



CONDENSED INTERIM FINANCIAL STATEMENTS

(Presented in Canadian Dollars)

(Unaudited – prepared by Management)

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2023

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

PROSPECT RIDGE RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Presented in Canadian Dollars - Unaudited)
AS AT

| | February 28, 2023 | August 31, 2022 |
|---|------------------------------|----------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,949,879 | \$ 3,168,488 |
| Receivables | 15,317 | 64,200 |
| Refundable tax credit (Note 6) | 739,458 | 581,933 |
| Prepaid expenses | <u>32,124</u> | <u>204,735</u> |
| | 2,736,778 | 4,019,356 |
| Reclamation Deposit (Note 7) | 59,500 | 59,500 |
| Equipment and right-of-use assets (Note 4) | 352,152 | 612,198 |
| Exploration and evaluation assets (Note 6) | <u>4,459,750</u> | <u>3,970,000</u> |
| Total Assets | <u>\$ 7,608,180</u> | <u>\$ 8,661,054</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 117,786 | \$ 291,539 |
| Current portion of lease liabilities (Note 5) | <u>23,297</u> | <u>118,664</u> |
| | 141,083 | 410,203 |
| Lease liabilities – non-current (Note 5) | <u>100,249</u> | <u>189,798</u> |
| Total Liabilities | <u>241,332</u> | <u>600,001</u> |
| Shareholders' Equity | | |
| Share capital (Note 8) | 11,953,502 | 11,473,154 |
| Commitment to issue finder's shares (Note 6) | 262,857 | 328,571 |
| Contributed surplus (Note 8) | 2,057,709 | 2,057,709 |
| Deficit | <u>(6,907,220)</u> | <u>(5,798,381)</u> |
| Total Shareholders' Equity | <u>7,366,848</u> | <u>8,061,053</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 7,608,180</u> | <u>\$ 8,661,054</u> |

Nature and continuance of operations (Note 1)
Subsequent event (Note 11)

Approved and authorized by the Board of Directors on April 26, 2023:

"Michael Iverson"

Director

"Yan Ducharme"

Director

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

PROSPECT RIDGE RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Presented in Canadian Dollars - Unaudited)
FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022

| | For the three months ended | | For the six months ended | |
|---|-----------------------------------|---------------------|---------------------------------|-----------------------|
| | February | February | February | February |
| | 28, 2023 | 28, 2022 | 28, 2023 | 28, 2022 |
| EXPENSES | | | | |
| Depreciation (Note 4) | \$ 22,699 | \$ 10,097 | \$ 61,263 | \$ 21,590 |
| Exploration and evaluation expenditures (Note 6) | 111,468 | 181,735 | 798,391 | 482,765 |
| Insurance | 14,258 | 6,081 | 20,913 | 10,049 |
| Investor relations | 21,364 | 479,542 | 133,669 | 713,710 |
| Management and consulting fees (Note 9) | 88,368 | 108,733 | 177,868 | 202,233 |
| Office and miscellaneous | 30,285 | 963 | 54,573 | 2,609 |
| Professional fees | 58,848 | 11,449 | 83,821 | 42,712 |
| Share-based payments (Notes 8, 9) | - | 1,768 | - | 521,265 |
| Transfer agent and filing fees | 8,303 | 7,604 | 12,824 | 11,079 |
| Travel expense | 8,563 | 1,434 | 21,756 | 8,248 |
| Lease accretion (Note 5) | 434 | - | 3,590 | 12 |
| Gain on write-off of accounts payable | - | - | (13,029) | - |
| Recovery of tax credits | (31,373) | - | (236,999) | - |
| Gain on modification of lease liabilities | - | - | (3,020) | - |
| Gain on sale of equipment | - | - | (6,781) | - |
| Loss and comprehensive loss for the period | \$ (333,217) | \$ (809,406) | \$ (1,108,839) | \$ (2,016,272) |
| Basic and diluted loss per common share | \$ (0.00) | \$ (0.02) | \$ (0.02) | \$ (0.04) |
| Weighted average number of common shares outstanding – basic and diluted | 197,811,224 | 49,263,137 | 51,717,075 | 46,321,637 |

