# GUNPOINT EXPLORATION LTD.

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(expressed in thousands of Canadian Dollars, unless otherwise noted)

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## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Gunpoint Exploration Ltd.:

Management is responsible for the preparation and presentation of the accompanying Consolidated Financial Statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the Consolidated Financial Statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of Gunpoint Exploration Ltd.'s external auditors.

We draw attention to Note 1 in the Consolidated Financial Statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Saturna Group Chartered Professional Accountants LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the Consolidated Financial Statements and report directly to them; their report follows. The external auditors have full and free access to meet periodically and separately with the Board of Directors, Audit Committee, and management to discuss their audit findings.

| | |
|---|---|
| "P. Randy Reifel" | "Cindy Ieong" |
| P. Randy Reifel, CEO | Cindy Ieong, CFO |

Suite 1605, 1166 Alberni Street
Vancouver, BC Canada V6E 3Z3

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Gunpoint Exploration Ltd.**

## Opinion

We have audited the consolidated financial statements of Gunpoint Exploration Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had no revenues from operations during the year ended December 31, 2021 and, as of that date, had a working capital deficit of $1,153,900 and an accumulated deficit of $48,109,100. In addition, the Company has not generated operating revenue and relies on debt and equity funding to support its operations. As stated in Note 1, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Henry Chow.

Saturna Group LLP

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 8, 2022

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | | **As at 31 December 2021** | | As at 31 December 2020 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | **$** | **83.6** | $ | 385.2 |
| Amounts receivable | | | **2.6** | | 1.7 |
| Prepaid expenses | | | **25.2** | | 3.6 |
| | | | **111.4** | | 390.5 |
| **Non-current assets** | | | | | |
| Investment in mineral properties | (7) | | **5,777.9** | | 5,472.2 |
| Investments | (8) | | **1,328.3** | | 2,026.4 |
| Reclamation deposit | | | **223.5** | | 223.4 |
| | | **$** | **7,441.1** | $ | 8,112.5 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | (9) | **$** | **565.3** | $ | 354.7 |
| Promissory note | (9) | | **700.0** | | 700.0 |
| | | | **1,265.3** | | 1,054.7 |
| **Non-current liabilities** | | | | | |
| Due to related party | (10) | | **1,032.0** | | 1,032.0 |
| Reclamation obligation | | | **210.7** | | 211.4 |
| **Total Liabilities** | | **$** | **2,508.0** | $ | 2,298.1 |
| **EQUITY** | | | | | |
| Share capital | (11) | | **9,637.4** | | 9,637.4 |
| Reserves | | | **43,404.8** | | 43,355.4 |
| Deficit | | | **(48,109.1)** | | (47,178.4) |
| | | | **4,933.1** | | 5,814.4 |
| | | **$** | **7,441.1** | $ | 8,112.5 |

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

Approved and authorized for issue by the Board of Directors on 8 April 2022:

"P. Randy Reifel" — P. Randy Reifel, Director

"John Mackay" — John Mackay, Director



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

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

| | Note | **Year Ended 31 December 2021** | Year Ended 31 December 2020 |
|---|---|---|---|
| **Expenses** | | | |
| Exploration | | **$ (12.4)** | $ (2.9) |
| General and administration | | **(89.2)** | (80.7) |
| Professional fees | | **(122.4)** | (58.9) |
| Share based compensation | (11) | **(49.4)** | (38.9) |
| | | **(273.4)** | (181.4) |
| **Other income (expense)** | | | |
| Finance costs | | **(28.0)** | (36.4) |
| Other income | (7) | **215.7** | 229.3 |
| Foreign exchange gain (loss) | | **5.6** | (14.2) |
| Unrealized gain (loss) on investments | (8) | **(850.6)** | 1,510.90 |
| Total other income (expenses) | | **(657.3)** | 1,689.6 |
| **Net income (loss) and comprehensive income (loss)** | | $ **(930.7)** | $ 1,508.2 |
| **Earnings (loss) per share, basic and diluted** | | **$ (0.02)** | $ 0.03 |
| **Weighted Average Shares Outstanding** | | | |
| Basic | | **43,501,600** | 43,501,600 |
| Diluted | | **43,501,600** | 44,343,705 |



