Suite 1210 – 1130 West Pender Street, Vancouver, British Columbia, Canada, V6E 4A4
Tel: (604) 681-9100, Fax: (604) 681-9101, info@headwatergold.com
www.headwatergold.com

HEADWATER GOLD INC.

INTERIM MD&A – QUARTERLY HIGHLIGHTS
FOR THE SIX MONTHS ENDED AUGUST 31, 2021

The following interim MD&A – Quarterly Highlights of the financial position of Headwater Gold Inc. ("the Company") and results of operations of the Company should be read in conjunction with the unaudited condensed consolidated interim financial statements including the notes thereto for the period ending August 31, 2021 and the audited financial statements for the year ending February 28, 2021.

The accompanying unaudited condensed consolidated interim financial statements and related notes are presented in accordance with International Financial Reporting Standards for interim financial statements and accordingly do not include all disclosures required for annual financial statements. These statements, together with the following interim MD&A – Quarterly Highlights dated **October 21, 2021** ("Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to the potential future performance. The information in the interim MD&A – quarterly highlights may contain forward-looking statements.

These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

Economic and industry factors are substantially unchanged with respect to a comparison of the Company's interim financial condition to the financial condition as at the most recently completed financial year end.

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

1. CORE BUSINESS

Headwater Gold Inc. ("Headwater" or the "Company") was incorporated on January 14, 2019 under the laws of British Columbia and is currently a reporting issuer in British Columbia, Alberta and Ontario. The Company's common shares were approved for listing on the Canadian Securities Exchange ("CSE") and commenced trading on June 8, 2021 under the symbol "HWG". The Company also trades on the OTCQB under the symbol "HWAUF". 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 has one wholly owned subsidiary: CP Holdings Corporation. The accounts of the subsidiary are consolidated with the Company.

The Company is focused on high-grade precious metal exploration in the mining-friendly western United States. The Company has access to a proprietary target generation software combined with extensive local knowledge to generate new projects. Through its wholly owned subsidiary, CP Holdings Corporation, the Company has acquired a 100% interest, royalty free, in a portfolio of mineral projects in Idaho, Nevada and Oregon that it has staked on federal land. The Company has acquired additional mineral projects through third party agreements and has entered into two property option agreements to acquire drill-ready projects in Nevada.

The Company's principal projects are the 100% owned **Katey** and **Mahogany** properties located in Malheur County, Oregon, United States (the "Properties"). The Properties are composed of 224 unpatented lode claims totalling 1,842 hectares (4,551 acres) in two separate blocks that are 30 km apart from each other. The Company intends to begin drilling the Katey and Mahogany projects in the fourth quarter of 2021.

In June 2021, the Company entered into a definitive agreement with Bravada Gold Corporation to earn up to a 100% interest in the **Highland** epithermal gold-silver project in Lander County, Nevada, which the Company completed drilling in early August 2021. No significant high-grade vein intercepts were encountered in the initial seven-hole program. The Company believes the high-priority targets in the district have been adequately tested and the underlying property owner has been notified of Headwater's intention to terminate the option agreement. The decision to terminate the option is in-line with the Company's disciplined exploration strategy of pursuing high-impact discoveries by testing high-quality targets as quickly and cost-effectively as possible.

In July 2021, the Company entered into a definitive agreement with Orogen Royalties Inc. to acquire a 100% interest in the **Spring Peak** epithermal gold-silver project in Mineral County, Nevada, which the Company completed drilling in early September 2021. The initial program consisted of five reverse circulation ("RC") drill holes totaling 1,350 metres and was completed on schedule and under budget. The drill holes cut across the interpreted principal structural controls on the alteration cell at vertical depths between 100-200 metres below surface. Epithermal quartz veins were intercepted in four of the five drill holes at a variety of elevations and within multiple structures. Individual vein zones range from 1.5 to 18.3 metres in drilled width. Assay results are expected during the second half of October 2021.

As at August 31, 2021, the Company's mineral resource properties include the following:

- Idaho – **Matador** (Owyhee County), **Opaline Gulch** (Owyhee County) and **Crane Creek** (Washington County);

- Nevada – **Spring Peak** (Mineral County), **Agate Point** (Humboldt County), **Midas North** (Elko County), **Dome Hill** (Mineral County, NV and Mono County, CA); **Long Valley** (Mineral County); and **Highland** (Lander County); and

- Oregon – **Katey** (Malheur County), **Mahogany** (Malheur County) and **Hot Tub** (Malheur County).

See Section 7.1 "Exploration and Evaluation Activities" below for a description of the Properties and the planned work programs.

1.1 Headwater Gold Inc. Commences Trading on the Canadian Securities Exchange

On May 31, 2021, the Company filed a final prospectus with the British Columbia Securities Commission qualifying the distribution of common shares in the capital of the Company issuable for no additional consideration upon deemed exercise of the 11,629,212 subscription receipts of the Company issued on February 11, 2021 (the "Subscription Receipts"). On June 3, 2021, the CSE confirmed that the Company had met all CSE requirements for listing, subject to the conversion of the Subscription Receipts. The Subscription Receipts were converted into common shares of the Company on June 3, 2021 and the funds in the amount of $4,070,424 held in escrow in connection with the issuance of the Subscription Receipts have been released to the Company. The funds will be used by Headwater to fund the advancement of its mineral properties and the operation of the Company. The Company's common shares commenced trading on the CSE at the open of market on June 8, 2021 under the symbol "HWG".

In August 2021, the Company's common shares commenced trading on the OTCQB Venture Market in the United States under the symbol "HWAUF". The Company has additionally secured Depository Trust Company eligibility for its common shares traded in the United States.

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. FINANCIAL CONDITION

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 outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The Company had net loss of $2,141,831 for the six months ended August 31, 2021 and, as of that date, the Company had an accumulated deficit of $1,378,250. Included in the net loss is $1,480,100 in unrealized loss on investment recorded on the decline in market value of securities received from the sale of mineral projects. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

The Company had a working capital surplus of $3,755,066 at August 31, 2021 (February 28, 2021: $7,145,799).

