| Salaries and benefits | | 25,554 | 1,490 | 50,535 | 2,900 |
| Share-based payments | | 86,594 | 15,303 | 125,259 | 15,303 |
| Travel | | 10 | 5,468 | 29 | 10,637 |
| Total expenses | | (326,427) | (102,523) | (640,791) | (170,552) |
| Other income (expenses) | | | | | |
| Finance income | | 2,386 | 42 | 5,922 | 476 |
| Finance expense | | (4,853) | - | (4,853) | - |
| Foreign exchange gain (loss) | | 81,877 | (66,753) | 55,939 | (44,425) |
| Impairment | | (63,758) | (6,786) | (63,758) | (6,786) |
| Loss on sale of investments | | (8,340) | - | (8,340) | - |
| Unrealized loss on investments | | (423,850) | - | (1,480,100) | - |
| Total other expenses | | (416,538) | (73,497) | (1,495,190) | (50,735) |
| Loss before tax | | (742,965) | (176,020) | (2,135,981) | (221,287) |
| Income tax expense | | (14) | - | (8,850) | - |
| Net loss | | (742,979) | (176,020) | (2,141,831) | (221,287) |
| Other comprehensive loss | | | | | |
| Items that may be reclassified to comprehensive loss: | | | | | |
| Cumulative translation adjustment | | (4,491) | 22,543 | (33,774) | 14,123 |
| Comprehensive loss | | (747,470) | (153,477) | (2,178,605) | (207,164) |
| Loss per common share, basic | | (0.02) | (0.01) | (0.05) | (0.01) |
| Weighted average number of common shares outstanding, basic | | | | | |
| | | 49,188,504 | 30,138,941 | 43,563,506 | 30,023,995 |

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

HEADWATER GOLD INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)****(Expressed in Canadian Dollars)**

| | Number of Shares | Share Capital \$ | Subscription Receipts and Share Subscriptions \$ | Reserves \$ | Accumulated Other Comprehensive Loss \$ | Accumulated Deficit \$ | Total \$ |
|-------------------------------------|-----------------------------|-----------------------------|---|------------------------|--|---------------------------------------|---------------------|
| Balance, February 29, 2020 | 27,766,842 | 1,278,776 | 55,000 | 96,619 | (5,318) | (420,018) | 1,005,059 |
| Shares issued for private placement | 2,291,664 | 358,750 | (70,000) | - | - | - | 288,750 |
| Share issue costs | - | (13,500) | - | - | - | - | (13,500) |
| Share-based payments | - | - | - | 16,480 | - | - | 16,480 |
| Net loss | - | - | - | - | - | (221,287) | (221,287) |
| Other comprehensive loss | - | - | - | - | 14,123 | - | 14,123 |
| Balance, August 31, 2020 | 30,058,506 | 1,624,026 | (15,000) | 113,099 | 8,805 | (641,305) | 1,089,625 |
| Balance, February 28, 2021 | 37,938,506 | 3,296,978 | 4,070,224 | 323,079 | (68,243) | 766,581 | 8,388,619 |
| Shares issued for private placement | 11,629,212 | 4,070,224 | (4,070,224) | - | - | - | - |
| Share issue costs | - | (183,617) | - | - | - | - | (183,617) |
| Share-based payments | - | - | - | 162,833 | - | - | 162,833 |
| Net loss | - | - | - | - | - | (2,144,831) | (2,144,831) |
| Other comprehensive loss | - | - | - | - | (33,774) | - | (33,774) |
| Balance, August 31, 2021 | 49,567,718 | 7,183,585 | - | 485,912 | (102,017) | (1,378,250) | 6,189,230 |

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

HEADWATER GOLD INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020
(Expressed in Canadian Dollars)

| | August 31, 2021 | August 31, 2020 |
|---|--------------------|------------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss | (2,144,831) | (221,287) |
| Items not involving cash: | | |
| Accretion of office lease liability | 4,787 | - |
| Depreciation | 24,636 | - |
| Foreign exchange | (75,697) | 49,409 |
| Loss on sale of investments | 8,340 | - |
| Unrealized loss on investments | 1,480,100 | - |
| Share-based payments | 125,259 | 15,303 |
| Impairment of exploration and evaluation assets | 63,758 | 6,786 |
| Changes in non-cash working capital accounts: | | |
| Amounts and other receivable | (46,383) | (880) |
| Prepaid expenses and deposits | (72,413) | (1,773) |
| Trade and other payables | 5,722 | 9,857 |
| Income taxes payable | (183,934) | - |
| Cash used in operating activities | (810,656) | (142,585) |
| Investing activities | | |
| Expenditures on exploration and evaluation assets | (762,465) | (331,662) |
| Redemption of term deposits | 750,000 | - |
| Purchase of equipment | (56,896) | - |
| Deposit for surety bond | (130,494) | - |
| Cash used in investing activities | (199,855) | (331,662) |
| Financing activities | | |
| Proceeds from share issuances | - | 288,750 |
| Share issuance costs | (182,204) | (13,500) |
| Lease payments | (7,321) | - |
| Cash provided by (used in) financing activities | (189,525) | 275,250 |
| Effect of foreign exchange on cash | (631) | (2,545) |
| Decrease in cash | (1,200,667) | (201,542) |
| Cash, beginning of period | 4,401,752 | 368,309 |
| Cash, end of period | 3,201,085 | 166,767 |
| Supplemental information | | |
| Cash on hand | 3,196,060 | 161,767 |
| Restricted cash | 5,025 | 5,000 |
| | 3,201,085 | 166,767 |

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

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Headwater Gold Inc. (the “Company”) was incorporated on January 14, 2019 under the laws of British Columbia. The Company’s principal business activities include the acquisition and exploration of mineral property assets in the United States. The address of the Company’s corporate office and its principal place of business is Suite 1210 – 1130 West Pender Street, Vancouver, British Columbia, Canada. The Company’s shares were approved for trading on the Canadian Securities Exchange (“CSE”) under the symbol “HWG” on June 8, 2021.