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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Shares | | Share Capital | | Additional paid-in capital | | Warrants reserves | | Share-based payments reserves | | Convertible debenture reserves | | Deficit | | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AS AT 31 DECEMBER 2020** | 43,501,600 | $ | 9,637.4 | $ | 41,509.9 | $ | 43.0 | $ | 1,737.4 | $ | 65.1 | $ | (47,178.4) | $ | 5,814.4 |
| Share-based compensation | - | | - | | - | | - | | **49.4** | | - | | - | | **49.4** |
| Net loss for the year | - | | - | | - | | - | | - | | - | | **(930.7)** | | **(930.7)** |
| **BALANCE AS AT 31 DECEMBER 2021** | **43,501,600** | **$** | **9,637.4** | **$** | **41,509.9** | **$** | **43.0** | **$** | **1,786.8** | **$** | **65.1** | **$** | **(48,109.1)** | **$** | **4,933.1** |

| | Shares | | Share Capital | | Additional paid-in capital | | Warrants reserves | | Share-based payments reserves | | Convertible debenture reserves | | Deficit | | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AS AT 31 DECEMBER 2019** | 43,501,600 | $ | 9,637.4 | $ | 41,509.9 | $ | 43 | $ | 1,698.5 | $ | 65.1 | $ | (48,686.6) | $ | 4,267.3 |
| Share-based compensation | - | | - | | - | | - | | 38.9 | | - | | - | | 38.9 |
| Net income for the year | - | | - | | - | | - | | - | | - | | 1,508.2 | | 1,508.2 |
| **BALANCE AS AT 31 DECEMBER 2020** | 43,501,600 | $ | 9,637.4 | $ | 41,509.9 | $ | 43 | $ | 1,737.4 | $ | 65.1 | $ | (47,178.4) | $ | 5,814.4 |



-- The accompanying notes form an integral part of the consolidated financial statements --

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December 2021 | Year ended 31 December 2020 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Net income (loss)** | **$ (930.7)** | $ 1,508.2 |
| **Items not affecting cash:** | | |
| Share-based compensation | **49.4** | 38.9 |
| Unrealized foreign exchange loss (gain) | **(5.6)** | 14.2 |
| Unrealized losses (gain) from investments | **850.6** | (1,510.9) |
| Shares received from option agreements | **(54.5)** | (224.3) |
| Shares received from sales of mineral property | **(160.0)** | - |
| | **(250.8)** | (173.9) |
| **Changes in non-cash working capital:** | | |
| Prepaid expenses | **(22.5)** | 1.2 |
| Accounts payable and accrued liabilities | **210.6** | 66.0 |
| **Cash used in operating activities** | **(62.7)** | (106.7) |
| **INVESTING ACTIVITIES** | | |
| Mineral property expenditures | **(305.7)** | (295.4) |
| Proceeds from option agreements | **37.0** | 151.0 |
| Proceeds from sale of mineral property | **25.0** | - |
| **Cash used in investing activities** | **(243.7)** | (144.4) |
| **Foreign exchange impact on cash** | **4.8** | (17.2) |
| **Net increase (decrease) in cash** | **(301.6)** | (268.3) |
| Cash – Beginning of Year | **385.2** | 653.5 |
| **Cash – End of Year** | **$ 83.6** | $ 385.2 |



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*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2021 AND 2020

### 1) Nature of operations and going concern

Gunpoint Exploration Ltd. ("Gunpoint" or the "Company") was incorporated under the laws of British Columbia on October 27, 1989. Gunpoint is focused on the acquisition and exploration of precious metals located in the United States, Mexico and Guatemala.

Gunpoint is domiciled in Vancouver, Canada and its common shares are listed on the TSX Venture Exchange under the trading symbol "GUN:TSXV". The Company is controlled by Chesapeake Gold Corp. ("Chesapeake") which owns 75% of the Company's common shares. The Company's registered office is at Suite 201 - 1512 Yew Street, Vancouver, BC, V6K 3E4, Canada.

These consolidated financial statements (the "Financial Statements") have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has not generated operating revenue from its mineral properties. The ability of the Company to continue as a going concern is dependent upon obtaining additional equity and/or debt financing for the exploration and development of its mineral properties. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company is currently holding its mineral properties on care and maintenance until additional financing can be raised from joint venture partners, divestures, and investors.

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Working capital deficit | **$ (1,153.9)** | $ (664.2) |
| Deficit | **$ (48,109.1)** | $ (47,178.4) |

These 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 thus 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 financial statements; these adjustments could be material.

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

### 2) Basis of presentation – Statement of Compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all periods presented.

The Financial Statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The Financial Statements are presented in Canadian dollars.

