

HEADWATER GOLD INC.

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021

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, 2022 AND 2021
(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, 2022 and the condensed consolidated interim statements of comprehensive loss, statements of changes in equity and cash flows for the six months ended August 31, 2022 and 2021 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 28, 2022

“Sandra Wong”

Sandra Wong
Chief Financial Officer

October 28, 2022

HEADWATER GOLD INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED) (Expressed in Canadian Dollars)

	Note	August 31, 2022 \$	February 28, 2022 \$
Assets			
Current assets			
Cash		1,521,620	1,276,891
Restricted cash		10,000	5,030
Marketable securities	4	182,171	777,291
Amounts and other receivable	11	27,108	35,619
Prepaid expenses and deposits		146,744	45,897
		1,887,643	2,140,728
Non-current assets			
Right-of-use assets	8	126,180	94,783
Deposits	5	160,003	133,329
Equipment	6	51,146	46,030
Exploration and evaluation assets	7	3,905,424	3,361,924
Total assets		6,130,396	5,776,794
Liabilities			
Current liabilities			
Trade and other payables	7,11	518,317	159,291
Lease liability	8	94,365	77,932
		612,682	237,223
Non-current liabilities			
Lease liability	8	45,638	32,468
Total liabilities		658,320	269,691
Equity			
Share capital	9	8,038,788	7,183,585
Reserves	9	717,347	717,347
Accumulated other comprehensive loss		(147,731)	(97,035)
Accumulated deficit		(3,136,328)	(2,296,794)
		5,472,076	5,507,103
Total liabilities and equity		6,130,396	5,776,794

Nature of operations and going concern (Note 1)

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on October 28, 2022 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, 2022 AND 2021 (Expressed in Canadian Dollars)

		Three months ended		Six months ended	
	Note	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
		\$	\$	\$	\$
Expenses					
Accounting and audit		21,328	17	21,645	1,118
Accretion of lease liability	8	3,049	3,590	5,460	4,787
Consulting		9,580	48,592	19,761	71,853
Depreciation	6, 8	24,458	24,278	44,676	24,636
Filing fees		10,844	12,951	18,226	41,426
General exploration		43,713	12,728	58,714	73,349
Investor communication		53,990	45,145	92,341	50,937
Legal		3,937	11,489	8,512	55,682
Management		50,644	42,350	103,523	84,959
Office		34,398	13,129	69,891	56,221
Salaries and benefits		35,868	25,554	72,102	50,535
Share-based payments		-	86,594	-	125,259
Travel		12,457	10	22,963	29
Total expenses		(304,266)	(326,427)	(537,814)	(640,791)
Other income (expenses)					
Management fee income		87,634	-	87,634	-
Rental income		44,319	-	44,319	-
Finance and interest income		986	2,386	1,492	5,922
Finance expense		2,542	(4,853)	-	(4,853)
Foreign exchange gain		212,104	81,877	188,992	55,939
Impairment of exploration and evaluation assets	7	(20,042)	(63,758)	(27,275)	(63,758)
Loss on sale of investments		-	(8,340)	-	(8,340)
Unrealized loss on investments	4	(177,119)	(423,850)	(596,882)	(1,480,100)
Total other income (expenses)		150,424	(416,538)	(301,720)	(1,495,190)
Loss before tax		(153,842)	(742,965)	(839,534)	(2,135,981)
Income tax expense		-	(14)	-	(8,850)
Net loss		(153,842)	(742,979)	(839,534)	(2,141,831)
Other comprehensive loss					
Items that may be reclassified to comprehensive loss:					
Cumulative translation adjustment		(57,353)	(4,491)	(50,696)	(33,774)
Comprehensive loss		(211,195)	(747,470)	(890,230)	(2,178,605)
Loss per common share, basic and diluted		0.00	(0.02)	(0.02)	(0.05)
Weighted average number of common shares outstanding, basic and diluted		49,626,918	49,188,504	49,597,318	43,563,506

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 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
Balance, February 28, 2022	49,567,718	7,183,585	-	717,347	(97,035)	(2,296,794)	5,507,103
Shares issued for private placement	5,446,397	871,424	-	-	-	-	871,424
Share issue costs	-	(16,221)	-	-	-	-	(16,221)
Net loss	-	-	-	-	-	(839,534)	(839,534)
Other comprehensive income	-	-	-	-	(50,696)	-	(50,696)
Balance, August 31, 2022	55,014,115	8,038,788	-	717,347	(147,731)	(3,136,328)	5,472,076