The Company has one wholly owned subsidiary: CP Holdings Corporation. The accounts of the subsidiary are consolidated with the Company.

As at August 31, 2021, the Company had not yet determined whether the Company’s mineral property assets contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development of and the future profitable production from the properties or realizing proceeds from their disposition. The Company has not generated revenue or cash flows from operations. The Company’s ability to continue its operations, develop its properties and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These factors form a material uncertainty which may cast significant doubt upon the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these condensed consolidated interim financial statements.

The outbreak and spread of a novel coronavirus (COVID-19), declared a pandemic by the World Health Organization, has already had significant human, political, and economic consequences around the world. The coronavirus is still evolving, and its full impact remains to be determined. However, its wide-ranging effects include financial market volatility, interest rate cuts, disrupted movement of people and goods, and diminished consumer confidence. The effects of the coronavirus may be difficult to assess or predict with meaningful precision both generally and as an industry or issuer-specific basis. This is an uncertain issue where actual effects will depend on many factors beyond the control and knowledge of the Company.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company’s 2021 annual financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2021 annual financial statements except for new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2021. Note 2e) sets out the impact of new standards, interpretations and amendments that have had a material effect on the financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 21, 2021.

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CP Holdings Corporation. Inter-company balances and transactions are eliminated on consolidation.

b) Leases

The Company recognizes lease liability related to its lease commitments for its office lease. The lease liability is measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate. The associated right-of-use asset will be measured at the amount of the lease liability.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

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. In addition, 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 measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Equipment

Equipment is recorded at cost, less accumulated depreciation. Depreciation is calculated using the following rates and methods:

| | |
|--------------------------------|-----------------------------|
| Computer equipment | 20% straight line basis |
| Field equipment | 30% declining balance basis |
| Office furniture and equipment | 30% declining balance basis |

d) Foreign Currency Translation

The presentation and functional currency of the Company is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The functional currency of the subsidiary is the United States Dollar.

The Company translates transactions in foreign currencies into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the exchange rates in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at historical rates. The resulting exchange gains or losses are recognized in the statement of comprehensive loss.

A subsidiary that has a functional currency different from the presentation currency, is translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the reporting date;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates for the period, and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

e) Adoption of New and Revised Standards and Interpretations

A number of new or amended accounting standards were scheduled for mandatory adoption on or after March 1, 2021. The Company has not early adopted these new standards in preparing these condensed consolidated interim financial statements. These new standards are either not applicable or are not expected to have a significant impact on the Company's condensed consolidated interim financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

There have been no material revisions to the nature of judgments and amount of changes in estimates of amounts reported in the Company's 2021 annual financial statements.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

Short-term investments consist of term deposits and marketable securities. As at August 31, 2021 and February 28, 2021, the fair values of the short-term investments are as follows:

| | August 31, 2021 | | February 28, 2021 | |
|--|-----------------|------------------|-------------------|------------------|
| | Fair Value (\$) | Cost (\$) | Fair Value (\$) | Cost (\$) |
| Term deposits | - | - | 750,000 | 750,000 |
| Shares in Northern Vertex (a) and Huntsman (b) | 786,349 | 2,266,450 | 2,274,625 | 2,380,250 |
| | <u>786,349</u> | <u>2,266,450</u> | <u>3,024,625</u> | <u>3,130,250</u> |

a) Northern Vertex Mining Corporation

On November 24, 2020, pursuant to a property sale agreement, the Company received 500,000 common shares of Eclipse Gold Mining Corporation (“Eclipse”), a former public company listed for trading on the TSX Venture Exchange (“TSXV”), which were recorded at market value of \$310,000 (Note 7(b)).

In February 2021, Northern Vertex Mining Corp. (“Northern Vertex”) acquired Eclipse via a statutory plan of arrangement under the Business Corporations Act (British Columbia) pursuant to which Northern Vertex acquired all of the issued and outstanding common shares of Eclipse. Pursuant to the transaction, Eclipse shareholders are entitled to receive 1.09 common shares of Northern Vertex in exchange for each Eclipse share held by such shareholder immediately prior to the completion of the transaction. The plan of arrangement was completed on February 16, 2021 and the Eclipse shares were delisted from the TSXV on February 19, 2021. On June 15, 2021, the Company received 545,000 common shares of Northern Vertex in exchange for its 500,000 common shares of Eclipse and recorded a loss on disposal of \$8,175.