### 3) Use of estimates and judgments

The preparation of these Financial Statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Financial Statements:

i. Management is required to assess the functional currency of each entity of the Company. The Company determined the Canadian dollar to be its functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions;

ii. Management is required to assess impairment in respect of its investment in mineral properties. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a small proportion of projects are ultimately successful and some assets are likely to become impaired in future periods. Management has determined that there were no triggering events present as defined in IFRS 6 for the other properties and as such, no impairment loss was recorded for the years ended 31 December 2021 and 2020; and

iii. Although, the Company takes steps to verify title to exploration and evaluation assets 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.

iv. Factors used in the application of the going concern assumption which requires management to consider all available information about the future, which is at least but not limited to 12 months from the end of the reporting period.

*Accounting Estimates and Assumptions*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made;

ii. Management estimates the fair values of share-based payment arrangements using the Black-Scholes option pricing model; and

iii. Other significant accounting estimates including the carrying value of investment

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

## 4) Summary of significant accounting policies

**Basis of consolidation**

Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to offset those returns through its power over the subsidiary. The financial results of subsidiaries are included in the Financial Statements from the date that control commences until control ceases. The following subsidiaries are consolidated:

| | Country of incorporation | Percentage owned |
|---|---|---|
| Gunpoint Exploration Ltd. | Canada | 100% |
| American Gold Capital US Inc. | United States | 100% |
| Gunpoint Exploration US Ltd. | United States | 100% |
| Minera CJ Gold, S.A. DE C.V | Mexico | 100% |
| Hunt Exploracion S.A. | Guatemala | 100% |

Significant intercompany balances and transactions have been eliminated.

**Foreign currency translation**

These Financial Statements are presented in Canadian dollars. The functional currency of the Company and its controlled entities is measured using the currency of the primary and secondary economic environment in which that entity operates. When the primary and secondary indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators before considering the secondary and other indicators, which are designed to provide additional supporting evidence to determine an entity's functional currency. All of the foreign operations are carried out as an extension of the parent Company, rather than being carried out with a significant degree of autonomy.

The functional currency of the Company and its controlled entities is summarized as follows:

| | Functional Currency |
|---|---|
| **Gunpoint Exploration Ltd.** | CAD |
| **American Gold Capital US Inc.** | CAD |
| **Gunpoint Exploration US Ltd.** | CAD |
| **Minera CJ Gold, S.A. DE C.V** | CAD |
| **Hunt Exploracion S.A.** | CAD |

Transactions and balances:

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the consolidated statement of operations in the period in which they arise.

**Equipment**

Equipment is initially recognized at cost, which includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use. All items of equipment are subsequently carried at cost less depreciation, and impairment losses, if any.

Depreciation is provided on all items of equipment and vehicles to write off the carrying value of items over their expected useful economic lives. Depreciation is provided at the following annual rates on a declining basis:

| Asset | Rate |
|---|---|
| **Computer equipment** | 30% |
| **Computer software** | 30% |
| **Office equipment** | 20% |
| **Exploration equipment** | 20% |
| **Vehicles** | 25% |

Residual value estimates and estimates of useful life are reviewed annually, and adjusted if appropriate.

**Investment in mineral properties**

The Company is in the exploration stage with respect to its investment in mineral properties and follows the practice of capitalizing all costs, net of recoveries. Such costs include, but are not limited to, staking and claims management, options payments, geological, geophysical studies, sampling, and drilling. Payments received on option agreements relating to the acquisition of and exploration for mineral claims are recognized in the consolidated statement of operations in the period in which they arise. Unproven mineral interest assets are assessed for impairment when the facts and circumstances suggest that its carrying amount may exceed its recoverable amount and when the Company has sufficient information to reach a conclusion about technical feasibility and commercial viability. Industry specific indicators of the existence of a potential impairment typically include the absence of plans to incur substantive expenditure on further exploration over a reasonable time horizon, conditions where title is compromised, adverse changes in the taxation, regulatory or political environment and adverse changes in currencies, commodity prices and markets.

Recoverability of the carrying amount of any unproven mineral interest assets is dependent on successful development and commercial exploration, or alternatively, sale of the respective areas of interest.

**Impairment of non-financial assets**

Non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any intangible asset with an indefinite life that is not yet available for use is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset's recoverable amount is the higher of the fair value less costs to dispose and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized in the consolidated statement of operations.

**Share-based payments**

The share option plan allows the Company’s directors, officers, employees, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and an estimated forfeiture rate.

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax losses and other deductions carried forward.