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

PROSPECT RIDGE RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Presented in Canadian Dollars - Unaudited)
FOR THE SIX MONTHS ENDED

| | February 28, 2023 | February 28, 2022 |
|---|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the period | \$ (1,108,839) | \$ (2,016,272) |
| Items not affecting cash: | | |
| Depreciation | 61,263 | 21,590 |
| Share-based payments | - | 521,265 |
| Lease accretion | 3,590 | 12 |
| Gain on sale of equipment | (6,781) | - |
| Gain on modification of lease liabilities | (3,020) | - |
| Changes in non-cash working capital items: | | |
| Accounts payable and accrued liabilities | (148,869) | (356,774) |
| Prepaid expenses | 172,611 | (522,914) |
| Refundable tax credit | (157,525) | - |
| Receivables | 48,883 | (33,124) |
| Net cash used in operating activities | <u>(1,138,687)</u> | <u>(2,386,217)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds on sale of equipment | 59,000 | - |
| Acquisition of exploration and evaluation assets | (100,000) | (210,000) |
| Acquisition of equipment | (8,509) | (70,213) |
| Net cash used in investing activities | <u>(49,509)</u> | <u>(280,213)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from private placements | - | 7,263,000 |
| Proceeds from warrant exercise | - | 11,320 |
| Share issuance costs | - | (243,440) |
| Lease payments | (30,413) | (1,561) |
| Net cash provided by financing activities | <u>(30,413)</u> | <u>7,029,319</u> |
| Change in cash during the period | (1,218,609) | 4,362,889 |
| Cash, beginning of period | 3,168,488 | 764,359 |
| Cash, end of period | \$ 1,949,879 | \$ 5,127,248 |
| Supplemental cash flow information: | | |
| Fair value of warrants exercised | \$ - | \$ 5,909 |
| Finder's warrants | \$ - | \$ 210,037 |
| Shares issued for debt | \$ 24,884 | \$ - |
| Termination of site lease | \$ 158,094 | \$ - |
| Shares issued for exploration and evaluation assets | \$ 455,464 | \$ 3,333,929 |

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

PROSPECT RIDGE RESOURCES CORP.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Presented in Canadian Dollars - Unaudited)

| | <u>Share capital</u> | | Commitment to issue finder's shares | Subscriptions received in advance | Contributed surplus | Deficit | Total |
|---|----------------------|---------------|--|---|------------------------|----------------|--------------|
| | Number | Amount | | | | | |
| Balance, August 31, 2021 | 28,655,001 | \$ 1,260,973 | \$ 460,000 | \$ - | \$ 964,456 | \$ (1,690,346) | 995,083 |
| Shares issued for private placements | 18,405,856 | 7,263,000 | - | - | - | - | 7,263,000 |
| Shares issued for exploration and evaluation assets | 2,835,715 | 3,361,429 | (131,429) | - | - | - | 3,230,000 |
| Share issuance costs – common shares | - | (210,037) | - | - | 210,037 | - | - |
| Share issuance costs – cash | - | (219,440) | - | - | - | - | (219,440) |
| Warrants exercised | 113,200 | 17,229 | - | - | (5,909) | - | 11,320 |
| Share-based payments | - | - | - | - | 521,265 | - | 521,265 |
| Loss for the period | - | - | - | - | - | (2,016,272) | (2,016,272) |
| Balance, February 28, 2022 | 50,009,772 | 11,473,154 | 328,571 | - | 1,689,849 | (3,706,618) | 9,784,956 |
| Share-based payments | - | - | - | - | 367,860 | - | 367,860 |
| Loss for the period | - | - | - | - | - | (2,091,763) | (2,091,763) |
| Balance, August 31, 2022 | 50,009,772 | 11,473,154 | 328,571 | - | 2,057,709 | (5,798,381) | 8,061,053 |
| Shares issued for exploration and evaluation assets | 1,892,857 | 455,464 | (65,714) | - | - | - | 389,750 |
| Shares issued for debt | 124,419 | 24,884 | - | - | - | - | 24,884 |
| Loss for the period | - | - | - | - | - | (1,108,839) | (1,108,839) |
| Balance, February 28, 2023 | 52,027,048 | \$ 11,953,502 | \$ 262,857 | \$ - | \$ 2,057,709 | \$ (6,907,220) | \$ 7,366,848 |

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

PROSPECT RIDGE RESOURCES CORP.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022

(Presented in Canadian Dollars - Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Prospect Ridge Resources Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on April 6, 2020. The Company is principally engaged in the acquisition and exploration of resource properties. The Company's head office is located at Suite 1507-1030 West Georgia St, Vancouver, BC V6E 2Y3, and its registered and records office is located at 10th Floor – 595 Howe Street, Vancouver, BC V6C 2T5. The Company's shares are publicly traded on the Canadian Securities Exchange ("CSE") under the symbol PRR.