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, 2022 AND 2021
(Expressed in Canadian Dollars)

	August 31, 2022	August 31, 2021
	\$	\$
Operating activities		
Net loss	(839,534)	(2,144,831)
Items not involving cash:		
Accretion of lease liability	5,460	4,787
Depreciation	44,676	24,636
Foreign exchange	(178,304)	(75,697)
Loss on sale of investments	-	8,340
Unrealized loss on investments	596,882	1,480,100
Share-based payments	-	125,259
Impairment of exploration and evaluation assets	27,275	63,758
Changes in non-cash working capital accounts:		
Amounts and other receivable	8,521	(46,383)
Prepaid expenses and deposits	(99,337)	(72,413)
Trade and other payables	193,008	5,722
Income taxes payable	-	(183,934)
Cash used in operating activities	(241,353)	(810,656)
Investing activities		
Expenditures on exploration and evaluation assets	(1,471,157)	(762,465)
Cash received from third party earn-in expenditures	1,172,250	-
Redemption of term deposits	-	750,000
Purchase of equipment	(11,613)	(56,896)
Deposit for bonds	(21,811)	(130,494)
Cash used in investing activities	(332,331)	(199,855)
Financing activities		
Proceeds from share issuances	871,424	-
Lease payments	(44,449)	(7,321)
Share issuance costs	(16,221)	(182,204)
Cash provided by (used in) financing activities	810,754	(189,525)
Effect of foreign exchange on cash	12,629	(631)
Increase (decrease) in cash	249,699	(1,200,667)
Cash, beginning of period	1,281,921	4,401,752
Cash, end of period	1,531,620	3,201,085
Supplemental information		
Cash	1,521,620	3,196,060
Restricted cash	10,000	5,025
	1,531,620	3,201,085
Interest paid	-	-
Income taxes paid	-	-

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, 2022 AND 2021 (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, 2022, 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 2022 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, 2022 AND 2021 (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 2022 annual financial statements except for new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2022. Note 2c) 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 28, 2022.

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) 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.

c) 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, 2022. 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.

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 2022 annual financial statements.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES

Short-term investments consist of marketable securities. As at August 31, 2022 and February 28, 2022, the fair values of the short-term investments are as follows:

	August 31, 2022		February 28, 2022	
	Fair Value (\$)	Cost (\$)	Fair Value (\$)	Cost (\$)
Shares in Elevation Gold (a) and Huntsman (b)	182,171	2,266,450	777,291	2,266,450
	182,171	2,266,450	777,291	2,266,450

a) Elevation Gold 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.

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.

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

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

	Number of shares	Fair value \$
Balance, February 28, 2021	500,000	204,375
Proceeds on disposal	(500,000)	(196,200)
Loss on disposal	-	(8,175)
Balance, February 28, 2022 and August 31, 2022	-	-

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

	Number of shares	Fair value \$
Balance, February 28, 2021	-	-
Elevation Gold shares received on June 15, 2021	90,833	196,200
Unrealized loss	-	(137,159)
Balance, February 28, 2022	90,833	59,041
Unrealized loss	-	(45,870)
Balance, August 31, 2022	90,833	13,171

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (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. The shares were 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 28, 2021	8,450,000	2,070,250
Unrealized loss	-	(1,352,000)
Balance, February 28, 2022	8,450,000	718,250
Unrealized loss	-	(549,250)
Balance, August 31, 2022	8,450,000	169,000

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 year ended February 28, 2022, the Company advanced US \$105,000 (CAD\$137,666) to the Surety Agent as collateral against US \$210,000 in bonding that was placed by the Surety Agent. The bonds were 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.