Deferred income tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a deferred income tax asset is recorded against any deferred income tax asset if it is probable that there will be future taxable income to offset. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

**Cash and cash equivalents**

The Company considers all highly liquid investments with a maturity of three months or less at the time of issuance that are readily convertible into cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

**Earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. As at December 31, 2021, the Company had 2,965,000 (2020 – 1,500,000) potentially dilutive shares relating to outstanding stock options.

**Reclamation obligations**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the year in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed, or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in the consolidated statement of operations and included as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

**Financial Instruments - Recognition and Measurements**

*(i) Non-derivative financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Cash is measured at amortized cost. Investments are classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the consolidated statement of operations for the year.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*(ii) Non-derivative financial liabilities*

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, promissory note payable, and amounts due to related party are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in the consolidated statement of operations.

*(iii) Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in the consolidated statement of operations. Transaction costs are recognized in the consolidated statement of operations as incurred.

**Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount receivable can be measured reliably.

## 5) Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its resource properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and investments. In order to maximize ongoing development efforts, the Company does not pay out dividends.

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. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and investments. There were no changes in the Company's approach to capital management during the year ended 31 December 2021. The Company is not subject to externally imposed capital requirements.

## 6) Financial instruments and risk management

### a) Financial instrument classification and measurement

The Company classifies the fair value of these transactions according to the following hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Level 1 | Level 2 | Level 3 | Total 31 December 2021 |
|---|---|---|---|---|
| Investments | $ 1,328.3 | $ - | $ - | $ 1,328.3 |

| | Level 1 | Level 2 | Level 3 | Total 31 December 2020 |
|---|---|---|---|---|
| Investments | $ 2,026.4 | $ - | $ - | $ 2,026.4 |

The fair value of other financial instruments, including cash, accounts payable and accrued liabilities, promissory note payable, and amounts due to a related party, approximate their carrying values due to the relatively short-term maturity of these instruments. The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during the year ended 31 December 2021.

### b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, investments, accounts payable and accrued liabilities, and amounts due to a related party. As at 31 December 2021, the carrying values of cash and investment are at fair value. Accounts payable and accrued liabilities and amounts due to a related party approximate their fair value due to their short-term nature.

The fair values of financial instruments are summarized as follows:

| | **31 December 2021** | | 31 December 2020 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Cash | **$ 83.6** | **$ 83.6** | $ 385.2 | $ 385.2 |
| Investments | **1,328.3** | **1,328.3** | 2,026.4 | 2,026.4 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | **565.3** | **565.3** | 354.7 | 354.7 |
| Promissory note | **700.0** | **700.0** | 700.0 | 700.0 |
| Due to related party | **1,032.0** | **1,0320** | 1,032.0 | 1,032.0 |

### c) Credit risk

The Company's credit risk is primarily attributable to cash. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk arising from operations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. The Company's cash is held through large Canadian financial institutions. As at 31 December 2021, management considers the Company's exposure to credit risk is minimal.

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

### d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure as described in Note 5. The accounts payable and accrued liabilities are due within the current operating period.

As at 31 December 2021, the Company had a cash balance of $83.6 (31 December 2020 – $385.2) to settle current liabilities of $1,265.3 (31 December 2020 – $1,054.7). So far, the Company is not profitable and has had to rely on the issuance of equity securities for cash, primarily through private placements and from related and other parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

### e) 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. The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in the equity markets. The Company closely monitors market values to determine the most appropriate course of action.

### f) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed income cash equivalents and investments, of varying maturities. A 1% change in market interest rates would result in no significant change in value of cash or fixed income securities. The risk that the Company will realize a loss as a result of a decline in the fair value of these assets is limited as they are generally held to maturity.

### g) Currency risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of those fluctuations on the Company's foreign currency denominated monetary assets and liabilities. The Company currently operates in the United States, Mexico, and Guatemala. Certain costs and expenses are incurred in US dollars, Mexican pesos, and Guatemala quetzal. The Company attempts to mitigate currency risk through the preparation of short and long term expenditure budgets in the foreign currencies and planning for the conversion of Canadian dollars into foreign currencies whenever exchange rates are favourable.