The Company is in the process of exploring and evaluating its resource properties and investing in potential new acquisitions and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favorable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

Recent global issues, including the ongoing COVID-19 pandemic and the 2022 Russian invasion of Ukraine have adversely affected workplaces, economies, supply chains and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of these issues and their effects on the Company's business or results of operations at this time.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and are compliant with IAS 34 "Interim Financial Reporting". These condensed interim financial statements do not include all of the information required for full annual financial statements.

Basis of Presentation

These condensed interim financial statements of the Company are presented in Canadian dollars, which is the functional currency. The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

PROSPECT RIDGE RESOURCES CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Presented in Canadian Dollars - Unaudited)

2. BASIS OF PREPARATION (cont'd...)

Use of Estimate and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Critical accounting estimates

Share-based payments:

Stock options and warrants are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Because the Company's options and warrants have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Exploration and evaluation assets:

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project.

Accrual of refundable mining tax credits:

The provincial government of BC provides for a refundable tax on net qualified mining exploration expenditures incurred in BC. The credit is calculated as 30% of qualified mining exploration expenses. Management has estimated and accrued the likely refundable amount arising from expenditures incurred.

Critical accounting judgments

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. Management has assessed these indicators and does not believe an impairment provision is required.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

The estimate for contingencies and settlement provisions require management to make judgments as to the likelihood of outcomes and estimates of the timing and the possible outflow of economic benefits.

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

PROSPECT RIDGE RESOURCES CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Presented in Canadian Dollars - Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are consistent with those applied in the Company's financial statements for the year ended August 31, 2022. These condensed interim financial statements should be read in conjunction with the Company's most recent annual financial statements for the year ended August 31, 2022.

4. EQUIPMENT AND RIGHT-OF-USE ASSETS

| | Right-of- Use Assets – Office | Right-of- Use Assets - Vehicles | Field Equipment | Vehicles | Drills | Office Equipment | Total |
|--------------------------------|--|--|--------------------|------------|------------|---------------------|------------|
| Cost | | | | | | | |
| Balance, August 31, 2021 | 213,676 | 143,009 | 2,500 | 73,941 | 55,288 | - | 149,524 |
| Additions | - | - | 62,197 | 85,993 | 58,865 | 31,827 | 577,772 |
| Balance, August 31, 2022 | 213,676 | 143,009 | 64,697 | 159,934 | 114,153 | 31,827 | 727,296 |
| Additions | - | - | 8,509 | - | - | - | 8,509 |
| Derecognized / disposal | (213,676) | - | - | (69,392) | - | - | (283,068) |
| Balance, February 28, 2023 | \$ - | \$ 143,009 | \$ 73,206 | \$ 90,542 | \$ 114,153 | \$ 31,827 | \$ 452,737 |
| Accumulate Depreciation | | | | | | | |
| Balance, August 31, 2021 | 16,312 | - | 125 | 3,697 | 2,764 | - | 22,898 |
| Depreciation | 25,968 | 8,250 | 8,066 | 23,475 | 22,444 | 3,997 | 92,200 |
| Balance, August 31, 2022 | 42,280 | 8,250 | 8,191 | 27,172 | 25,208 | 3,997 | 115,098 |
| Depreciation | 16,323 | 12,376 | 7,321 | 9,054 | 11,415 | 4,774 | 61,623 |
| Disposals | (58,603) | - | - | (17,173) | - | - | (75,776) |
| Balance, February 28, 2023 | \$ - | \$ 20,626 | \$ 15,512 | \$ 19,053 | \$ 36,623 | \$ 8,771 | \$ 100,585 |
| As at August 31, 2022 | \$ 171,396 | \$ 134,759 | \$ 56,506 | \$ 132,762 | \$ 88,945 | \$ 27,830 | \$ 612,198 |
| As at February 28, 2023 | \$ - | \$ 122,383 | \$ 57,694 | \$ 71,489 | \$ 77,530 | \$ 23,056 | \$ 352,152 |

The Company's right-of-use assets relate to the lease on its office premises, which was terminated during the period ended February 28, 2023 (Note 5). During the period ended February 28, 2023, the Company also sold vehicles with an aggregate net book value of \$52,219 and recognized a gain of \$6,781 in profit or loss.