A summary table of the Company’s investment in Eclipse is as follows:

| | Number of shares | Fair value \$ |
|--|---------------------|------------------|
| Balance, February 29, 2020 | - | - |
| Eclipse shares received on November 24, 2020 | 500,000 | 310,000 |
| Unrealized loss | - | (105,625) |
| Balance, February 28, 2021 | 500,000 | 204,375 |
| Proceeds on disposal | (500,000) | (196,200) |
| Loss on disposal | - | (8,175) |
| Balance, August 31, 2021 | - | - |

A summary table of the Company’s investment in Northern Vertex is as follows:

| | Number of shares | Fair value \$ |
|--|---------------------|------------------|
| Balance, February 29, 2020 and 2021 | - | - |
| Northern Vertex shares received on June 15, 2021 | 545,000 | 196,200 |
| Unrealized loss | - | (43,600) |
| Balance, August 31, 2021 | 545,000 | 152,600 |

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES (CONTINUED)

b) Huntsman Exploration Inc.

On December 21, 2020, pursuant to a property sale agreement, the Company received 8,450,000 common shares of Huntsman Exploration Inc. (“Huntsman”), a public company trading on the TSXV, which were recorded at market value of \$2,070,250 (Note 7(a)). The shares are restricted from trading until December 21, 2021.

A summary table of the Company’s investment in Huntsman is as follows:

| | Number of shares | Fair value \$ |
|---|---------------------|------------------|
| Balance, February 29, 2020 | - | - |
| Huntsman shares received on December 21, 2020 | 8,450,000 | 2,070,250 |
| Balance, February 28, 2021 | 8,450,000 | 2,070,250 |
| Unrealized loss | - | (1,436,500) |
| Balance, August 31, 2021 | 8,450,000 | 633,750 |

5. DEPOSITS

The Company has established a surety bonding arrangement with a third party (the “Surety Agent”) under which 50% of the Company’s reclamation bonding obligations will be replaced by deposits made by the Surety Agent. A finance fee of 2.5% will be charged on the balance of the amounts advanced and deposited by the Surety Agent.

During the period ended August 31, 2021, the Company advanced US \$105,000 to the Surety Agent as collateral against US \$210,000 in bonding that will be placed by the Surety Agent. The bonds will be executed to provide state-wide coverage for operations conducted by the Company on its mining claims in Nevada and Oregon. The bond deposit is returnable to the Company only after the government agencies are satisfied that there is no outstanding reclamation liability associated with the land or after the bond is replaced by another bond.

6. EQUIPMENT

| | Computer Equipment \$ | Furniture & Equipment \$ | Field Equipment | Total \$ |
|------------------------------|-----------------------------|--------------------------------|--------------------|-------------|
| Cost | | | | |
| Balance at February 28, 2021 | - | - | - | - |
| Acquired | 5,260 | 20,683 | 31,400 | 57,343 |
| Balance at August 31, 2021 | 5,260 | 20,683 | 31,400 | 57,343 |
| Depreciation | | | | |
| Balance at February 28, 2021 | - | - | - | - |
| Depreciation | 386 | 1,427 | 1,547 | 3,360 |
| Balance at August 31, 2021 | 386 | 1,427 | 1,547 | 3,360 |
| Carrying amounts | | | | |
| At February 28, 2021 | - | - | - | - |
| At August 31, 2021 | 4,874 | 19,256 | 29,853 | 53,983 |

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

Total costs incurred on exploration and evaluation assets are summarized as follows:

| | Idaho \$ | Nevada \$ | Oregon \$ | Utah \$ | Total \$ |
|---|-------------|--------------|--------------|------------|-------------|
| Acquisition costs | | | | | |
| Balance, February 29, 2020 | 232,450 | 129,708 | 70,548 | 33,354 | 466,060 |
| Additions | 250,118 | 352,986 | 134,426 | 14,163 | 751,693 |
| Impairment | - | (6,648) | - | - | (6,648) |
| Sale of E&E Asset | (134,404) | (198,171) | - | (45,133) | (377,708) |
| Foreign exchange | (15,709) | (21,322) | (9,374) | (2,384) | (48,789) |
| Balance, February 28, 2021 | 332,455 | 256,553 | 195,600 | - | 784,608 |
| Additions | 70,380 | 180,481 | 53,071 | - | 303,932 |
| Impairment | - | (35,902) | (8,119) | - | (44,021) |
| Foreign exchange | (489) | 617 | (323) | - | (195) |
| Balance, August 31, 2021 | 402,346 | 401,749 | 240,229 | - | 1,044,324 |
| Exploration costs | | | | | |
| Balance, February 29, 2020 | 129,629 | 72,856 | 38,775 | 1,533 | 242,793 |
| Additions | | | | | |
| Administration | 9,890 | 12,544 | 12,184 | - | 34,618 |
| Drilling | - | 1,399 | 8,316 | - | 9,715 |
| Geology | 83,101 | 108,598 | 208,592 | 6,077 | 406,368 |
| Mapping, sampling, geochem | 4,801 | 14,806 | 38,188 | - | 57,795 |
| Reports | - | - | 17,244 | - | 17,244 |
| Technical review | 12,767 | 17,166 | 10,684 | - | 40,617 |
| | 110,559 | 154,513 | 295,208 | 6,077 | 566,357 |
| Sale of E&E Asset | (46,369) | (53,496) | - | (7,102) | (106,967) |
| Foreign exchange | (10,868) | (10,676) | (13,588) | (508) | (35,640) |
| Balance, February 28, 2021 | 182,951 | 163,197 | 320,395 | - | 666,543 |
| Additions | | | | | |
| Administration | 10,936 | 17,370 | 13,127 | - | 41,433 |
| Drilling | 236 | 362,637 | 41,753 | - | 404,626 |
| Geology | 40,477 | 132,460 | 52,669 | - | 225,606 |
| Mapping, sampling, geochem | 1,190 | 2,043 | - | - | 3,233 |
| Technical review | 8,335 | 12,955 | 9,831 | - | 31,121 |
| | 61,174 | 527,465 | 117,380 | - | 706,019 |
| Impairment | - | - | (19,834) | - | (19,834) |
| Foreign exchange | (51) | 6,441 | (326) | - | 6,064 |
| Balance, August 31, 2021 | 244,074 | 697,103 | 417,615 | - | 1,358,792 |
| Total acquisition costs and exploration expenditures | | | | | |
| February 28, 2021 | 515,406 | 419,750 | 515,995 | - | 1,451,151 |
| August 31, 2021 | 646,420 | 1,098,852 | 657,844 | - | 2,403,116 |