Cash was $3,196,060 at August 31, 2021 (February 28, 2021: $326,410). Restricted cash was $5,025 at August 31, 2021 (February 28, 2021: $4,075,342) and consists of a term deposit held at a financial institution as security against a company credit card. The Company's sources and uses of cash are discussed in Section 4 "Cash Flows" below.

Short-term investments of $786,349 consist of the following marketable securities: 545,000 common shares (pre-consolidation) of Northern Vertex Mining Corporation valued at $152,600 and 8,450,000 common shares of Huntsman Exploration Inc. valued at $633,750 (February 28, 2021: $2,070,250).

Amounts and other receivable of $49,516 at August 31, 2021 (February 28, 2021: $3,050) largely consist of GST input tax credits and office expense recoveries from a subtenant.

Prepaid expenses and deposits of $76,203 at August 31, 2021 (February 28, 2021: $3,782) include office rent deposits, insurance, OTCQB annual fee and other normal operating expenses.

Right-of-use asset net of depreciation was $122,347 at August 31, 2021. 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.

Deposits of $132,479 at August 31, 2021 (February 28, 2021: $nil) includes US $105,000 in advances to a Surety Agent as collateral against US $210,000 in bonding that was placed by the Surety Agent with the Nevada Bureau of Land Management, Oregon Bureau of Land Management and USDA Forest Service and the Oregon State Office. The Company has established a surety bonding arrangement with 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. The bonds will 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.

Equipment of $53,983 consists of field equipment, computer equipment and office furniture and equipment.

Exploration and evaluation assets of $2,403,116 at August 31, 2021 (February 28, 2021: $1,451,151) consist of acquisition and exploration expenditures on the Company's mineral properties and are discussed in Section 7 "Exploration and Evaluation Activities" below.

Trade and other payables were $287,545 at August 31, 2021 (February 28, 2021: $283,288). Trade and other payables are unsecured and are usually paid within 30 days of recognition. Included in trade and other payables is $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.

In connection with the Company's office lease, the Company recognized a lease liability that 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 amount of the lease liability was $141,089 at August 31, 2021 (February 28, 2021: $nil). For the period ended August 31, 2021, interest expense on the lease liability was $4,787.

Income taxes payable were $nil at August 31, 2021 (February 28, 2021: $187,738). Deferred tax liability of $207,214 (February 28, 2021: $208,331) reflects the difference between the carrying value of the common shares under IFRS and the cost basis for US Tax purposes for the Huntsman shares received on the sale of the Flint property in December 2020.

3. FINANCIAL PERFORMANCE

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.

Because the Company is in the exploration stage, it did not earn any significant revenue from production and its expenses relate to the costs of operating a private company of its size. Net loss for the six months ended August 31, 2021 was $2,144,831 and comprehensive loss after cumulative translation adjustment was $2,178,605 or $0.05 per share, compared to a net loss of $221,287 and comprehensive loss of $207,164 for the six months ended August 31, 2020 or $0.01 per share. Net loss for the three months ended August 31, 2021 was $742,979 and comprehensive loss after cumulative translation adjustment was $747,470 or $0.02 per share, compared to a net loss of $176,020 and comprehensive loss of $153,477 for the three months ended August 31, 2020 or $0.01 per share. The current period loss is largely attributed to an unrealized loss on investment of $1,480,100 recorded on the Company's shares of Huntsman Exploration Inc. and Northern Vertex Mining Corp.

3.1 Total expenses for the six months ended August 31, 2021

Total expenses for the six months ended August 31, 2021 were $640,791 compared to total expenses of $170,552 for the six months ended August 31, 2020.

Accounting and audit fees were $1,118 for the six months ended August 31, 2021 compared to $33,000 in expenses recorded in the 2020 comparative period. During the six months ended August 31, 2020, accounting fees of $24,000 were charged by a company controlled by the former CFO and $9,000 was recorded for audit and tax return preparation.

Accretion of office lease liability of $4,787 was recognized during the six months ended August 31, 2021.

Employee costs were $332,606 for the six months ended August 31, 2021 compared to $46,484 in employee costs recorded in the 2020 comparative period. Employee costs consist of consulting fees, management fees, salaries and benefits and share-based payments. The following is a breakdown of material components of the Company's employee costs for the six months ended August 31, 2021 and 2020.

	Six months ended August 31, 2021 $	Six months ended August 31, 2020 $
Consulting fees	71,853	3,606
Management fees	84,959	24,676
Salaries and benefits	50,535	2,900
Share-based payments	125,259	15,303
	332,606	46,484

Consulting fees of $71,853 for the six months ended August 31, 2021 include payments for administrative, marketing, recruitment and geological services and advisors for the Company's OTCQB listing and DTC eligibility application.

Management fees consist of payments to the officers and directors of the Company. Salaries and benefits consist of salaries and group health benefits paid to the officers and employees of the Canadian head office.

Share-based payments of $125,259 for the six months ended August 31, 2021 represent stock options granted on November 24, 2020 and July 2, 2021 that vested during the period. A further $37,574 in share-based payments that vested during the period was capitalized to mineral properties.

Depreciation expense was $24,636 for the six months ended August 31, 2021 and includes $21,276 in depreciation of right-of-use asset.

Filing fees were $41,426 for the six months ended August 31, 2021 compared to $4,171 in filing fees recorded for the 2020 comparative period. The following is a breakdown of the Company's filing fees for the six months ended August 31, 2021 and 2020.

	Six months ended August 31, 2021 $	**Six months ended August 31, 2020 $**
Annual financial statements	2,893	-
CNSX Markets Inc.	16,750	-
Listing application	12,808	-
Miscellaneous filing fees	1,169	4,171
OTC Markets Group Inc.	7,806	-
	41,426	4,171

General exploration expenses were $73,349 for the six months ended August 31, 2021 compared to $35,836 in general exploration expenses recorded for the 2020 comparative period. General exploration expenses include project reconnaissance costs and expenditures on data acquisition and development of proprietary target generation software.