5. LEASE LIABILITIES

During the year ended August 31, 2022, the Company entered into three new leases: two 6-year vehicle leases with aggregate discounted payments of \$143,009, and a 12-month office lease agreement with discounted payments of \$195,881. During the period ended February 28, 2023, the Company terminated its office lease. In association with the termination, the Company recognized a decrease of \$158,093 to lease liabilities, \$155,073 to right-of-use assets, and a corresponding gain on modification of lease liabilities of \$3,020 in profit or loss.

In calculating present values, the Company used a discount rate of 10% for office leases and 1.4% for the vehicle leases.

PROSPECT RIDGE RESOURCES CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Presented in Canadian Dollars - Unaudited)

5. LEASE LIABILITIES (cont'd...)

The following summarizes the undiscounted minimum lease payments under the lease liabilities as at February 28, 2023:

| Fiscal year | Payment |
|--|----------------|
| 2023 | \$ 12,416 |
| 2024 | 24,831 |
| 2025 | 24,831 |
| 2026 | 24,831 |
| 2027 | 24,831 |
| 2028 | 16,235 |
| Amount representing future lease accretion | (4,429) |
| Lease liabilities as at February 28, 2023 | \$ 123,546 |

The following is a reconciliation of the changes in the lease liabilities:

| Lease liabilities | February 28, 2023 | August 31, 2022 |
|--|--------------------------|------------------------|
| Balance, beginning of period | \$ 308,462 | \$ 1,549 |
| Additions | - | 338,890 |
| Derecognized | (158,093) | - |
| Lease accretion | 3,590 | 5,179 |
| Lease payments | (30,414) | (37,156) |
| Balance, end of period | \$ 123,546 | \$ 308,462 |
| Represented as: | | |
| Current portion of lease liabilities | \$ 23,297 | \$ 118,664 |
| Non-current portion of lease liabilities | \$ 100,249 | \$ 189,798 |

6. EXPLORATION AND EVALUATION ASSETS

Mineral Property Acquisition Costs by Project

| | Galinee Property | Holy Grail Property | Knauss Creek Property | Total |
|--------------------------|-------------------------|----------------------------|------------------------------|--------------|
| Acquisition costs | | | | |
| Balance, August 31, 2021 | \$ 105,000 | \$ 460,000 | \$ - | \$ 565,000 |
| Cash | - | 270,000 | 10,000 | 280,000 |
| Shares | - | 2,460,000 | 770,000 | 3,230,000 |
| Write-off | (105,000) | - | - | (105,000) |
| Balance, August 31, 2022 | - | 3,190,000 | 780,000 | 3,970,000 |
| Cash | - | 100,000 | - | 100,000 |
| Shares | - | 250,000 | 139,750 | 389,750 |
| As at February 28, 2023 | \$ - | \$ 3,540,000 | \$ 919,750 | \$ 4,459,750 |

PROSPECT RIDGE RESOURCES CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Presented in Canadian Dollars - Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Galinee Property

On June 26, 2020, the Company entered into an agreement, whereby it had the right to earn a 100% interest in the Galinee Property in the Baie-James, Quebec. The Galinee Property was subject to a 1% net smelter returns (“NSR”) royalty.

Pursuant to the terms of the agreement, the Company was obligated to pay \$200,000 (paid \$75,000) and issue 150,000 common shares (issued) to Galinee over a two-year period.

Due to unfavourable market conditions, the Company terminated the option agreement. Accordingly, as of August 31, 2022, acquisition costs of \$105,000 related to the property were written-off in profit or loss.

Holy Grail Property

On August 26, 2021, the Company entered into an agreement (the “Holy Grail Option Agreement”) with Loan Wolf Exploration Ltd. (“Loan Wolf”), whereby the Company had the option to acquire a 100% interest in the Holy Grail Property, including the placer claims comprising the Property, in north of Terrace, B.C. **PursPurs**
In the period ended February 28, 2023, the Company and Loan Wolf entered into an agreement to supersede the terms of the Holy Grail Option Agreement whereby the Company finalized its acquisition of 100% of the Holy Grail property. There are no further payments or commitments with respect to the Holy Grail property.