## 7) Mineral properties

| | | Talapoosa |
|---|---|---|
| **Balance as at 31 December 2019** | **$** | 5,176.8 |
| Licence, dues and fees | | 263.8 |
| Geological and engineering | | 23.0 |
| Other | | 8.6 |
| **Balance as at 31 December 2020** | | 5,472.2 |
| Licence, dues and fees | | **273.5** |
| Geological and engineering | | **23.6** |
| Other | | **8.6** |
| **Balance as at 31 December 2021** | **$** | **5,777.9** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

**a) Talapoosa (Nevada, USA)**

The Company owns a 100% interest in the Talapoosa gold property ("Talapoosa') located in Lyon County, Nevada. Talapoosa consists of 535 unpatented lode mining claims, including 509 claims owned by the Company and 26 claims subject to a lease agreement with a third party (the "Unpatented Leased Land"). There are 6 additional leased fee land sections (the "Leased Fee Lands") and a portion of one additional fee land section owned by one of the Company's US subsidiaries. These claims are administered by the Bureau of Land Management ("BLM") and the aggregate annual payments to (i) the BLM and Lyon County, (ii) the holder of the Unpatented Leased Claims, and (iii) the holders of the Leased Fee Lands are approximately US$199.3.

On 31 March 2015, the Company entered into an agreement with Timberline Resources Corporation ("Timberline"), granting Timberline an option (the "Option") to acquire from Gunpoint's subsidiary, American Gold Capital US Inc. ("American Gold"), a 100% interest in Talapoosa. Under the Option, Timberline could acquire Talapoosa for US$10.0 million in cash and share consideration. Timberline did not make an option payment due 31 March 2018 to Gunpoint and the option agreement was terminated and 100% interest of Talapoosa reverted back to the Company. Total consideration received by Gunpoint during the option term was US$1.3 million and 3,000,000 common shares of Timberline. As at 31 December 2021, the fair market value of the 3,000,000 (31 December 2020 – 3,000,000) Timberline common shares was $840.0 (31 December 2020 – $1,350.0).

**b) La Cecilia (Sonora State, Mexico)**

La Cecilia is located in Sonora State, Mexico and comprises three mineral concessions totalling 794 hectares. On 31 January 2017, the Company entered into an agreement ("Option Agreement") with Riverside Resources Inc. ("Riverside") whereby Riverside has an option to acquire a 100% interest in La Cecilia.

Pursuant to the Option Agreement, Riverside can acquire a 100% interest in La Cecilia by making $250.0 in cash payments and issuing 1,000,000 Riverside common shares to the Company per the following schedule:

- A payment of $10.0 upon execution of the Option Agreement; (Received)
- A payment of $15.0 and 100,000 Riverside common shares concurrent with the execution of registerable agreement in Mexico ("the Effective Date"); (Received)
- A payment of $25.0 and 200,000 Riverside common shares on or before the first anniversary of the Effective Date; (Received)
- A payment of $75.0 and 300,000 Riverside common shares on or before the second anniversary of the Effective Date; (Received) and
- A payment of $125.0 and 400,000 Riverside common shares on or before the third anniversary of the Effective Date. (Received)

Riverside completed its acquisition of La Cecilia in 2020. As at 31 December 31 2020, the La Cecilia property is recorded at $nil value due to a previous impairment. The consideration received from Riverside was recognized as income.

In September 2020, Riverside spun out their Penoles project in Mexico by way of a plan of arrangement issuing common shares of Capitan Mining Inc. ("Capitan"), a company listed on the TSX Venture Exchange, to existing Riverside shareholders. As a part of the spin out, the Company received 259,399 common shares of Capitan. As at 31 December 2021, the fair market value of 259,399 common shares of Capitan was $61.0 (31 December 2020 – $68.7) and the fair market value of the 1,000,000 common shares of Riverside was $160.0 (31 December 2020 – $350.0).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

**c) La Gitana (Oaxaca State, Mexico)**

The La Gitana Property ("La Gitana") is located in Oaxaca State and encompasses 494 hectares. On 4 June 2019, the Company signed a non-binding letter of intent (the "LOI") with Inomin Mines Inc. ("Inomin") to sell its 100% interest in La Gitana. The LOI provides for an exclusivity period to conduct due diligence and conclude a definitive agreement to finalize the purchase terms. Pursuant to the LOI, Inomin has an option to acquire La Gitana by making $300.0 in cash payments and issuing 2,000,000 common shares as follows:

- A payment of $10.0 on signing LOI (received);
- A payment of $25.0 and 150,000 common shares following execution of definitive agreement;
- A payment of $50.0 and 250,000 common shares on first anniversary;
- A payment of $65.0 and 450,000 common shares on second anniversary;
- A payment of $75.0 and 500,000 common shares on third anniversary; and
- A payment of $75.0 and 650,000 common shares on fourth anniversary.