Investor communication expenses were $50,937 for the six months ended August 31, 2021 compared to $8,549 in expenses incurred during the 2020 comparative period. The following is a breakdown of the Company's investor communication expenses for the six months ended August 31, 2021 and 2020.

	Six months ended August 31, 2021 $	**Six months ended August 31, 2020 $**
Advertising	44,538	5,000
News releases	1,781	-
Transfer agent	4,009	-
Website	609	3,549
	50,937	8,549

Legal fees were $55,682 for the six months ended August 31, 2021 compared to $5,134 in legal fees recorded for the 2020 comparative period and were largely incurred in connection with Company's listing application.

Office expenses were $56,221 for the six months ended August 31, 2021 compared to $26,741 in expenses recorded for the 2020 comparative period. The following is a breakdown of the Company's office expenses for the six months ended August 31, 2021 and 2020.

	Six months ended August 31, 2021 $	Six months ended August 31, 2020 $
Bank charges and interest	1,947	1,408
Information technology	8,206	2,380
Insurance	17,194	-
Meals and entertainment	2,878	1,534
Office supplies and expenses	20,760	5,781
Rent expense	18,119	15,514
Rent recovery	(16,000)	-
Telephone	3,117	124
	56,221	26,741

3.2 Total other income and expenses for the six months ended August 31, 2021

Finance income was $5,922 for the six months ended August 31, 2021 compared to $476 recorded for the 2020 comparative period and consists of term deposit interest and cashback rewards on the Company's credit card.

Finance expense of $4,853 was incurred in connection with US $105,000 in reclamation bonds advanced and deposited by the Company's surety agent.

Foreign exchange gain of $55,939 was recorded during the six months ended August 31, 2021 compared to a loss of $44,425 recorded in the 2020 comparative period. Foreign exchange gains and losses arise from transactions denominated in U.S. dollars, the functional currency of the Company's subsidiary.

Impairment of exploration and evaluation assets of $63,758 was recorded during the six months ended August 31, 2021 in connection with the abandonment of certain Birch Creek, Midas North and Long Valley claims. Impairment of $6,786 recorded in the 2020 comparative period relates to the Bob Creek property.

Unrealized loss on investments of $1,480,100 recorded during the six months ended August 31, 2021 relate to the Company's investments in Huntsman Exploration Inc. ("HMAN") and Northern Vertex Mining Corporation ("NEE"). The Company received 8,450,000 common shares of HMAN from the sale of the Flint property in December 2020 that are restricted from trading until December 21, 2021. The shares were priced at $0.245 on February 28, 2021 and $0.075 on August 31, 2021. The Company received 545,000 common shares of NEE on June 15, 2021 in exchange for 500,000 common shares of Eclipse Gold Mining Corporation, which were originally received from the sale of the Como property in November 2020. The shares were priced at $0.36 on June 15, 2021 and $0.28 on August 31, 2021.

3.3 Total expenses for the three months ended August 31, 2021

Total expenses for the three months ended August 31, 2021 were $326,427 compared to total expenses of $102,523 for the three months ended August 31, 2020.

Accounting and audit fees were $17 for the three months ended August 31, 2021 compared to $21,000 in expenses recorded in the 2020 comparative period. During the three months ended August 31, 2020, accounting fees of $12,000 were charged by a company controlled by the former CFO.

Accretion of office lease liability of $3,590 was recognized during the three months ended August 31, 2021.

Employee costs were $203,090 for the three months ended August 31, 2021 compared to $28,873 in employee costs recorded in the 2020 comparative period. Employee costs consist of consulting fees, management fees, salaries and benefits and share-based payments. The following is a breakdown of material components of the Company's employee costs for the three months ended August 31, 2021 and 2020.

	Three months ended August 31, 2021 $	**Three months ended August 31, 2020 $**
Consulting fees	48,592	(2)
Management fees	42,350	12,082
Salaries and benefits	25,554	1,490
Share-based payments	86,594	15,303
	203,090	28,873

Consulting fees of $48,592 for the three months ended August 31, 2021 include payments for administrative, marketing and geological services and advisors for the Company's OTCQB listing and DTC eligibility application.

Management fees consist of payments to the officers and directors of the Company. Salaries and benefits consist of salaries and group health benefits paid to the officers and employees of the Canadian head office.

Share-based payments of $86,594 for the three months ended August 31, 2021 represent stock options granted on July 2, 2021 that vested during the period. A further $17,033 in share-based payments that vested on July 2, 2021 was capitalized to mineral properties.

Depreciation expense was $24,278 for the three months ended August 31, 2021 and includes $21,276 in depreciation of right-of-use asset.

Filing fees were $12,951 for the three months ended August 31, 2021 compared to $3,657 in filing fees recorded for the 2020 comparative period. The following is a breakdown of the Company's filing fees for the three months ended August 31, 2021 and 2020.

	Three months ended August 31, 2021 $	**Three months ended August 31, 2020 $**
Annual financial statements	2,893	-
CNSX Markets Inc.	1,750	-
Miscellaneous filing fees	502	3,657
OTC Markets Group Inc.	7,806	-
	12,951	3,657

General exploration expenses were $12,728 for the three months ended August 31, 2021 compared to $19,256 in general exploration expenses recorded for the 2020 comparative period. General exploration expenses include project reconnaissance costs and expenditures on data acquisition and development of proprietary target generation software.

Investor communication expenses were $45,145 for the three months ended August 31, 2021 compared to $5,240 in expenses incurred during the 2020 comparative period. The following is a breakdown of the Company's investor communication expenses for the three months ended August 31, 2021 and 2020.

	Three months ended August 31, 2021 $	Three months ended August 31, 2020 $
Advertising	39,046	5,000
News releases	1,781	-
Transfer agent	4,009	-
Website	309	240
	45,145	5,240

Legal fees were $11,489 for the three months ended August 31, 2021 compared to $3,903 in legal fees recorded for the 2020 comparative period and were largely incurred in connection with Company's listing application.