The Holy Grail property is subject to a 3% NSR, amended in the period ended February 28, 2023. The NSR is comprised of 1.5% payable to Loan Wolf, of which 1% can be purchased for \$1,000,000, and 1.5% payable to Knauss Creek Mines Ltd. of which 1% can be purchased for \$1,000,000. The NSR repurchase is available at any time prior to the date which is 180 days after commencement of commercial production.

Holy Grail Finder’s Fees

In connection with the Holy Grail Option Agreement, the Company entered into a finder’s fees agreement with Triple K Ventures Ltd., a company related to the Chief Executive Officer, pursuant to which the Company will pay finder’s fees of 1,000,000 common shares in the capital of the Company (the “Finder’s Shares”), upon the successful closing of the transaction in accordance with the following schedule:

- (a) 285,715 Finder’s Shares on the date that the Option Agreement is signed;
(issued with fair value of \$131,429)
- (b) 142,857 Finder’s Shares on the first anniversary of the Option Agreement;
(issued with fair value of \$65,714)
- (c) 142,857 Finder’s Shares on the second anniversary of the Option Agreement;
- (d) 142,857 Finder’s Shares on the third anniversary of the Option Agreement;
- (e) 142,857 Finder’s Shares on the fourth anniversary of the Option Agreement; and
- (f) 142,857 Finder’s Shares on the fifth anniversary of the Option Agreement;

On entering into the finder’s fee agreement, the Company recorded a commitment to issue finder’s shares of \$460,000. During the period ended February 28, 2023, the commitment to issue finder’s shares has been reduced to \$262,857.

PROSPECT RIDGE RESOURCES CORP.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Presented in Canadian Dollars - Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Knauss Creek Property

On November 3, 2021, the Company entered an agreement (the “Knauss Creek Agreement”) with Loan Wolf and Knauss Creek Mines Ltd. (“Knauss”) to acquire a 100% interest in the Knauss Creek Property, for a cash payment of \$10,000 (paid), the issuance of 1,200,000 common shares (issued at a total value of \$808,000) and incurring total exploration expenditures of \$1,000,000 (incurred) on or before October 31, 2023. The Company completed the requirements during the period ended February 28, 2023, accordingly, has acquired 100% of the Knauss Creek Property.

The Knauss Creek Property is subject to the same 3% NSR terms as the Holy Grail Property (as above). The NSR is comprised of 1.5% payable to Loan Wolf, of which 1% can be purchased for \$1,000,000, and 1.5% payable to Knauss Creek Mines Ltd. of which 1% can be purchased for \$1,000,000. The NSR repurchase is available at any time prior to the date which is 180 days after commencement of commercial production.

The Company has issued an aggregate of 100,000 common shares to Loan Wolf as finder’s fees under the Knauss Creek Agreement. No further shares are issuable.

Exploration and evaluation expenditures

Exploration and evaluation expenditures for the period ended February 28, 2023 is detailed below:

| | Holy Grail | Knauss Creek | Total |
|--------------------------|-------------------|-------------------|-------------------|
| Claims | \$ 3,120 | \$ 3,770 | \$ 6,890 |
| Geology | 44,067 | 33,948 | 78,015 |
| Prospection/Geochemistry | 133,602 | 111,628 | 245,230 |
| Drilling | 22,539 | 444,212 | 466,751 |
| | <u>\$ 203,328</u> | <u>\$ 593,558</u> | <u>\$ 796,886</u> |

Exploration and evaluation expenditures for the year ended August 31, 2022 is detailed below:

| | Holy Grail | Knauss Creek | Total |
|--------------------------|-------------------|-------------------|---------------------|
| Claims | \$ 30,246 | \$ 2,000 | \$ 32,246 |
| Geophysics | 11,973 | - | 11,973 |
| Geology | 149,120 | 68,044 | 217,164 |
| Prospection/Geochemistry | 630,458 | 202,866 | 833,324 |
| Drilling | 53,141 | 541,590 | 594,731 |
| Technical studies | 5,666 | 12,000 | 17,666 |
| | <u>\$ 880,604</u> | <u>\$ 826,500</u> | <u>\$ 1,707,104</u> |

As at February 28, 2023, the Company has recorded a BC mineral tax credit receivable of \$439,457 (August 31, 2022 - \$581,993) for expenditures incurred in the year ended August 31, 2022 and the six months ended February 28, 2023. The Company received \$79,475 in BC mineral tax credit refunds during the period ended February 28, 2023 in relation to expenditures incurred in the year ended August 31, 2021.