During the period ended August 31, 2022, the Company advanced an additional reclamation bond deposit of US \$17,037 (CAD\$22,337) directly to the Nevada Bureau of Land Management.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

6. EQUIPMENT

	Computer Equipment	Furniture & Equipment	Field Equipment	Total
	\$	\$	\$	\$
Cost				
Balance at February 28, 2021	-	-	-	-
Acquired	5,260	20,682	31,251	57,193
Foreign exchange	-	-	628	628
Balance at February 28, 2022	5,260	20,682	31,879	57,821
Acquired	-	-	11,638	11,638
Foreign exchange	-	-	1,293	1,293
Balance at August 31, 2022	5,260	20,682	44,810	70,752
Depreciation				
Balance at February 28, 2021	-	-	-	-
Depreciation	912	4,529	6,295	11,736
Foreign exchange	-	-	55	55
Balance at February 28, 2022	912	4,529	6,350	11,791
Depreciation	526	2,423	4,549	7,498
Foreign exchange	-	-	317	317
Balance at August 31, 2022	1,438	6,952	11,216	19,606
Carrying amounts				
At February 28, 2021	-	-	-	-
At February 28, 2022	4,348	16,153	25,529	46,030
At August 31, 2022	3,822	13,730	33,594	51,146

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

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

	Idaho \$	Nevada \$	Oregon \$	Total \$
Acquisition costs				
Balance, February 28, 2021	332,455	256,553	195,600	784,608
Additions	85,516	299,570	57,569	442,655
Impairment	-	(93,448)	(8,267)	(101,715)
Foreign exchange	1,815	3,226	1,385	6,426
Balance, February 28, 2022	419,786	465,901	246,287	1,131,974
Additions	80,987	461,080	201,293	743,360
Management fee	-	42,277	11,640	53,917
Recovery from third party earn-in	-	(465,056)	(128,042)	(593,098)
Impairment	-	-	(20,129)	(20,129)
Foreign exchange	13,347	16,164	9,811	39,322
Balance, August 31, 2022	514,120	520,366	320,860	1,355,346
Exploration costs				
Balance, February 28, 2021	182,951	163,197	320,395	666,543
Additions				
Administration	21,145	34,409	23,351	78,905
Drilling	19,299	526,493	717,914	1,263,706
Geology	126,393	203,412	192,080	521,885
Mapping, sampling, geochem	8,411	29,289	-	37,700
Technical review	8,294	13,606	9,061	30,961
	183,542	807,209	942,406	1,933,157
Impairment	-	(370,821)	(19,868)	(390,689)
Foreign exchange	2,308	8,320	10,311	20,939
Balance, February 28, 2022	368,801	607,905	1,253,244	2,229,950
Additions				
Administration	-	762	186	948
Drilling	6,756	104,444	17,392	128,592
Geology	44,986	231,147	107,562	383,695
Mapping, sampling, geochem	-	40,041	6,005	46,046
Technical review	6,659	12,687	5,657	25,003
Management fee	-	31,449	2,875	34,324
	58,401	420,530	139,677	618,608
Recovery from third party earn-in	-	(345,943)	(31,628)	(377,571)
Foreign exchange	13,542	22,404	43,145	79,091
Balance, August 31, 2022	440,744	704,896	1,404,438	2,550,078
Total acquisition costs and exploration expenditures				
February 28, 2022	788,587	1,073,806	1,499,531	3,361,924
August 31, 2022	954,864	1,225,262	1,725,298	3,905,424

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) Earn-In Agreements with Newcrest Mining Limited

Pursuant to four separate definitive option and earn-in agreements (the “Earn-In Agreements”) with a wholly-owned subsidiary of Newcrest Mining Limited (“Newcrest”) dated August 15, 2022 (the “Execution Date”), Newcrest will have an option to acquire up to a 75% interest in each of the Company’s Mahogany project in Oregon and Agate Point, Midas North and Spring Peak projects in Nevada for a cash payment of US \$612,989, cumulative earn-in exploration expenditures of US \$145,000,000, and the completion of Pre-Feasibility Studies which include a minimum resource of 1.5 million gold or gold equivalent ounces per project. Additionally, Newcrest agreed to acquire a 9.9% equity interest in the Company through a non-brokered private placement of common shares (Note 9(a)).

b) Idaho Properties

The Company holds a 100% interest in four 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 135 mineral claims totalling approximately 1,129 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 (“NSR”) 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 NSR 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 - Flint is comprised of 130 mineral claims totalling approximately 1,087 hectares located in Owyhee County, Idaho. The Company originally acquired the Flint property by way of staking federal land and sold it to Huntsman Exploration Inc. in a transaction that closed on December 21, 2020. In August 2022, Huntsman abandoned the property and returned it to the Company for a nominal fee.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Nevada Properties

The Company holds interests in six mineral properties in Nevada.