Office expenses were $13,129 for the three months ended August 31, 2021 compared to $15,126 in expenses recorded for the 2020 comparative period. The following is a breakdown of the Company's office expenses for the three months ended August 31, 2021 and 2020.

	Three months ended August 31, 2021 $	Three months ended August 31, 2020 $
Bank charges and interest	1,037	678
Information technology	3,277	1,115
Insurance	5,101	-
Meals and entertainment	966	786
Office supplies and expenses	8,353	4,631
Rent expense	5,442	7,883
Rent recovery	(12,000)	-
Telephone	953	33
	13,129	15,126

3.4 Total other income and expenses for the three months ended August 31, 2021

Finance income was $2,386 for the three months ended August 31, 2021 compared to $42 recorded for the 2020 comparative period and consists of term deposit interest and cashback rewards on the Company's credit card.

Finance expense of $4,853 was incurred in connection with US $105,000 in reclamation bonds advanced and deposited by the Company's surety agent.

Foreign exchange gain of $81,877 was recorded during the three months ended August 31, 2021 compared to a loss of $66,753 recorded in the 2020 comparative period. Foreign exchange gains and losses arise from transactions denominated in U.S. dollars, the functional currency of the Company's subsidiary.

Impairment of exploration and evaluation assets of $63,758 was recorded during the three months ended August 31, 2021 in connection with the abandonment of certain Birch Creek, Midas North and Long Valley claims. Impairment of $6,786 recorded in the 2020 comparative period relates to the Bob Creek property.

Unrealized loss on investments of $423,850 recorded during the three months ended August 31, 2021 relate to the Company's investments in Huntsman Exploration Inc. ("HMAN") and Northern Vertex Mining Corporation ("NEE"). The Company received 8,450,000 common shares of HMAN from the sale of the Flint property in December 2020 that are restricted from trading until December 21, 2021. The shares were priced at $0.245 on February 28, 2021 and $0.075 on August 31, 2021. The Company received 545,000 common shares of NEE on June 15, 2021 in exchange for 500,000 common shares of Eclipse Gold Mining Corporation, which were originally received from the sale of the Como property in November 2020. The shares were priced at $0.36 on June 15, 2021 and $0.28 on August 31, 2021.

4. CASH FLOWS

The Company is still in the exploration and development stage and as such does not earn any significant revenue from production. Total cash used in operating activities was $810,656 for the six months ended August 31, 2021 compared to cash used of $142,585 during the 2020 comparative period. The Company incurred net loss of $2,144,831 with adjustments to add back items not involving cash (accretion of office lease liability, depreciation, foreign exchange, unrealized loss on short-term investments, share-based payments and impairment of exploration and evaluation assets) and adjustments for non-cash working capital items (amounts receivable, prepaid expenses and deposits, trade and other payables, taxes payable) to calculate the cash used in operating activities.

Total cash flows used in investing activities was $199,855 during the six months ended August 31, 2021 and consist of $762,465 in expenditures on exploration and evaluation assets, $750,000 in proceeds from sale of term deposits, $56,896 spent on the purchase of equipment and $130,494 in deposit for a surety bond. Cash flows used in investing activities for the 2020 comparative period consisted of $331,662 in expenditures on exploration and evaluation assets.

Total cash flows used in financing activities was $189,525 during the six months ended August 31, 2021 and include $182,204 in finder's fees that were paid upon conversion of subscription receipts to common shares and $7,321 in office lease payments. Cash flows provided by financing activities was $275,250 for the 2020 comparative period and consisted of $288,750 in proceeds from share issuances less $13,500 in share issue costs.

5. SELECTED ANNUAL INFORMATION

N/A

6. MAJOR OPERATING MILESTONES

6.1 Period from March 1, 2021 to August 31, 2021

On March 1, 2021, Caleb Stroup was appointed as Chief Executive Officer of the Company and Alistair Waddell was appointed the Executive Chair.

On May 31, 2021, the Company filed a final prospectus with the British Columbia Securities Commission qualifying the distribution of common shares in the capital of the Company issuable for no additional consideration upon deemed exercise of the 11,629,212 Subscription Receipts of the Company issued on

February 11, 2021. On June 3, 2021, the CSE confirmed that the Company had met all CSE requirements for listing, subject to the conversion of the Subscription Receipts. The Subscription Receipts were converted into common shares of the Company on June 3, 2021 and the funds held in escrow in connection with the issuance of the Subscription Receipts in the amount of $4,070,424 have been released to the Company.

On June 8, 2021, the Company's common shares began trading on the CSE under the symbol "HWG".

On June 29, 2021, the Company entered into an Exploration and Option to Enter Joint Venture Agreement Highland Project to earn up to a 100% interest in the Highland gold/silver project, located in Lander County, Nevada, from Bravada Gold Corporation ("Bravada"). The Highland property is subject to a 3% retained net smelter returns ("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. The Company completed a seven-hole reverse circulation ("RC") drill program totalling approximately 2,100 metres at the Highland Project from early July to early August 2021. No significant high-grade vein intercepts were encountered and Bravada was provided with notice of termination of the option on September 30, 2021.

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.

On July 12, 2021, the Company entered into an Option to Purchase Agreement Spring Peak Project to acquire a 100% interest, subject to retained royalties, in the Spring Peak epithermal gold/silver project located in Nevada from Orogen Royalties Inc. The Company completed a five-hole RC drill program totalling approximately 1,350 metres at the Spring Peak Project from early August to early September 2021. Assay results are expected during the second half of October.

In August 2021, the Company's common shares commenced trading on the OTCQB Market with DTC eligibility in the United States under the symbol "HWAUF".

7.1 Exploration and Evaluation Activities for the Six Months Ended August 31, 2021

The Company is in the mineral exploration stage and as such has no revenues. Mineral interests in the form of exploration and acquisition costs totalled $2,403,116 as at August 31, 2021 (February 28, 2021 - $1,451,151).