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) Idaho Properties

The Company holds a 100% interest in three mineral properties in Idaho that it has acquired by way of staking federal land or arm's length vendor acquisition.

- (i) Matador Property - Matador is comprised of 30 mineral claims totalling approximately 251 hectares located in Owyhee County, Idaho.
- (ii) Opaline Gulch Property - Opaline Gulch is comprised of 31 mineral claims totalling approximately 259 hectares located in Owyhee County, Idaho.
- (iii) Crane Creek Property – Crane Creek is comprised of 123 mineral claims totalling approximately 1,028 hectares located in Washington County, Idaho.

Pursuant to an agreement dated July 22, 2020, the Company has acquired a 100% undivided interest in certain unpatented mining claims and State Mineral Lease E500007 located in Idaho for consideration of US \$60,000 and 200,000 common shares of the Company (issued October 1, 2020 with a fair value of \$44,000). The unpatented mining claims are subject to a 1% net smelter returns royalty which the Company may purchase for US \$1,000,000 at any time. State Mineral Lease E500007 expired on February 28, 2021. The Company has acquired a fresh lease in its place: State Mineral Lease E500034 with a twenty year term, beginning March 1, 2021 and terminating February 28, 2041.

Pursuant to a mining lease agreement effective October 28, 2020 (the "Effective Date"), the Company has agreed to lease certain fee lands in Washington County, Idaho for a twenty year term that may be extended by ten year increments, for consideration of US \$5,000 payable upon execution of the agreement and subsequent payments of US \$3,250 on each anniversary of the Effective Date. The property is subject to a net smelter returns royalty of 2%, of which the first 1% may be purchased for US \$1,000,000 at any time and the second 1% may be purchased for US \$2,000,000 at any time.

- (iv) Flint Property - Pursuant to an agreement dated December 3, 2020, the Company sold 100% interest in the Flint property to Huntsman for consideration of US \$100,000 and 8,450,000 common shares of Huntsman with a fair value of \$2,070,250, subject to a 2% net smelter returns royalty retained by the Company. This transaction was completed on December 21, 2020 and a gain on disposal of exploration and evaluation assets of \$2,095,461 was recorded during the year ended February 28, 2021.

b) Nevada Properties

The Company holds a 100% interest in four mineral properties in Nevada that it has acquired by way of staking federal land.

- (i) Agate Point Property - Agate Point is comprised of 94 mineral claims totalling approximately 786 hectares located in Humboldt County, Nevada.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Nevada Properties (continued)

- (ii) Midas North Property – Midas North (formerly known as Castle Ridge) is comprised of 148 mineral claims totalling approximately 1,237 hectares located in Elko County, Nevada. The Company had elected not to maintain certain of the claims and accordingly \$31,162 in acquisition costs connected to the claims were written off during the period ended August 31, 2021.
- (iii) Dome Hill Property - Dome Hill is comprised of 50 mineral claims totalling approximately 411 hectares located in Mineral County, Nevada and Mono County, California.
- (iv) Long Valley Property – Long Valley is comprised of 37 mineral claims totalling approximately 309 hectares located in Mineral County, Nevada. The Company had elected not to maintain certain of the claims and accordingly \$4,740 in acquisition costs connected to the claims were written off during the period ended August 31, 2021.
- (v) Como Property - Pursuant to an agreement dated November 5, 2020, the Company sold 100% interest in the Como property to Eclipse for consideration of US \$100,000 and 500,000 common shares of Eclipse with a fair value of \$310,000 (Note 4(a)), subject to a net smelter returns royalty retained by the Company of 1.25% to 2.5% on certain of the claims. This transaction was completed on November 24, 2020 and a gain on disposal of exploration and evaluation assets of \$313,845 was recorded during the year ended February 28, 2021.
- (vi) Pursuant to option agreements dated October 1, 2020, the Company sold its interests in certain non-core mineral claims located in Nevada and Utah to a private company with common directors for US \$150,000 and realized a gain on disposal of exploration and evaluation assets of \$17,694 during the year ended February 28, 2021. Each of the properties disposed are subject to a 0.5% net smelter returns (“NSR”) royalty retained by the Company that is capped at US \$1,000,000 and the purchaser shall have the right to purchase the 0.5% NSR for US \$500,000 at any time.

The Company holds options to acquire up to 100% interest in two mineral projects in Nevada.

- (vii) Spring Peak Property – The Company has entered into an Option to Purchase Agreement (the “Agreement”) dated July 12, 2021 to acquire a 100% interest, subject to retained royalties, in the Spring Peak epithermal gold/silver project (the “Property”) located in Nevada from Renaissance Exploration Inc. (“REI”), a wholly owned subsidiary of Orogen Royalties Inc.