- (i) Agate Point Property - Agate Point is comprised of 233 mineral claims totalling approximately 1,948 hectares located in Humboldt County, Nevada. The Company holds a 100% interest in the project, subject to Newcrest's option to acquire 75% of the project following certain expenditures and preparation of a Pre-Feasibility Study within a designated timeframe.

Pursuant to the Agate Point Earn-In Agreement with Newcrest, Newcrest shall make a cash payment of US \$30,688 representing the current claim year's land fees and staking costs, and sole fund guaranteed exploration expenditures of US \$500,000 over a 24 month period (the "Minimum Commitment"). During this phase, the Company shall be the manager of the project and earn a 10% management fee on expenditures.

During Stage 1, Newcrest may elect to earn a 51% interest in the project by sole funding expenditures of US \$10,000,000, inclusive of the Minimum Commitment, within 36 months of the Execution Date. If Newcrest fails to meet either the Minimum Commitment or the Stage 1 earn-in expenditure amount, the Company will retain 100% ownership of the project with no interest earned by Newcrest. Newcrest has the option to extend the Stage 1 period by 12 months with the payment of US \$150,000.

During Stage 2, Newcrest may earn an additional 14% interest the project, for a total 65% interest, by sole funding additional expenditures of US \$20,000,000 within 36 months following completion of Stage 1. If Newcrest initiates but does not complete Stage 2, its interest will revert to 49%, which the Company retains the right to purchase at a mutually agreed price or, if a price cannot be mutually agreed within a specified period, for Fair Value. Newcrest has the option to extend the Stage 2 period by 12 months with the payment of US \$250,000.

During Stage 3, Newcrest may earn an additional 10% interest in the project, for a total 75% interest, by completing the following: (i) ceding a 2% NSR royalty to the Company, which Newcrest retains the right to buy back 1% of the NSR for Fair Value at any time; and (ii) delivering a Pre-Feasibility Study, solely funded by Newcrest, which includes a minimum 1.5 million ounce gold or gold-equivalent resource within an additional 24-month period following the completion of Stage 2. Newcrest has the option to extend the Stage 3 period by 12 months with the payment of US \$500,000.

As at August 31, 2022, Newcrest has advanced US \$134,978 (CAD\$176,970) towards the Minimum Commitment and incurred US \$109,364 (CAD\$143,387) in earn-in expenditures on the Agate Point project.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Nevada Properties (continued)

- (ii) Midas North Property – Midas North (formerly known as Castle Ridge) is comprised of 410 mineral claims totalling approximately 3,428 hectares located in Elko County, Nevada. The Company holds a 100% interest in the project, subject to Newcrest's option to acquire 75% of the project following certain expenditures and preparation of a Pre-Feasibility Study within a designated timeframe.

Pursuant to the Midas North Earn-In Agreement with Newcrest, Newcrest shall make a cash payment of US \$88,642 representing the current claim year's land fees and staking costs, and sole fund guaranteed exploration expenditures of US \$2,000,000 over a 24 month period (the "Minimum Commitment"). During this phase, the Company shall be the manager of the project and earn a 10% management fee on expenditures.

During Stage 1, Newcrest may elect to earn a 51% interest in the project by sole funding expenditures of US \$10,000,000, inclusive of the Minimum Commitment, within 36 months of the Execution Date. If Newcrest fails to meet either the Minimum Commitment or the Stage 1 earn-in expenditure amount, the Company will retain 100% ownership of the project with no interest earned by Newcrest. Newcrest has the option to extend the Stage 1 period by 12 months with the payment of US \$150,000.

During Stage 2, Newcrest may earn an additional 14% interest the project, for a total 65% interest, by sole funding additional expenditures of US \$20,000,000 within 36 months following completion of Stage 1. If Newcrest initiates but does not complete Stage 2, its interest will revert to 49%, which the Company retains the right to purchase at a mutually agreed price or, if a price cannot be mutually agreed within a specified period, for Fair Value. Newcrest has the option to extend the Stage 2 period by 12 months with the payment of US \$250,000.