Total costs incurred on exploration and evaluation assets for the six months ended August 31, 2021 are summarized as follows:

	Idaho **$**	**Nevada** **$**	**Oregon** **$**	**Total** **$**
Acquisition costs				
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 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				
August 31, 2021	646,420	1,098,852	657,844	2,403,116

Total costs incurred on exploration and evaluation assets for the six months ended August 31, 2020 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	39,256	134,643	39,375	13,960	227,234
Impairment	-	(6,648)	-	-	(6,648)
Foreign exchange	(5,146)	(8,766)	(3,170)	(1,365)	(18,447)
Balance, August 31, 2020	266,560	248,937	106,753	45,949	668,199
Exploration costs					
Balance, February 29, 2020	129,629	72,856	38,775	1,533	242,793
Additions					
Administration	364	600	240	-	1,204
Drilling	-	1,399	-	-	1,399
Geology	22,615	32,470	85,975	3,509	144,569
Mapping, sampling, geochem	2,749	7,661	5,519	-	15,929
Technical review	8,007	11,443	5,346	-	24,796
	33,735	53,573	97,080	3,509	187,897
Foreign exchange	(5,280)	(4,682)	(4,408)	(283)	(14,653)
Balance, August 31, 2020	158,084	121,747	131,447	4,759	416,037
Total acquisition costs and exploration expenditures					
August 31, 2020	424,644	370,684	238,200	50,708	1,084,236

7.2 Katey and Mahogany (Malheur County, Oregon)

The Company owns a 100% interest in the Katey and Mahogany properties, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $46,910 in acquisition costs (2020 - $38,804) and $90,808 in exploration costs (2020 - $97,080) on the Properties. As at August 31, 2021, total acquisition and exploration expenditures recorded on Katey and Mahogany were $606,461 (2020 - $237,645). Katey and Mahogany are the Company's principal properties.

About the Katey and Mahogany Projects

The Katey and Mahogany Properties are located in Malheur County, Oregon, United States and are composed of 224 unpatented lode claims totaling 4551 acres in two separate blocks that are 30 km apart from each other. The Mahogany Property ("Mahogany") comprises 139 unpatented lode claims totaling 2795 acres, centered at 43.26° Latitude and -117.04° Longitude. The Katey Property ("Katey") is 85 unpatented lode claims totaling 1,756 acres, centered at 43.42° Latitude and -117.16° Longitude.

Gold mineralization on the Properties is interpreted to be related to hot spring-type low sulphidation epithermal systems of Miocene age. Alteration, mineralization, and geochemical anomalies are associated with high-angle extensional faults. The presence of sinter and other high-level alteration features indicate that the uppermost parts of the mineralizing system are partially preserved.

Gold mineralization on the Properties is associated with regional mid-Miocene bimodal volcanism and rifting within the northern Basin and Range Province. The Properties are situated near a major lithospheric domain boundary that marks the western margin of the North American craton to the east and accreted oceanic terranes to the west. Pre-Cenozoic basement rocks are entirely concealed by a thick sequence of mid-Tertiary and younger volcanic and sedimentary rocks.

The geology of the Katey Property is characterized by Miocene ash flow tuffs, tuffaceous and clastic sediments, and rhyolitic volcanics. The highest gold values occur in two separate areas of the property, referred respectively as the West and East Zones. The West Zone is characterized by hydrothermal veins and vent breccias crosscutting both clastic and tuffaceous sediments and ash flow tuffs. Mineralization in the East Zone is associated with chalcedonic stockwork veins and breccias that crosscut rhyolitic intrusions. Surface channel samples outlined mineralization in both zones where historical gold values averaged 0.02 - 0.03 opt, over 30 m. Additional areas of significant alteration at Katey includes zone of silicification and silica-pyrite veining in sediments and rhyolite intrusions (South Zone); and a broad zone of chalcedonic veining and argillic alteration within ash flow tuff (West Canyon Zone).

Rock chip sampling by Headwater geologists confirmed gold mineralization in hydrothermal vent breccias on the Mahogany Property, and in chalcedonic stockwork veins and breccias on the Katey Property. Headwater geologists have also followed alteration along strike of a major high-angle fault at Mahogany, referred to as the Main Ridge Fault, and encountered gold mineralization in silicified and brecciated tuffaceous sandstone (rock samples: RX512448 with 23 ppm Au, RX984619 with 25.1 ppm Au, and RX984620 Float with 55.2 ppm Au).

The Company undertook an exploration program on the Katey and Mahogany Properties from September 5, 2019 to October 18, 2020, consisting of soil sampling, stream sediment sampling, rock sampling, 1:5,000 scale bedrock and alteration mapping, and drone-based magnetic surveys. The program resulted in the collection of 721 soil samples, 24 stream sediment samples, 129 rock samples and 448 line-kilometres of drone magnetics (of which, 172.8 line-kilometres are on the Properties).

Preliminary interpretation of the drone magnetic survey at Mahogany has highlighted strong horizontal gradients across the southern extension of the Main Ridge Fault, and a broad magnetic low across the area of most intense argillic alteration and silicification (Wright, 2020a). Numerous magnetic lows peripheral to the Main Ridge Fault at Mahogany represent potential drill targets under thin alluvial cover.

Drone magnetics from the Katey property shows two strongly contrasting magnetic domains separated by north-northwest-striking structures that underlie the East Zone target area, consistent with the interpretation that Katey lies at the margin of a Miocene caldera. The western half of the property is covered by a non-magnetic domain, consisting of intra-caldera tuffs and tuffaceous sediments. The eastern domain is characterized by strong magnetic response from flat-lying lavas that lie outboard of the interpreted caldera margin.

A NI 43-101 technical report on the Katey and Mahogany Properties dated December 27, 2020 was prepared by Derrick Strickland, P.Geo. (the “Author”). The Author recommended that for continuing evaluation of the Properties, the Company should test the presence of bonanza-type vein targets at depths of 300 m down-dip of mineralized faults identified by mapping and sampling programs completed in the fall of 2020.