Pursuant to the Agreement and in order to exercise the option to acquire a 100% interest in the Property, the Company shall make the following payments:

- (i) Pay US\$10,000 upon signing the Agreement (paid);
- (ii) Incur US\$250,000 in exploration expenditures within 24 months of execution of the Agreement;
- (iii) Pay US\$250,000 upon receipt of final approval from the United States Forest Service of the Company’s full Plan of Operations for exploration, which sum may be paid in common shares of the Company at the Company’s election;

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Nevada Properties (continued)

- (iv) Grant to REI a 0.5% NSR royalty of which the Issuer shall have the right of first offer to purchase the NSR if REI elects to sell it;
- (v) Grant to REI the option to purchase an additional 0.5% royalty for US\$1,000,000, exercisable prior to the commencement of commercial production; and
- (vi) Pay all costs and payments due and payable under the Underlying Kuzma Mining Lease and Option to Purchase Agreement dated January 20, 2012, as amended September 5, 2013 and April 12, 2016, as follow:
 - 1) Pay annual lease payments on or before the anniversary of the receipt of approval of a notice of intent to operate or a plan of operations for drilling from the United States Forest Service (the "Permit Date", December 1, 2019) as follow:
 - Second anniversary of Permit Date (December 1, 2021): US\$40,000;
 - Third through eleventh anniversaries of Permit Date: US\$50,000;
 - Twelfth through fifteenth anniversaries of Permit Date: US\$60,000;
 - Sixteenth and each succeeding anniversary of Permit Date: US\$60,000, as adjusted for inflation;
 - 2) Pay US\$500,000 to exercise the Option at any time within one year after the completion of a Technical Report complying with NI 43-101 standards which documents a minimum 500,000 ounce gold equivalent inferred resource on the Property; and (c) pay a 2.5% NSR royalty of which the Issuer shall have the right to purchase 1.5% of the NSR for US\$1,500,000.

The Company has acquired 100% interest in an additional 28 mineral claims totalling approximately 227 hectares through staking.

- (viii) Highland Property - The Company has entered into an Exploration and Option to Enter Joint Venture Agreement (the "Agreement") dated June 29, 2021 to earn up to a 100% interest in the Highland gold/silver project (the "Property"), located in Lander County, Nevada, from Bravada Gold Corporation together with its wholly owned subsidiary Rio Fortuna Exploration (U.S.), Inc. ("RFE"). The Property is subject to a 3% retained NSR royalty of which 1% of the NSR may be purchased for US\$1,000,000 at any time prior to the commencement of commercial production.

Pursuant to the Agreement and in order to acquire up to a 100% interest in the Property, the Company shall perform the following obligations:

Option Stage 1 – Initial Earn-In Obligation to acquire a 51% interest in the Property:

- (i) Pay US\$10,000 upon execution of the Agreement (paid);
- (ii) Make all payments due under the Underlying Agreement including annual advance minimum royalty ("AMR") payments starting at US\$30,000 due November 1, 2021 and increasing by US\$5,000 increments to a maximum of US\$50,000;

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7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Nevada Properties (continued)

- (iii) RFE has paid approximately US\$580,000 in AMR that will be credited against royalty payments following the commencement of production;
- (iv) Incur US\$5,000,000 in exploration expenditures over five years of which US\$250,000 is incurred within 18 months.

Upon completion of the Initial Earn-In Obligation, the parties shall form a joint venture for the management and ownership of the Property.

Option Stage 2 – Additional Earn-In Obligation to acquire an additional 24% interest in the Property to bring the Company’s ownership interest to 75%:

- (i) Within 60 days following completion of the Earn-In Obligation, pay US\$250,000 of which up to US\$125,000 may be paid in common shares of the Company; and
- (ii) Incur an additional US\$5,000,000 in exploration expenditures over four years.

Option Stage 3 – Final Earn-In Option to acquire an additional 25% interest in the Property to bring the Company’s ownership interest to 100%:

- (i) The parties shall negotiate in good faith the purchase price for RFE’s participating interest. If the parties cannot agree on the purchase price for the Final Earn-In Option, the purchase price shall be the fair market value of RFE’s 25% participating interest as determined by an independent expert.

Subsequent to August 31, 2021, the Company made the decision to terminate the option and provided notice to the Optionor on September 30, 2021.

c) Oregon Properties

The Company holds a 100% interest in three mineral properties in Oregon that it has acquired by way of staking federal land.

- (i) Katey Property - Katey is comprised of 85 mineral claims totalling approximately 711 hectares located in Malheur County, Oregon.
- (ii) Mahogany Property - Mahogany is comprised of 139 mineral claims totalling approximately 1,162 hectares located in Malheur County, Oregon.
- (iii) Hot Tub Property – Hot Tub is comprised of 30 mineral claims totalling approximately 251 hectares in Malheur County, Oregon.
- (iv) Birch Creek Property – Birch Creek is comprised of 12 mineral claims totalling approximately 100 hectares in Malheur County, Oregon. The Company had elected not to maintain the claims and accordingly \$27,953 in acquisition costs and related exploration costs connected to the claims were written off during the period ended August 31, 2021.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

8. OFFICE LEASE

The Company has entered into a lease for the rental of its office space for a two year term commencing August 1, 2021 that includes a rent-free period from May 1, 2021 to July 31, 2021 and free basic rent for the twelfth and twenty-fourth months. The Company recognized lease liability of \$143,623 in the statement of financial position. The liability was measured at the present value of the remaining lease payments discounted using an incremental borrowing rate of 10% for a 27 month term at the date of initial occupancy, May 1, 2021. The lease term matures on July 31, 2023.