During Stage 3, Newcrest may earn an additional 10% interest in the project, for a total 75% interest, by completing the following: (i) ceding a 2% net smelter return ("NSR") royalty to the Company, which Newcrest retains the right to buy back 1% NSR for Fair Value at any time; and (ii) delivering a Pre-Feasibility Study, solely funded by Newcrest, which includes a minimum 1.5 million ounce gold or gold-equivalent resource within an additional 24-month period following the completion of Stage 2. Newcrest has the option to extend the Stage 3 period by 12 months with the payment of US \$500,000.

As at August 31, 2022, Newcrest has advanced US \$314,820 (CAD\$412,761) towards the Minimum Commitment and incurred US \$269,947 (CAD\$353,928) in earn-in expenditures on the Midas North project.

- (iii) Dome Hill Property - Dome Hill is comprised of 50 mineral claims totalling approximately 418 hectares located in Mineral County, Nevada and Mono County, California. The Company holds a 100% interest in the project.
- (iv) Long Valley Property – Long Valley is comprised of 39 mineral claims totalling approximately 326 hectares located in Mineral County, Nevada. The Company holds a 100% interest in the project.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Nevada Properties (continued)

- (v) 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 located in Nevada from Renaissance Exploration Inc. (“REI”), a wholly owned subsidiary of Orogen Royalties Inc. The Company’s interest in the project is subject to Newcrest’s option to acquire 75% of the project following certain expenditures and preparation of a Pre-Feasibility Study within a designated timeframe.

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 (incurred);
- (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;
- (iv) Grant to REI a 0.5% NSR royalty of which the Company 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: US\$40,000 (paid);
 - 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 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 234 mineral claims totalling approximately 1,956 hectares through staking.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Nevada Properties (continued)

Pursuant to the Spring Peak Earn-In Agreement with Newcrest, Newcrest shall make a cash payment of US \$438,636 representing historical expenditures, and sole fund guaranteed exploration expenditures of US \$2,500,000 over a 24 month period (the “Minimum Commitment”). Newcrest is obligated to spend an additional US \$2,500,000, bringing the total guaranteed exploration expenditures to US \$5,000,000, within a 12-month period following the receipt of a full Plan of Operations exploration permit. If the exploration permit is not obtained within 24 months, then Newcrest may elect to proceed to Stage 1 without having to fund the additional Minimum Commitment of US \$2,500,000. During this phase, the Company shall be the manager of the project and earn a 10% management fee on expenditures.

During Stage 1, Newcrest may elect to earn a 51% interest in the project by sole funding expenditures of US \$15,000,000, inclusive of the Minimum Commitment, within 36 months of the Execution Date. If Newcrest fails to meet either the Minimum Commitment or the Stage 1 earn-in expenditure amount, the Company will retain 100% ownership of the project with no interest earned by Newcrest. Newcrest has the option to extend the Stage 1 period by 12 months with the payment of US \$150,000.

During Stage 2, Newcrest may earn an additional 14% interest the project, for a total 65% interest, by sole funding additional expenditures of US \$40,000,000 within 36 months following completion of Stage 1. If Newcrest initiates but does not complete Stage 2, its interest will revert to 49%, which the Company retains the right to purchase at a mutually agreed price or, if a price cannot be mutually agreed within a specified period, for Fair Value. Newcrest has the option to extend the Stage 2 period by 12 months with the payment of US \$250,000.

During Stage 3, Newcrest may earn an additional 10% interest in the project, for a total 75% interest, by completing the following: (i) ceding a 1% net smelter return (“NSR”) royalty to the Company, which Newcrest retains the right to buy back 0.5% NSR for Fair Value at any time; and (ii) delivering a Pre-Feasibility Study, solely funded by Newcrest, which includes a minimum 1.5 million ounce gold or gold-equivalent resource within an additional 24-month period following the completion of Stage 2. Newcrest has the option to extend the Stage 3 period by 12 months with the payment of US \$500,000.

As at August 31, 2022, Newcrest has advanced US \$311,359 (CAD\$408,223) towards the Minimum Commitment and incurred US \$249,810 (CAD\$327,526) in earn-in expenditures on the Spring Peak project.