The definitive agreement required a surface rights agreement with the Santa Maria Lachixonace Ejido community ("Ejido"). The Company was unable to reach an agreement with the Ejido and on 4 August 2020, Gunpoint agreed to sell La Gitana and another exploration property in Oaxaca state ("Pena Blanca") to Inomin for $25.0 and 1,000,000 common shares of Inomin.

On 21 March 2021, the TSX Venture Exchange approved the transaction and the Company received the consideration of a $25.0 cash payment and 1,000,000 common shares of Inomin with a fair value of $135.0. The fair value of cash and common shares received for the sale of $160.0 were recorded in other income. As at 31 December 2021, the fair market value of the 1,000,000 Inomin shares was $135.0.

The Company retains a 1.5% NSR on Pena Blanca. Inomin has the option to purchase 0.5% of the 1.5% NSR from Gunpoint for $1.0 million dollars.

**d) Cerro Minas Project (Oaxaca State, Mexico)**

The Cerro Minas Property ("Cerro Minas") is located 130 kilometers southwest of Oaxaca City and comprises 899 hectares.

On 16 October 2019, Gunpoint entered into an agreement with Megastar Development Corp. ("Megastar") whereby Megastar was granted an option to acquire a 100% in Cerro Minas by making US$100.0 in cash payments and issuing 800,000 Megastar common shares to Gunpoint over three years. Subsequently, Megastar changed its name to Madoro Metals Corp. ("Madoro"). The cash and share consideration are payable as follows:

- A cash payment of US$10.0 and 100,000 common shares of Madoro on the 19 October 2019 (received)
- A cash payment of US$20.0 and 150,000 common shares of Madoro on or before 19 October 2020 (received)
- A cash payment of US$30.0 and 250,000 common shares of Madoro on or before 19 October 2021; and (received)
- A cash payment of $40.0 and 300,000 common shares of Madoro on or before 19 October 2022.

Gunpoint retains a 1.5% net smelter royalty on Cerro Minas which Madoro has the option to purchase a 0.5% net smelter royalty for US$1.0 million dollars. Madoro will be responsible for the property taxes and holding costs (including surface right agreement) to maintain Cerro Minas in good standing during the term of the agreement.

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

In October 2021, the Company received the consideration of a US$30.0 cash payment and 250,000 common shares of Madoro with a fair value of $17.5. The fair value of cash and common shares received for the option agreement of $54.5 was recorded in other income. As at 31 December 2021, the fair market value of the Madoro common shares held by the Company was $32.5 (31 December 2020 – $37.5).

**e) El Escorpion (Guatemala)**

The Company acquired a 100% interest in El Escorpion by issuing 500,000 common shares to Chesapeake and assuming the remaining property payments to the prior concession owner. To date, the prior concession owner has received US$331.0 of the US$351.0 purchase price.

If Chesapeake elects to purchase the existing 1.0% NSR, Chesapeake will be granted a 0.5% NSR royalty from Gunpoint. In addition, Gunpoint will issue 1,000,000 common shares to Chesapeake in the event a NI 43-101 measured and indicated resource estimate of 1,000,000 gold equivalent ounces is defined on El Escorpion.

On 19 August 2015, the Ministry of Energy and Mines granted title for the El Escorpion concessions. In late 2016, the Constitutional Court of Guatemala temporarily suspended permits for several mineral concessions in the country including El Escorpion. The Constitutional Court is seeking a review of the stakeholder engagement process. Gunpoint has initiated a follow up consultation with the local community to support the cancellation of the suspension. The prior concession owner has agreed to an extension of the final payment of US$20.0 to purchase El Escorpion until the exploration suspension is lifted.

## 8) Investments

| | | Fair Value |
|---|---|---|
| **Fair Value as at 31 December 2019** | **$** | 442.2 |
| Acquired | | 73.3 |
| Unrealized gain | | 1,510.9 |
| **Fair Value as at 31 December 2020** | | 2,026.4 |
| Acquired | | **152.5** |
| Unrealized loss | | **(850.6)** |
| **Fair Value as at 31 December 2021** | **$** | **1,328.3** |

Investments are designated as fair value through profit and loss and carried at market value. Unrealized gains and losses are classified as part of the calculation of net income or loss. During the year ended 31 December 2021, the unrealized loss recorded in investments is $850.6 (31 December 2020 – gain of $1,510.9).