2021 Work Program

Federal and state drill permits have been received for the Katey and Mahogany Projects. A Boart Longyear diamond drill rig is scheduled to mobilize to the Mahogany Project in mid-October, where the focus will be testing multiple vein targets along the Main Ridge Fault zone, which locally contains high-grade gold values in surface sampling, up to 170 g/t Au. Following the conclusion of drilling at Mahogany, the rig is scheduled to move to the Katey Project.

7.3 Hot Tub (Malheur County, Oregon)

The Company owns a 100% interest in the Hot Tub property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $6,161 (2020 - $571) in acquisition costs and $16,215 (2020 - $nil) in exploration costs on the Hot Tub property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Hot Tub were $51,383 (2020 - $555).

7.4 Matador (Owyhee County, Idaho)

The Company owns a 100% interest in the Matador property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $6,161 in acquisition costs (2020 - $9,234) and $17,387 in exploration costs (2020 - $12,361) on the Matador property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Matador were $154,647 (2020 - $120,174).

7.5 Opaline Gulch (Owyhee County, Idaho)

The Company owns a 100% interest in the Opaline Gulch property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $6,367 in acquisition costs (2020 - $8,348) and $18,743 in exploration costs (2020 - $10,013) on the Opaline Gulch property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Opaline Gulch were $170,674 (2020 - $134,427).

7.6 Crane Creek (Washington County, Idaho)

The Company owns a 100% interest in the Crane Creek property, which it acquired by way of staking federal land and an arm's length vendor acquisition subject to a 1% net smelter returns royalty which the Company may purchase for US $1,000,000 at any time. In addition, a portion of the project is comprised of a 20 year mining lease agreement 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. During the six months ended August 31, 2021, the Company expended $57,852 in acquisition costs (2020 - $nil) and $25,044 in exploration costs (2020 - $1,448) on the Crane Creek property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Crane Creek were $321,099 (2020 - $1,405).

7.7 Agate Point (Humboldt County, Nevada)

The Company owns a 100% interest in the Agate Point property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $20,515 in acquisition costs (2020 - $7,709) and $28,596 in exploration costs (2020 - $9,639) on the Agate Point property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Agate Point were $145,302 (2020 - $37,447).

7.8 Long Valley (Mineral County, Nevada)

The Company owns a 100% interest in the Long Valley property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $7,599 in acquisition costs (2020 - $7,905) and $14,898 in exploration costs (2020 - $10,563) on the Long Valley property. 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. As at August 31, 2021, total acquisition and exploration expenditures recorded on Long Valley were $99,078 (2020 - $48,788).

7.9 Dome Hill (Mineral County, Nevada and Mono County, California)

The Company owns a 100% interest in the Dome Hill property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $22,337 in acquisition costs (2020 - $7,988) and $15,997 in exploration costs (2020 - $9,499) on the Dome Hill property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Dome Hill were $95,179 (2020 - $38,642).

7.10 Midas North (formerly Castle Ridge) (Elko County, Nevada)

The Company owns a 100% interest in the Midas North property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $31,484 in acquisition costs (2020 - $3,191) and $21,918 in exploration costs (2020 - $8,498) on the Midas North property. 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. As at August 31, 2021, total acquisition and exploration expenditures recorded on Midas North were $207,248 (2020 - $11,351).

About the Midas North Project

The Midas North project is located in the Midas District of northern Nevada, approximately 100 kilometres north of the town of Winnemucca and directly adjoins Hecla Mining's Midas mine complex. In 1994 an array of high-grade banded epithermal veins were discovered and historic production from the Midas mine was initiated by Franco-Nevada Corporation (NYSE: FNV) in 1998, with historic reserves of 2.46 million tonnes at a grade of 38.2 g/t Au[(1),(2)]. Mining continued until 2019 when Hecla elected to temporarily halt production as a result of decreasing head grade. Existing infrastructure at the Midas mine includes a 1,200 ton per day mill, several production water wells, high voltage power, and a fleet of underground mining equipment.

Mineralization in the Midas area is related to mid-Miocene bimodal volcanism associated with the Northern Nevada Rift and is analogous to high-grade low-sulfidation epithermal veins in Northern Nevada including Sleeper, Fire Creek, and Hollister. Gold and silver mineralization in the Midas district typically occurs in sub-vertical banded low-sulfidation epithermal vein arrays, the most significant being the Colorado Grande vein in the central Midas mine area.

In February 2021, Hecla announced the discovery of a new high-grade vein system in a previously undrilled area, approximately three kilometres southeast of the main mine area. This new discovery is reported to occur beneath a mapped exposure of geyserite sinter which was correctly identified as a surface venting feature of an epithermal vein system. This discovery highlights the potential for future exploration in the greater Midas district, targeting blind veins beneath widespread high-level epithermal alteration.

Headwater's Midas North project area covers a large hydrothermal alteration cell, extending at least four kilometres in strike and one kilometre in width, which is interpreted by Headwater geologists as representing the high-level manifestations of an epithermal precious metal system. This system occurs approximately 10 kilometres along strike north of the Midas mine. The Headwater Project consists of 199 unpatented mining claims on BLM land and covers approximately 1,530 hectares.
Two priority target areas have been identified by Headwater geologists in the field: the Nevada Grande target and Big Opal target areas, both of which exhibit widespread high-level chalcedonic to opaline silica flooding, clay alteration, and local sinter formation. The Nevada Grande target area consists of a ridge forming, linear zone of chalcedonic and opaline silicification over an approximately one km strike extent, interpreted to be the high-level manifestations of a potential epithermal feeder structure. The Big Opal target area consists of a widespread zone of sub-horizontal opaline and chalcedonic silica flooding, with localized occurrences of interpreted near-vent sinter facies, such as fossilized geyser vents. To date, 90 rock chip samples and 54 stream sediment samples have been collected by the Company from the Project area. This limited initial sampling as already highlighted several priority areas of anomalous precious metal values, with highly anomalous values of important epithermal pathfinder elements, such as mercury.