- (vi) TJ Property - TJ is comprised of 13 mineral claims totalling approximately 109 hectares located in Elko County, Nevada. The Company holds a 100% interest in the project.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Nevada Properties (continued)

- (vii) Highland Property - The Company had 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, located in Lander County, Nevada, from Bravada Gold Corporation together with its wholly owned subsidiary Rio Fortuna Exploration (U.S.), Inc. (“RFE”). The property was 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.

The Company made the decision to terminate the option and provided notice to the Optionor on September 30, 2021. Accordingly, \$428,829 in acquisition costs and related exploration costs connected to the claims were written off during the year ended February 28, 2022.

d) Oregon Properties

The Company holds interests in four mineral properties in Oregon.

- (i) Katey Property - Katey is comprised of 144 mineral claims totalling approximately 1,204 hectares located in Malheur County, Oregon.
- (ii) Mahogany Property - Mahogany is comprised of 273 mineral claims totalling approximately 2,283 hectares located in Malheur County, Oregon. The Company holds a 100% interest in the project, subject to Newcrest’s option to acquire 75% of the project following certain expenditures and preparation of a Pre-Feasibility Study within a designated timeframe.

Pursuant to the Mahogany Earn-In Agreement with Newcrest, Newcrest shall make a cash payment of US \$55,023 representing the current claim year’s land fees and staking costs, and sole fund guaranteed exploration expenditures of US \$1,000,000 over a 24 month period (the “Minimum Commitment”). During this phase, the Company shall be the manager of the project and earn a 10% management fee on expenditures.

During Stage 1, Newcrest may elect to earn a 51% interest in the project by sole funding expenditures of US \$10,000,000, inclusive of the Minimum Commitment, within 36 months of the Execution Date. If Newcrest fails to meet either the Minimum Commitment or the Stage 1 earn-in expenditure amount, the Company will retain 100% ownership of the project with no interest earned by Newcrest. Newcrest has the option to extend the Stage 1 period by 12 months with the payment of US \$150,000.

During Stage 2, Newcrest may earn an additional 14% interest the project, for a total 65% interest, by sole funding additional expenditures of US \$20,000,000 within 36 months following completion of Stage 1. If Newcrest initiates but does not complete Stage 2, its interest will revert to 49%, which the Company retains the right to purchase at a mutually agreed price or, if a price cannot be mutually agreed within a specified period, for Fair Value. Newcrest has the option to extend the Stage 2 period by 12 months with the payment of US \$250,000.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

d) Oregon Properties (continued)

During Stage 3, Newcrest may earn an additional 10% interest in the project, for a total 75% interest, by completing the following: (i) ceding a 2% net smelter return (“NSR”) royalty to the Company, which Newcrest retains the right to buy back 1% NSR for Fair Value at any time; and (ii) delivering a Pre-Feasibility Study, solely funded by Newcrest, which includes a minimum 1.5 million ounce gold or gold-equivalent resource within an additional 24-month period following the completion of Stage 2. Newcrest has the option to extend the Stage 3 period by 12 months with the payment of US \$500,000.

As at August 31, 2022, Newcrest has advanced US \$154,520 (CAD\$202,591) towards the Minimum Commitment and incurred US \$123,861 (CAD\$162,394) in earn-in expenditures on the Mahogany project.

- (iii) Hot Tub Property – Hot Tub is comprised of 4 mineral claims totalling approximately 33 hectares in Malheur County, Oregon. The Company had elected not to maintain certain of the claims and accordingly \$19,990 in acquisition costs connected to the claims were written off during the period ended August 31, 2022.
- (iv) Bannock Property – Bannock is comprised of 21 mineral claims totalling approximately 176 hectares located in Malheur County, Oregon.
- (v) Birch Creek Property – Birch Creek was comprised of 12 mineral claims totalling approximately 100 hectares in Malheur County, Oregon. The Company had elected not to maintain the claims and accordingly \$28,135 in acquisition costs and related exploration costs connected to the claims were written off during the year ended February 28, 2022.

8. RIGHT-OF-USE ASSETS

The Company has leases for office space and a warehouse facility. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

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 \$150,537 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.