## 9) Promissory note

As at 31 December 2021, the Company had an unsecured promissory note of $700.0 (31 December 2020 – $700.0) due to a company controlled by President of the Company, which is unsecured, bears an interest rate of 5% per annum and due on demand. As at 31 December 2021, the total accrued interest payable was $334 (31 December 2020 - $307.7) and included in the account payables and accrued liabilities.

| | | Principal | | Interest | | Total |
|---|---|---|---|---|---|---|
| Balance – Beginning of Year | $ | 700.0 | $ | 307.7 | $ | 1,007.7 |
| Additions | | **-** | | **26.3** | | **26.3** |
| **Balance – End of Year** | **$** | **700.0** | **$** | **334.0** | **$** | **1,034.0** |

On 12 November 2021, the Company entered into a settlement agreement to issue 1,733,333 common shares to settle the amount of $1,034.0 due to a company controlled by President of the Company which was subject to TSX-

V approval. As at 31 December 2021, the common shares had not been issued and the Company had not obtained TSX-V approval. Refer to Note 15.

## 10) Due to related party

As of 31 December 2021, an amount of $1,032.0 (31 December 2020 - $1,032.0) was due to Chesapeake, the parent of the Company. The amounts due to Chesapeake are unsecured, non-interest bearing, and due on demand. See Note 11(b).

On 12 November 2021, the Company entered into a settlement agreement to issue 1,720,000 common shares to settle the amount of $1,032.0 due to Chesapeake. As at 31 December 2021, the common shares had not been issued and the Company had not obtained TSX-V approval. Refer to Note 15.

## 11) Share capital

**a) Authorized:**

The Company's authorized share capital consists of an unlimited number of common shares without par value and 50,000,000 preferred shares without par value.

**b) Issued or allotted and fully paid:**

There are 43,501,600 common shares issued and outstanding as at 30 September 2021 (31 December 2020 - 43,501,600 common shares).

**c) Summary of stock option activity**

The Company has a share option plan which provides for equity participation in the Company by its directors, officers, employees, consultants, and consultant companies through the acquisition of common shares pursuant to the grant of options to purchase shares. The option plan is administered by the Board of Directors. Options may be granted on such terms as the Board may determine within the limitations of the option plan and subject to the rules and policies of applicable regulatory authorities. The maximum aggregate number of shares reserved for issuance for options granted under the option plan is 10% of the issued and outstanding common shares as at the date of grant. The options will be exercisable for 5 years from the grant date with vesting terms to be determined at the time by the Board of Directors.

Share-based compensation expense is determined using Black-Scholes option pricing model. During the year ended 31 December 2021, the Company granted 1,815,000 incentive stock options to directors and officers under its stock option plan, at an exercise price of $0.60 per share for a term of five years. The options will vest and be exercisable on the basis of 25% annually commencing 23 November 2022, the first anniversary of the date of the grant. The fair value of the stock options granted was determined using the Black-Scholes option pricing model assuming volatility of 69%, risk-free rate of 1.57%, expected life of 5 years, and no expected dividends or forfeitures.

During the year ended 31 December 2021, the Company recognized total share-based compensation expense of $49.4 (31 December 2020 – $38.9).

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

Stock option activity during the years ended 31 December 2021 and 2020 is as follows:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted Average Exercise Price | Number of options | | Weighted Average Exercise Price |
| **Balance – Beginning of Year** | **1,500,000** | **$** | **0.25** | 1,500,000 | $ | 0.25 |
| Issued | **1,815,000** | | **0.60** | - | | - |
| Expired/cancelled | **(350,000)** | | **0.25** | - | | - |
| **Balance – End of Year** | **2,965,000** | **$** | **0.46** | 1,500,000 | $ | 0.25 |

Details of stock options outstanding as at 31 December 2021 and 2020 are as follows:

| | | | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|---|---|
| **Expiry Date** | | **Exercise Price** | **Number of Options** | **Number of Options Vested** | Number of Options | Number of Options Vested |
| 2 May 2023 | $ | 0.25 | **1,150,000** | **1,087,500** | 1,500,000 | 1,125,000 |
| 23 November 2026 | $ | 0.60 | **1,815,000** | **-** | - | - |
| | | | **2,965,000** | **1,087,500** | 1,500,000 | 1,125,000 |

As at 31 December 2021, the weighted average remaining contractual life of outstanding stock options is 3.52 years (31 December 2020 – 2.33 years) and a weighted average exercise price of $0.46 (31 December 2020 – $0.25).

## 12) Related party transactions

During the year ended 31 December 2021, fees of $27.5 (31 December 2020 – $17.0) to the Company's key management is included in professional fees.