For the period ended August 31, 2021, depreciation of the right-of-use asset was \$21,276. The right-of-use asset is depreciated on a straight-line basis over the term of the lease. A summary of the Company's right-of-use asset balance at August 31, 2021 and February 28, 2021 and the changes for the periods then ended is presented below:

| | Right-of-use Asset \$ |
|--|--------------------------------------|
| Balance, February 29, 2020 and February 28, 2021 | - |
| Additions | 143,623 |
| Depreciation | (21,276) |
| Balance, August 31, 2021 | 122,347 |

For the period ended August 31, 2021, interest expense on the lease liability was \$4,787. A summary of the Company's lease liability at August 31, 2021 and February 28, 2021 and the changes for the periods then ended is presented below:

| | Lease Liability \$ |
|--|-------------------------------|
| Balance, February 29, 2020 and February 28, 2021 | - |
| Office lease liability recognized | 143,623 |
| Office lease payments | (7,321) |
| Accretion | 4,787 |
| Balance, August 31, 2021 | 141,089 |

| | Lease Liability \$ |
|-----------------------------|-------------------------------|
| Current lease liability | 70,542 |
| Non-current lease liability | 70,547 |
| Balance, August 31, 2021 | 141,089 |

The Company expensed \$18,119 (August 31, 2020: \$13,783) in short-term leases included in office expenses and recovered \$16,000 in rental income from sub-tenants for the period ended August 31, 2021.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

9. SHARE CAPITAL

a) Common Shares

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

The holders of common shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The Company issued the following common shares during the year ended February 28, 2021:

- (i) On March 6, 2020, the Company raised gross proceeds of \$343,750 by way of a non-brokered private placement of 2,291,664 common shares priced at \$0.15. Finder's fees of \$13,500 was paid to a registered representative on \$225,000 of the placement.
- (ii) On June 18, 2020, the Company raised gross proceeds of \$15,000 by way of a non-brokered private placement of 100,000 common shares priced at \$0.15.
- (iii) On September 28, 2020, the Company raised gross proceeds of \$1,667,600 by way of a non-brokered private placement of 7,580,000 common shares priced at \$0.22. Finder's fees of \$38,648 was paid to registered representatives on \$772,970 of the placement.
- (iv) On October 1, 2020, the Company issued 200,000 common shares with a fair value of \$0.22 per share pursuant to the Crane Creek property acquisition described in Note 7(a).
- (v) On February 11, 2021, the Company raised gross proceeds of \$4,070,224 by way of a non-brokered private placement of 11,629,212 subscription receipts (each, a "Subscription Receipt") priced at \$0.35. Each Subscription Receipt entitles the holder to acquire, for no additional consideration, one common share pursuant to the terms and conditions in the Subscription Receipt Certificate. The conversion of the Subscription Receipts to common shares was anticipated to occur on the completion of certain conditions, specifically (i) the issuance of a receipt for a Prospectus and (ii) the confirmation from the Canadian Securities Exchange (the "CSE") that the Company has met all CSE requirements for the Proposed Listing, subject to the conversion of the Subscription Receipts. The gross proceeds from the sale of the Subscription Receipts were deposited in escrow and held by the Company in a separate interest-bearing account, with such Escrowed Funds not released until the satisfaction of the Escrow Release Conditions at which time the Escrowed Funds together with interest earned thereon were accessible by the Company.

The Escrow Release Conditions were met and the Subscription Receipts were converted into common shares on June 3, 2021. Finder's fees of \$182,203 were paid on \$3,036,725 of the placement.

b) Reserves

| | August 31, 2021 \$ | February 28, 2021 \$ |
|---|--------------------------|----------------------------|
| Fair value of stock options granted or vested | 485,912 | 323,079 |
| Reserves | 485,912 | 323,079 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

9. SHARE CAPITAL (CONTINUED)

c) Escrow Shares

On April 9, 2021, the Company entered into an escrow agreement under which 20,089,167 common shares would be held in escrow and are scheduled for release as follows: 10% on the date the shares are listed on a Canadian exchange (the “listing date”, June 8, 2021) and 15% will be released in 6, 12, 18, 24, 30 and 36 months thereafter.

As at August 31, 2021, the Company held 18,080,251 shares in escrow.

10. SHARE-BASED PAYMENTS

a) Option Plan Details

The Company has a Stock Option Plan dated May 16, 2019 (the “Plan”). Because it is a rolling stock option plan, the Company may grant options to a maximum of 10% of the issued and outstanding Common Shares, from time to time, under the Plan. However, share compensation awards under all share compensation arrangements of the Company may not exceed, in aggregate, 10% of the total number of issued and outstanding Common Shares. The Plan is administered by the Board and options are granted at the discretion of the Board to eligible optionees, subject to the price restrictions and other requirements under the Plan. Options granted under the Plan are subject to vesting terms determined by the Board.

A summary of the Company’s stock options at August 31, 2021 and February 28, 2021 and the changes for the periods then ended is presented below:

| | August 31, 2021 | | February 28, 2021 | |
|-----------------|------------------------|---------------------------------------|------------------------|---------------------------------------|
| | Options Outstanding | Weighted Average Exercise Price | Options Outstanding | Weighted Average Exercise Price |
| Opening balance | 3,735,000 | \$0.16 | 1,600,000 | \$0.10 |
| Granted | 1,220,000 | \$0.36 | 2,135,000 | \$0.21 |
| Ending balance | 4,955,000 | \$0.21 | 3,735,000 | \$0.16 |

On August 12, 2020, the Company granted 1,400,000 stock options exercisable at \$0.20 per share to directors, officers and a consultant of the Company. The options vested over a six month period.