The Company has entered into a lease for the rental of a warehouse facility for a three year term commencing July 1, 2022. The Company recognized lease liability of \$67,512 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 36 month term at the date of initial occupancy, July 1, 2022. The lease term matures on June 30, 2025.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

8. RIGHT-OF-USE-ASSETS (CONTINUED)

For the period ended August 31, 2022, depreciation of the right-of-use assets was \$37,178 (2022: \$55,754). The right-of-use assets are depreciated on a straight-line basis over the terms of the leases. A summary of the Company's right-of-use asset balances by class of assets at August 31, 2022 and February 28, 2022 and the changes for the periods then ended is presented below:

	Office \$	Warehouse \$	Right-Of- Use Assets \$
Balance, February 28, 2021	-	-	-
Additions	150,537	-	150,537
Depreciation	(55,754)	-	(55,754)
Balance, February 28, 2022	94,783	-	94,783
Additions	-	67,512	67,512
Depreciation	(33,453)	(3,725)	(37,178)
Foreign exchange	-	1,063	1,063
Balance, August 31, 2022	61,330	64,850	126,180

For the period ended August 31, 2022, interest expense on the lease liability was \$5,461 (2022: \$11,287). A summary of the Company's lease liability by class of assets at August 31, 2022 and February 28, 2022 and the changes for the periods then ended is presented below:

	Office \$	Warehouse \$	Lease Liability \$
Balance, February 28, 2021	-	-	-
Lease liability recognized	150,537	-	150,527
Lease payments	(51,424)	-	(51,424)
Accretion	11,287	-	11,287
Balance, February 28, 2022	110,400	-	110,400
Lease liability recognized	-	67,512	67,512
Lease payments	(40,351)	(4,125)	(44,476)
Accretion	4,390	1,071	5,461
Foreign exchange	-	1,106	1,106
Balance, August 31, 2022	74,439	65,564	140,003

	Office \$	Warehouse \$	Lease Liability \$
Current lease liability	74,439	19,926	94,365
Non-current lease liability	-	45,638	45,638
Balance, August 31, 2022	74,439	65,564	140,003

The Company expensed \$17,959 (2022: \$34,830) in short-term leases included in office expenses and recovered \$28,097 (2022: \$40,172) in rental income from sub-tenants for the period ended August 31, 2022.

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (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 period ended August 31, 2022:

- (i) On August 30, 2022, the Company raised gross proceeds of \$871,424 by way of a non-brokered private placement of 5,446,397 Common Shares priced at \$0.16 sold to Newcrest (the "Equity Transaction"). The securities issued are restricted from trading until December 31, 2022. The Equity Transaction resulted in Newcrest owning approximately 9.9% of the total issued and outstanding Common Shares of the Company on a non-diluted basis. For so long as Newcrest holds not less than 5% of the Company's issued and outstanding Common Shares, Newcrest retains the right to maintain its pro rata interest. If Newcrest does not exercise this right and fails to maintain its pro rata interest through two consecutive equity financings, the participation right shall expire.

The Company issued the following common shares during the year ended February 28, 2022:

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

b) Reserves

	August 31, 2022 \$	February 28, 2022 \$
Fair value of stock options granted or vested	717,347	717,347
Reserves	717,347	717,347

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, 2022, the Company held 12,053,503 shares in escrow.

10. SHARE-BASED PAYMENTS

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

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, 2022 and February 28, 2022 and the changes for the periods then ended is presented below:

	August 31, 2022		February 28, 2022	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	4,855,000	\$0.21	3,735,000	\$0.16
Granted	-	-	1,220,000	\$0.36
Cancelled	-	-	(100,000)	\$0.20
Ending balance	4,855,000	\$0.21	4,855,000	\$0.21

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 vested over a six month period.

Details of stock options outstanding as at August 31, 2022 and February 28, 2022 are as follows:

Expiry Date	Exercise Price	August 31, 2022	February 28, 2022	Weighted Average Remaining Contractual Life (Years)
July 24, 2024	\$0.10	1,500,000	1,500,000	1.90
September 1, 2024	\$0.10	100,000	100,000	2.01
August 12, 2025	\$0.20	1,300,000	1,300,000	2.95
November 24, 2025	\$0.22	735,000	735,000	3.24
July 2, 2026	\$0.36	1,220,000	1,220,000	3.84
		4,855,000	4,855,000	2.87

The weighted average remaining contractual life of stock options outstanding at August 31, 2022 was 2.87 years (February 28, 2022: 3.38 years).