PROSPECT RIDGE RESOURCES CORP.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022

(Presented in Canadian Dollars - Unaudited)

7. RECLAMATION DEPOSITS

As at February 28, 2023 the Company held \$59,500 (August 31, 2022 - \$59,500) in deposits with a financial institution as security for reclamation requirements in relation to the Holy Grail and Knauss Creek properties.

8. SHARE CAPITAL

Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of common shares without par value.

Issued Share Capital

During the period ended February 28, 2023, the Company:

- a) Issued 700,000 common shares valued at \$133,000 and issued 50,000 Finder's shares valued at \$6,750 for the Knauss Creek Property option agreement (Note 6).
- b) Issued 1,000,000 common shares valued at \$250,000 and issued 142,857 Finder's shares valued at \$65,714 for the Holy Grail Property option agreement (Note 6).
- c) Issued 124,419 common shares at \$0.20 per share to settle debt of \$24,884, of which \$18,400 was owed to related parties (Note 9).

During the year ended August 31, 2022, the Company:

- a) Completed a private placement by issuing 17,142,856 units at a price of \$0.35 per unit for total proceeds of \$6,000,000. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.70 per common share for 18 months from the date of issuance, subject to a forced exercise clause in the event that the trading price of the common shares equals or exceeds \$1.15 for 10 consecutive days.

In connection with the offering, the Company paid an aggregate of \$88,938 in finders' fees, issued 250,510 finder's warrants and incurred an additional \$42,315 in other closing costs. The warrants were valued at \$181,504 using Black-Scholes. Each warrant entitles the holder to purchase one additional common share at a price of \$0.70 per common share for a period of 18 months following closing, expiring March 24, 2023. The Company used the following assumptions when valuing the finders' warrants: expected volatility of 100%, risk free interest rate of 0.49%, life of 1.5 years, dividend yield of 0% and forfeiture rate of 0%.

- b) Issued 113,200 common shares at a price of \$0.10 per common share for proceeds of \$11,320 from the exercise of broker warrants.
- c) Issued 2,000,000 common shares valued at \$2,460,000 and issued 285,715 Finder's shares valued at \$131,429 per Holy Grail Property option agreement (Note 6).

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8. SHARE CAPITAL (cont'd...)

Issued Share Capital (cont'd...)

- d) Completed a private placement by issuing 1,263,000 units at a price of \$1.00 per unit for total proceeds of \$1,263,000. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder to purchase one additional common share at a price of \$1.50 per common share for 18 months from the date of issuances, subject to a forced exercise clause in the event that the trading price of the shares equals or exceeds \$2.25 for 10 consecutive days.

In connection with the offering, the Company paid an aggregate of \$75,110 in finders' fees and issued 75,110 finder's warrants and incurred an additional \$13,077 in other closing costs. The warrants were valued at \$28,533 using Black-Scholes. Each finder's warrant entitling the holder to purchase one common share at \$1.50 per common share for a period of 18 months from the date of issuance. Each warrant entitles the holder to purchase one additional common share at a price of \$0.70 per common share for a period of 18 months following closing, expiring June 16, 2023. The Company used the following assumptions when valuing the finders' warrants: expected volatility of 100%, risk free interest rate of 0.87%, life of 1.5 years, dividend yield of 0% and forfeiture rate of 0%.

- e) Issued 550,000 common shares valued at \$770,000 per Knauss Creek Property agreement (Note 6).

Stock options and warrants

Stock option and warrant transactions are summarized as follows:

| | Options | | Warrants | |
|---|------------------|---------------------------------|------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Balance, August 31, 2021 | 2,850,000 | \$ 0.50 | 113,200 | \$ 0.10 |
| Exercised | - | - | (113,200) | 0.10 |
| Granted | 1,575,000 | 0.50 | 9,528,543 | 0.76 |
| Cancelled | (750,000) | 1.10 | - | - |
| Balance, August 31, 2022 and February 28, 2023, outstanding and exercisable | 3,675,000 | \$ 0.50 | 9,528,543 | \$ 0.76 |

As at February 28, 2023, the following stock options were outstanding:

| Number Outstanding | Number Outstanding and Exercisable | Exercise Price | Expiry Date | Remaining Life (years) |
|--------------------|------------------------------------|----------------|------------------|------------------------|
| 2,600,000 | 2,600,000 | \$ 0.50 | August 26, 2026* | 3.74 |
| 1,075,000 | 1,075,000 | \$ 0.50 | April 11, 2027** | 4.36 |
| 3,675,000 | 3,675,000 | | | |

* Subsequent to February 28, 2023, 1,600,000 stock options were cancelled.