The Project area has seen very limited historic exploration. Although the Project was reportedly staked by Newmont Corporation (NYSE: NEM) in the past, Headwater is not aware of any historic exploration drilling on the property. Headwater geologists are currently planning an expanded multi-disciplinary surface exploration program which will be carried out in late 2021 and into 2022 with a goal of identifying additional high-priority drill targets. This program is expected to include detailed geologic mapping, rock chip sampling, systematic soil sampling, airborne magnetics, airborne radiometrics, and ground based resistivity profiles.

1 The Qualified Person has been unable to verify the information on the adjacent properties. Mineralization hosted on adjacent and/or nearby and/or geologically similar properties is not necessarily indicative of mineralization hosted on the Company's properties. Historical resource estimates are treated by the Company as historical in nature, and not current.
2 Goldstrand, P.M., and Schmidt, K.W., 2000, Geology, mineralization, and ore controls at the Ken Snyder gold-silver mine, Elko County, Nevada, in Cluer, J.K., Price, J.G., Struhsacker, E.M., Hardyman, R.F., and Morris, C.L., eds., Geology and Ore Deposits 2000: The Great Basin

and Beyond: Geological Society of Nevada Symposium Proceedings, May 15-18, 2000, p. 265-287.

7.11 Spring Peak (Mineral County, Nevada)

The Company has entered into an Option to Purchase Agreement Spring Peak Project (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. ("Orogen"). The terms of the option are to pay US$10,000 on signing, incur exploration expenditures of US$250,000 within 24 months of signing, pay a cash or share payment totaling US$250,000 (subject to receipt of certain future permitting milestones), and maintain all required underlying option payments and royalties. Orogen will retain a 0.5% net smelter return ("NSR") royalty and an option to purchase an additional 0.5% NSR royalty for US$1,000,000. The underlying option payments include an annual lease payment commencing at US$40,000 and escalating up to US$60,000 (indexed to inflation) and a US$500,000 buyout. The underlying optionor will retain a 2.5% NSR royalty of which 1.5% of the NSR may be purchased for US$1,500,000 at any time.

During the six months ended August 31, 2021, the Company staked 28 claims within the Spring Peak area of interest and expended $43,124 in acquisition costs and $190,575 in exploration costs on the Spring Peak property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Spring Peak were $236,897 (2020 - $nil).

About the Spring Peak Project

The Spring Peak Project is located in the Aurora Mining District of west-central Nevada, approximately 50 kilometres southwest of the town of Hawthorne.

A large hydrothermal alteration cell occurs in the center of the Spring Peak Project area, which is interpreted by Headwater as representing high-level manifestations of an epithermal precious metal system. An approximate 5-metre thick silica sinter, which extends over 500 metres in strike, occurs in the center of this alteration cell. This sinter displays various vent facies textures interpreted by Headwater to reflect a high-energy hydrothermal vent environment, suggesting good potential for epithermal vein mineralization in feeder structures at depth. Several other linear exposures of intense silicification, with corresponding CSAMT resistivity anomalies at depth, present additional vein targets elsewhere on the Project.

Historic rock float samples of banded quartz vein material on the Property reportedly returned assays of up to 5.52 g/t Au and select vein sampling of narrow banded epithermal veins cutting a granite in outcrop have returned values up to 35.70 g/t Au. The only historic drilling on the Property took place in the 1980's and consisted of mostly vertical, shallow reverse-circulation (RC) holes targeting low-grade, bulk tonnage mineralization within 100 metres of the surface. Most of these holes reportedly encountered gold mineralization ranging from 0.1 g/t Au to 1.93 g/t Au, with many ending in anomalous gold values. The potential for high-grade gold mineralization in epithermal veins below approximately 100 metres depth remains untested.

The most recent work on the Property was performed by OceanaGold ("Oceana"), who completed 10 line-kilometres of CSAMT geophysics, 465 soil samples, detailed geologic mapping, and drill targeting. Oceana permitted the Project for drilling but completed no drilling before returning the Project to Orogen following the closure of their Nevada exploration office. The Oceana drill permit was transferred to Headwater and allowed for drill pad construction and drilling immediately.

2021 Work Plan

The Company completed a first-pass drill program on the Spring Peak Project from early August to early September 2021. The initial program consisted of five RC drill holes totaling 1,350 metres and was completed on schedule and under budget. The drill holes cut across the interpreted principal structural controls on the alteration cell at vertical depths between 100-200 metres below surface. Epithermal quartz veins were intercepted in four of the five drill holes at a variety of elevations and within multiple structures. Individual vein zones range from 1.5 to 18.3 metres in drilled width. Assay results are expected in the second half of October.

7.12 Highland (Lander County, Nevada)

The Company has entered into an Exploration and Option to Enter Joint Venture Agreement Highland Project (the "Agreement") dated June 29, 2021 to earn up to a 100% interest in the Highland gold/silver project, located in Lander County, Nevada, from Bravada Gold Corporation ("Bravada"). 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.

During the six months ended August 31, 2021, the Company expended $55,422 in acquisition costs and $255,481 in exploration costs on the Highland property. As at August 31, 2021, total acquisition and exploration expenditures recorded on Highland were $315,148.

The Company completed a seven-hole RC drill program totalling approximately 2,100 metres at the Highland Project from early July to early August 2021. No significant high-grade vein intercepts were encountered in the initial seven-hole program. The Company believes the high-priority targets in the district have been adequately tested and Bravada has been notified of Headwater's intention to terminate the option agreement. The decision to terminate the option is in-line with the Company's disciplined exploration strategy of pursuing high-impact discoveries by testing high-quality targets as quickly and cost-effectively as possible.

7.13 Birch Creek (Malheur County, Oregon)

The Company owned a 100% interest in the Birch Creek property, which it acquired by way of staking federal land. During the six months ended August 31, 2021, the Company expended $nil (2020 - $nil) in acquisition costs and $10,357 (2020 - $nil) in exploration costs on the Birch Creek property. 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.

7.14 Qualified Person

The scientific and technical information contained in this document has been reviewed and approved by Derrick Strickland, P.Geo. (1000315), a "Qualified Person" ("QP") as defined in National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

8. SUMMARY OF QUARTERLY RESULTS

N/A

9. LIQUIDITY

The Company's financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations. Management has been successful in raising equity financing in the past. However, there is no assurance that it will be able to do so in the future.