10. SHARE-BASED PAYMENTS

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

b) Fair Value of Options Issued During the Years Ended

The weighted average fair value at grant date of options granted during the period ended August 31, 2022 was \$nil per option (February 28, 2022: \$0.275 per option). The total fair value of options granted during the period was \$nil (February 28, 2022: \$335,062). During the period ended August 31, 2022, \$nil (February 28, 2022: \$394,268) 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:

	<u>August 31, 2022</u>	<u>February 28, 2022</u>
Expected stock price volatility	-	107%
Risk-free interest rate	-	0.98%
Dividend yield	-	-
Expected life of options	-	5 years
Stock price on date of grant	-	\$0.355
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:

	<u>2022</u>	<u>2021</u>
	<u>\$</u>	<u>\$</u>
Short-term employee benefits and director fees	203,577	182,738
Share-based payments	-	102,809
	<u>203,577</u>	<u>285,547</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, 2022, the Company paid \$99,856 (2021: \$96,935) in fees to the company controlled by the President.

11. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

a) Key Management Compensation (continued)

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, 2022, the Company paid \$40,578 (2021: \$31,110) 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 1, 2022 for no fixed term. As compensation for the services to be provided, the CFO will receive a performance bonus of \$6,000 and a monthly salary of \$6,500 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, 2022, the Company paid \$39,144 (2021: \$30,693) in salary and benefits to the CFO.

During the period ended August 31, 2022, the Company recorded \$24,000 (2021: \$24,000) in director fees payable to three directors.

b) Related Party Payables

As at August 31, 2022, the Company has \$26,864 (February 28, 2022: \$39,979) due to related parties which consists of amounts owed to directors, officers, and companies with common directors 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, 2022 the Company has \$9,314 (February 28, 2022: \$9,829) receivable from companies with common directors for rent and office overhead expense recoveries, which are due on demand, unsecured and are non-interest bearing.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

Fair values

The Company's financial instruments include cash, restricted cash, marketable securities 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, 2022		February 28, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	\$	\$	\$	\$
FVTPL assets (i)	1,713,791	1,713,791	2,059,212	2,059,212
Amortized cost liabilities (ii)	645,209	645,209	242,191	242,191

- (i) Cash, restricted cash and marketable securities
(ii) Trade and other payables and lease liability

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, 2022	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	1,531,620	-	-	1,531,620
Marketable securities	182,171	-	-	182,171

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, 2022, 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 \$1,274,961 as at August 31, 2022 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.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (CONTINUED)

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021 (Expressed in Canadian Dollars)

The following are the contractual maturities of financial liabilities as at August 31, 2022:

	Carrying Amount \$	Contractual Cash Flows \$	Within 1 year \$	Within 2 years \$	Within 3 years \$	Over 3 years \$
Trade and other payables	505,206	505,206	505,206	-	-	-
Income taxes payable	-	-	-	-	-	-
Lease liability	140,003	140,003	94,365	23,352	22,286	-

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.

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

HEADWATER GOLD INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED AUGUST 31, 2022 AND 2021
(Expressed in Canadian Dollars)

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, 2022			February 28, 2022		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Current assets	1,336,380	551,263	1,887,643	1,999,411	141,317	2,140,728
Right-of-use-assets	61,330	64,850	126,180	94,783	-	94,783
Equipment	17,552	33,594	51,146	20,501	25,529	46,030
Exploration & evaluation assets	-	3,905,424	3,905,424	-	3,361,924	3,361,924
Deposits	-	160,003	160,003	-	133,329	133,329
Total assets	1,415,262	4,715,134	6,130,396	2,114,695	3,662,099	5,776,794
Total liabilities	117,819	540,501	658,320	174,611	95,080	269,691

15. SUBSEQUENT EVENTS

Subsequent to period end, the Company received payment of US \$612,989 from Newcrest pursuant to the Earn-In Agreements, and Newcrest advanced an additional US \$3,235,776 in cash calls to fund their earn-in expenditures (Note 7).