** Subsequent to February 28, 2023, 1,075,000 stock options were cancelled.

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8. SHARE CAPITAL (cont'd...)

Stock options and warrants (cont'd...)

As at February 28, 2023, the following warrants were outstanding:

| Number Outstanding | Number Outstanding and Exercisable | Exercise Price | Expiry Date | Remaining Life (years) |
|--------------------|------------------------------------|----------------|-----------------|------------------------|
| 8,821,933 | 8,821,933 | \$ 0.70 | March 24, 2023* | 0.31 |
| 706,610 | 706,610 | \$ 1.50 | June 16, 2023 | 0.54 |
| 9,528,543 | 9,528,543 | | | |

* Subsequent to February 28, 2023, these warrants expired unexercised.

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The term of any options granted under the Plan will be fixed by the board of directors at the time such options are granted, provided that options will not be permitted to exceed a term of ten years, with the exception of any options extended due to a Blackout Period. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's shares, forfeiture rate, and expected life of the options. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

During the period ended February 28, 2023, the Company granted nil stock options (2021 – 500,000). The weighted average fair value of options granted during the period ended February 28, 2023 was \$nil (2021 - \$1.40). Total share-based payments recognized in the statement of loss and comprehensive loss for the period ended February 28, 2023 was \$nil (2021 - \$519,497) for incentive options vested. The fair value of options at the date of grant was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

| | February 28, 2023 | February 28, 2022 |
|--------------------------------|-------------------|-------------------|
| Weighted average share price | - | \$1.40 |
| Risk-free interest rate | - | 0.87% |
| Expected life of option | - | 5 years |
| Expected annualized volatility | - | 100% |
| Expected dividend rate | - | Nil |

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8. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer, Chief Financial Officer, Corporate Secretary, and President. Key management personnel payments for the period ended February 28, 2023, included:

| | February 28, 2023 | February 28, 2022 |
|--|--------------------------|--------------------------|
| Directors fees | \$ 22,000 | \$ 13,000 |
| Consulting and management fees | 125,000 | 163,500 |
| Exploration related and geological consulting fees | 105,000 | - |
| Professional fees | 30,000 | 15,000 |
| Share-based payments | - | 891,230 |
| | \$ 282,000 | \$ 1,082,730 |

As at February 28, 2023, \$69,433 (August 31, 2022 - \$89,617) was included in accounts payables and accrued liabilities for fees owed to related parties.

During the period ended February 28, 2023, the Company issued 42,000 common shares at \$0.20 per share to settle debt of \$8,400 owing to a related party.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels.

The carrying values of cash, refundable tax credits, receivables and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The carrying value of the reclamation deposit approximates its carrying value due to the restricted nature of the financial instrument.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's receivables consist mainly of goods and services tax receivables due from the Government of Canada. As at February 28, 2023, the Company's exposure to credit risk is minimal.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at February 28, 2023, the Company had a cash balance of \$1,949,879 to settle current liabilities of \$141,083. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

As at February 28, 2023, the Company was not subject to or exposed to significant interest rate risk.

b) Foreign currency risk

The Company's operating costs are primarily in Canadian dollars. As at February 28, 2023, management believes the Company's exposure to foreign currency risk is not significant.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. As at February 28, 2023, the Company was not exposed to any equity or commodity price risks.

10. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns and/or benefits for shareholders. The Company considers its shareholders' equity to be its capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the administration of its corporate affairs and to provide funds for the development of its business. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company has no revenue-generating operations and as such is dependent upon external financing to fund activities. In order to develop its business and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as required. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the size of the Company.

There were no changes in the Company's approach to capital management during the period ended February 28, 2023. The Company is not subject to externally imposed capital requirements.

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11. SUBSEQUENT EVENT

Subsequent to February 28, 2023, the Company granted an aggregate of 3,200,000 stock options exercisable at \$0.20 per share for a period of 5 years.