On November 24, 2020, the Company granted 735,000 stock options exercisable at \$0.22 per share to directors, officers, employees and consultants of the Company. The options vested over a six month period.

On July 2, 2021, the Company granted 1,220,000 stock options exercisable at \$0.36 per share to directors, officers, employees and consultants of the Company. The options will vest over a six month period.

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10. SHARE-BASED PAYMENTS

a) Option Plan Details (continued)

Details of stock options outstanding as at August 31, 2021 and February 28, 2021 are as follows:

| Expiry Date | Exercise Price | May 31, 2021 | February 28, 2021 | Weighted Average Remaining Contractual Life (Years) |
|-------------------|----------------|--------------|-------------------|---|
| July 24, 2024 | \$0.10 | 1,500,000 | 1,500,000 | 2.90 |
| September 1, 2024 | \$0.10 | 100,000 | 100,000 | 3.01 |
| August 12, 2025 | \$0.20 | 1,400,000 | 1,400,000 | 3.95 |
| November 24, 2025 | \$0.22 | 735,000 | 735,000 | 4.24 |
| July 2, 2026 | \$0.36 | 1,220,000 | - | 4.84 |
| | | 4,955,000 | 3,735,000 | 3.87 |

The weighted average remaining contractual life of stock options outstanding at August 31, 2021 was 3.87 years (February 28, 2021 - 4.06 years).

b) Fair Value of Options Issued During the Periods Ended

The weighted average fair value at grant date of options granted during the period ended August 31, 2021 was \$0.275 per option (February 28, 2021: \$0.13 per option). The total fair value of options granted during the period was \$335,062 (August 31, 2020: \$159,592). During the period ended August 31, 2021, \$162,833 (August 31, 2020: \$16,480) of the options vested and were realized as share based payments. The fair value was determined using the Black-Scholes option-pricing model using the following assumptions:

| | August 31, 2021 | February 28, 2021 |
|---------------------------------|-----------------|-------------------|
| Expected stock price volatility | 107% | 109% - 112% |
| Risk-free interest rate | 0.98% | 0.38% - 0.44% |
| Dividend yield | - | - |
| Expected life of options | 5 years | 5 years |
| Stock price on date of grant | \$0.355 | \$0.15 - \$0.22 |
| Forfeiture rate | - | - |

11. RELATED PARTY TRANSACTIONS AND BALANCES

All related party transactions are recorded at the exchange amount which is the amount agreed to by the Company and the related party.

a) Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include directors, the chief executive officer and chief financial officer of the Company. Key management personnel compensation is comprised of the following:

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11. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

a) Key Management Compensation (continued)

| | 2021 | 2020 |
|--|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits and director fees | 182,738 | 117,869 |
| Share-based payments | 102,809 | 15,303 |
| | <u>285,547</u> | <u>133,172</u> |

The Company has entered into a Management Agreement with a company controlled by the President and Chief Executive Officer effective March 1, 2021 for no fixed term. As compensation for the services to be provided, the company controlled by the President will receive a monthly fee of US \$13,000 with provisions for severance of six months of compensation in the event the Company terminates the Agreement without cause; three months of compensation in the event of constructive dismissal; and 24 months of compensation in the event the Company terminates the Agreement without cause or the President resigns within 12 months following a change of control. During the period ended August 31, 2021, the Company paid \$96,935 (August 31, 2020: \$76,470) in fees to the company controlled by the President.

The Company has entered into a Management Agreement with a company controlled by the Chairman effective March 1, 2021 for no fixed term. As compensation for the services to be provided, the company controlled by the Chairman will receive a monthly fee of \$5,000 with provisions for severance of six months of compensation in the event the Company terminates the Agreement without cause; three months of compensation in the event of constructive dismissal; and 24 months of compensation in the event the Company terminates the Agreement without cause or the Chairman resigns within 12 months following a change of control. During the period ended August 31, 2021, the Company paid \$31,110 (August 31, 2020: \$15,909) in fees and benefits to the company controlled by the Chairman.

The Company has entered into an Employment Agreement with the Chief Financial Officer and Corporate Secretary effective January 4, 2021 for no fixed term. As compensation for the services to be provided, the CFO will receive a monthly salary of \$5,000 with provisions for severance of six months of compensation in the event the Company terminates the Agreement without cause; three months of compensation in the event of constructive dismissal; and 24 months of compensation in the event the Company terminates the Agreement without cause or the CFO resigns within 12 months following a change of control. During the period ended August 31, 2021, the Company paid \$30,693 (August 31, 2020: \$1,490) in salary and benefits to the CFO.

During the period ended August 31, 2021, the Company recorded \$24,000 (August 31, 2020: \$nil) in director fees payable to three directors.

b) Private Placements

In connection with the private placement that closed on June 18, 2020, one insider of the Company purchased a total of 100,000 common shares for total proceeds of \$15,000. The terms and conditions offered to the related party in this transaction are identical to those offered to non-related common shareholders.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2021 AND 2020 (Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

b) Private Placements (continued)

In connection with the private placement that closed on September 28, 2020, three insiders of the Company purchased a total of 390,000 common shares for total proceeds of \$85,800. The terms and conditions offered to the related parties in this transaction are identical to those offered to non-related common shareholders.