Factors that could impact on the Company's liquidity are monitored regularly and include market changes, gold price changes, and economic upturns or downturns that affect the market price of the Company's securities for the purposes of raising financing. The current state of equity markets has been favourable towards raising financing and Management believes that this condition will continue over the next twelve months.

Cash was $3,196,060 at August 31, 2021 (February 28, 2021: $326,410). Restricted cash was $5,025 at August 31, 2021 (February 28, 2021: $4,075,342) and consists of a term deposit held at a financial institution as security against a company credit card.

Short-term investments consist of 545,000 common shares of Northern Vertex Mining Corp. valued at $152,600 and 8,450,000 common shares of Huntsman Exploration Inc. valued at $633,750.

Amounts and other receivable consist of GST input tax credits and office overhead recoveries. Prepaid expenses and deposits were recorded for rent, insurance, OTCQB listing fees and other ordinary operating expenses.

Current liabilities total $358,087 at August 31, 2021 compared to $471,026 at February 28, 2021. Current liabilities consist of trade payables, income taxes payable and lease liability.

Working capital surplus was $3,755,066 at August 31, 2021 compared to a surplus of $7,145,799 at February 28, 2021.

The Company has no debt or debt arrangements other than the loan referenced above.

Based on the financial condition at August 31, 2021, the Company can meet its financial obligations as they become payable in the current fiscal year but will need to raise additional equity financing in order to expand its planned exploration and evaluation activities.

10. CAPITAL RESOURCES

The Company does not have any commitments for capital expenditures. The Company does not have any capital resources in the form of debt, equity and any other financing arrangements.

11. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

12. TRANSACTIONS BETWEEN RELATED PARTIES

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

12.1 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:

	Six months ended August 31, 2021 $	Six months ended August 31, 2020 $
Short-term employee benefits and director fees	182,738	117,869
Share-based payments	102,809	15,303
	285,547	133,172

The Company has entered into a Management Agreement with Hunter Gold LLC ("Hunter", a company controlled by Caleb Stroup ("Stroup"), the President) effective March 1, 2021 for no fixed term. As compensation for the services to be provided, Hunter 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 Hunter.

The Company has entered into a Management Agreement with Waddell Consulting Inc. ("Waddell", a company controlled by Alistair Waddell, the Chairman) effective March 1, 2021 for no fixed term. As compensation for the services to be provided, Waddell 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 Waddell.

The Company has entered into an Employment Agreement with Sandra Wong ("Wong"), 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 (May 31, 2020: $nil) in director fees payable to three directors as follows: Graeme Currie ("Currie") $6,000; Tero Kosonen ("Kosonen") $12,000; and Wendell Zerb ("Zerb") $6,000.

12.2 Private Placements

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. Wong purchased 100,000 shares.

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. Stroup purchased 50,000 shares, Waddell Consulting purchased 100,000 shares, and Zerb purchased 240,000 shares.

On February 11, 2021, the Company raised gross proceeds of $4,070,224 by way of a non-brokered subscription receipt private placement of 11,629,212 subscription receipts priced at $0.35. Currie purchased 100,000 receipts, Kosonen purchased 250,000 receipts, Stroup purchased 30,000 receipts, and Waddell Consulting purchased 30,000 receipts.

12.3 Property Option Agreements

On February 23, 2021, a private company with common directors exercised options to purchase the Bob Creek property for US $55,000, the Danny Boy property for US $15,000, the Ziggurat property for US $35,000 and the Keg property for US $45,000.

12.4 Due to Related Parties

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.

12.5 Receivable from Related Parties

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.

13. FOURTH QUARTER

N/A

14. PROPOSED TRANSACTIONS

The Company is engaged in the search for potential joint venture partners, mineral property acquisitions and financings, but there are currently no proposed asset or business acquisitions or dispositions other than disclosed in this Report. Other than disclosed in this Report, the Company does not have any proposed transactions.

15. COMMITMENTS, EXPECTED OR UNEXPECTED EVENTS, OR UNCERTAINTIES

Other than disclosed in this Report, the Company does not have any commitments, expected or unexpected events, or uncertainties.

16. SIGNIFICANT CHANGES FROM PREVIOUS DISCLOSURE

N/A

17. CHANGES IN ACCOUNTING POLICES INCLUDING INITIAL ADOPTION

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 consolidated financial statements. These new standards are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

18. KNOWN TRENDS, RISKS OR DEMANDS

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. 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 of the financial statements. All of the Company's financial liabilities are due on demand, do not generally bear interest and are subject to normal trade terms.

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.

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.

19. DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. 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.

As at October 21, 2021, the Company has 49,567,718 common shares issued and outstanding.

As at October 21, 2021, the Company has 4,955,000 stock options outstanding.

As at October 21, 2021, the Company held 18,080,251 common shares in escrow.

20. BOARD OF DIRECTORS AND OFFICERS

The directors of the Company are Graeme Currie, Tero Kosonen, Caleb Stroup, Alistair Waddell and Wendell Zerb.

The officers of the Company are Alistair Waddell (Executive Chairman), Caleb Stroup (President and Chief Executive Officer) and Sandra Wong (Chief Financial Officer and Corporate Secretary).

21. CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

This Management's Discussion & Analysis contains "forward-looking statements, within the meaning of applicable Canadian Securities legislation", that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price of gold and copper, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", or "might" be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, level of activity, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: risks relating to the integration of acquisitions, risk relating to international operations, the actual results of current exploration activities; actual results of current reclamation activities;

conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold and copper; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; fluctuations in metal prices; as well as those risk factors discussed or referred to in the Company's Management's Discussion and Analysis for the period ended August 31, 2021. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

22. MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of the Company and all the information in this Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and has ensured that it is consistent with that in the consolidated financial statements.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and two of its members are independent directors. The Committee meets at least once a year with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

HEADWATER GOLD INC.

Caleb Stroup

President and Chief Executive Officer