In connection with the private placement that closed on February 11, 2021, four insiders of the Company purchased a total of 410,000 subscription receipts for total proceeds of \$143,500. The terms and conditions offered to the related parties in this transaction are identical to those offered to non-related common shareholders.

c) Related Party Payables

As at August 31, 2021, the Company has \$34,926 (February 28, 2021: \$22,910) due to related parties which consists of amounts owed to directors, officers and significant shareholders for salaries, fees, advances and expense reimbursements, which are due on demand, unsecured and are non-interest bearing.

d) Related Party Receivables

As at August 31, 2021, the Company has \$29,741 (February 28, 2021: \$nil) receivable from companies with common directors for rent and office overhead expense recoveries, which are due on demand, unsecured and are non-interest bearing.

e) Sale of Exploration and Evaluation Assets

On February 23, 2021, a private company with common directors exercised options to purchase certain non-core mineral claims as described in Note 7(b).

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Fair values

The Company's financial instruments include cash and trade and other payables. The fair value of these financial instruments approximates their carrying values due to the relative short-term maturity of these instruments.

The following table summarizes information regarding the carrying and fair values of the Company's financial instruments:

| | August 31, 2021 | | February 28, 2021 | |
|---------------------------------|-----------------|----------------|-------------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| | \$ | \$ | \$ | \$ |
| FVTPL assets (i) | 3,987,434 | 3,987,434 | 7,426,377 | 7,426,377 |
| Amortized cost liabilities (ii) | 428,634 | 428,634 | 471,026 | 471,026 |

(i) Cash, restricted cash and marketable securities

(ii) Trade and other payables, income taxes payable and lease liability

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12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (CONTINUED)

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

| As at August 31, 2021 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|-----------|---------|---------|-----------|
| | \$ | \$ | \$ | \$ |
| Cash | 3,201,085 | - | - | 3,201,085 |
| Marketable securities | 786,349 | - | - | 786,349 |

The Company believes the recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates.

Credit risk

Credit risk is the risk of an unexpected loss associated with a counterparty's inability to fulfill its contractual obligations. Management evaluates credit risk on an ongoing basis and monitors activities related to amounts and other receivable including the amounts of counterparty concentrations. The primary sources of credit risk for the Company arise from its financial assets consisting of cash. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risk, the Company only holds its cash with high credit chartered Canadian financial institutions. As at August 31, 2021, the Company has no financial assets that are past due or impaired due to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its trade and other payables, income taxes payable and lease liability. The Company has a working capital surplus of \$3,755,066 as at August 31, 2021 and does not require additional financing for operations and to meet its current obligations. The Company handles its liquidity risk through the management of its capital structure as described in Note 13. All of the Company's financial liabilities are due on demand, do not generally bear interest and are subject to normal trade terms.

The following are the contractual maturities of financial liabilities as at August 31, 2021:

| | Carrying Amount | Contractual Cash Flows | Within 1 year | Within 2 years | Within 3 years | Over 3 years |
|--------------------------|-----------------|------------------------|---------------|----------------|----------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and other payables | 287,545 | 287,545 | 287,545 | - | - | - |
| Income taxes payable | - | - | - | - | - | - |
| Lease liability | 141,089 | 141,089 | 70,542 | 70,547 | - | - |

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant interest rate risk as the Company has no variable interest bearing debt. The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in gold and metal prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (CONTINUED)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The results of the Company's operations are exposed to currency fluctuations. To date, the Company has raised funds entirely in Canadian dollars. The majority of the Company's exploration property expenditures will be incurred in United States dollars.

13. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can support continued development of its exploration and evaluation assets, pursue the acquisition and exploration of other mineral interests, and to maintain a flexible capital structure for its projects for the benefit of its shareholders and other stakeholders. The Company is not exposed to externally imposed capital requirements.

The Company considers items included in Equity to be capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities, option its properties for cash from optionees, enter into joint venture arrangements, return capital to its shareholders or adjust the amount of cash and cash equivalents.

14. SEGMENTED INFORMATION

The Company has one operating segment, the exploration of mineral properties, and two geographical segments, with all current exploration activities being conducted in the United States:

| | August 31, 2021 | | | February 28, 2021 | | |
|----------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | Canada | USA | Total | Canada | USA | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Current assets | 3,772,228 | 340,925 | 4,113,153 | 7,338,116 | 278,709 | 7,616,825 |
| Equipment and office lease | 146,477 | 29,853 | 176,330 | - | - | - |
| E&E assets | - | 2,403,116 | 2,403,116 | - | 1,451,151 | 1,451,151 |
| Deposits | - | 132,479 | 132,479 | - | - | - |
| Total assets | 3,918,705 | 2,906,373 | 6,825,078 | 7,338,116 | 1,729,860 | 9,067,976 |
| Total liabilities | 186,784 | 449,064 | 635,848 | 217,414 | 461,943 | 679,357 |

15. SUBSEQUENT EVENTS

a) Elevation Gold Mining Corporation

Effective September 24, 2021, Northern Vertex Mining Corp. consolidated its common shares on a six (6) old for one (1) new basis and changed its name to Elevation Gold Mining Corporation ("Elevation Mining"). The Company's investment of 545,000 common shares of Northern Vertex were exchanged for 90,833 shares of Elevation Mining.