As at 31 December 2021, $2.6 (31 December 2020 – $nil) is owing to the CFO, $nil (31 December 2020 - $0.4) is owing to the former CFO, $168.7 (31 December 2020 – $nil) is owing to the President of the Company and $2.0 (31 December 2020 – $nil) is owing to a company controlled by President of the Company; the balances are included in accounts payable and accrued liabilities

As at 31 December 2021, an amount of $1,032.0 (2020 - $1,032.0) was due to Chesapeake, the parent of the Company. The amounts due are unsecured, non-interest bearing, and due on demand.

The following table summarizes the transactions and balances of the Company's key management:

| | | **31 December 2021** | | 31 December 2020 |
|---|---|---|---|---|
| Management fees | **$** | **27.5** | $ | 17.0 |
| Stock-based compensation to officers and directors | **$** | **49.4** | $ | 38.9 |
| Amounts payable and accrued liabilities | **$** | **173.3** | $ | 0.4 |
| Promissory note and interest (Note 9) | **$** | **1,034.0** | $ | 1,007.7 |

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## 13) Segment disclosures

| | Canada | Mexico | USA | Other | Total |
|---|---|---|---|---|---|
| **31 December 2021** | | | | | |
| Non-current assets | | | | | |
| Investment in mineral properties | **$ -** | **$ -** | **$ 5,777.9** | **$ -** | **$ 5,777.9** |
| Investments | **488.3** | - | **840.0** | **-** | **1,328.3** |
| Reclamation deposits | **-** | - | **223.5** | - | **223.5** |
| **31 December 2020** | | | | | |
| Non-current assets | | | | | |
| Investment in mineral properties | $ - | $ - | $ 5,472.2 | $ - | $ 5,472.2 |
| Investments | 676.4 | - | 1,350.0 | - | 2,026.4 |
| Reclamation deposits | - | - | 223.4 | - | 223.4 |

## 14) Income taxes

a) The following table reconciles income taxes calculated at the statutory rate with the income tax expense presented in these Financial Statements:

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Income (loss) before tax | **(930.7)** | 1,508.2 |
| Canadian Statutory rate | **27.00%** | 27.00% |
| Income tax provision (recovery) computed at Canadian statutory rate | **(251.3)** | 407.2 |
| Difference in foreign tax rates | **33.6** | (63.0) |
| Change in future tax rates | **14.2** | - |
| Non-deductible expenses | **69.2** | (33.9) |
| Change in unrecognized deferred income tax assets | **95.6** | (352.8) |
| Foreign exchange and other | **38.7** | 42.5 |
| **Deferred income tax expense** | **$ -** | $ - |

b) The significant components of the Company's deferred income tax assets and liabilities are as follows:

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| ***Deferred income tax assets*** | | |
| Income tax loss carry forwards | **$ -** | $ 826.4 |
| Other | **-** | 34.0 |
| ***Deferred income tax liabilities*** | | |
| Investment in mineral properties | **-** | (826.4) |
| Other | **-** | (34.0) |
| Net deferred income tax asset | **$ -** | $ - |

*amount expressed in thousands of Canadian Dollars, unless otherwise noted*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

c) Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized are attributable to the following:

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Marketable securities | **$ 875.2** | $ 283.4 |
| Equipment | **18.2** | 25.6 |
| Investment in mineral properties | **2,210.7** | 959.7 |
| Intercompany debt and net capital losses | **419.5** | 82.1 |
| Income tax loss carry forwards | **18,656.3** | 7,698.3 |
| Accrued reclamation obligation | **210.5** | 211.4 |
| Accrued interest | **-** | 202.7 |
| | **$ 22,309.4** | $ 9,463.2 |

d) The Company has non-capital losses of the following:

| | **31 December 2021** | **Expiry** | 31 December 2020 | Expiry |
|---|---|---|---|---|
| Canada | **$ 5,905.2** | **2026 - 2041** | $ 5,835.8 | 2026 - 2037 |
| USA | **12,363.9** | **2025 - 2041** | 5,428.5 | 2032 - 2040 |
| Mexico | **387.2** | **2022 - 2031** | 369.2 | 2020 - 2029 |
| Total | **$ 18,656.3** | | $ 11,633.5 | |

## 15) Subsequent events

On 11 January 2022, the Company obtained TSX-V approval and issued 3,443,333 common shares to settle balances owed to Chesapeake of $1,032.0 and a company controlled by the President of the Company of $1,034.0, as mentioned in Notes 9 and 10.

The Company completed a private placement of 3,000,000 units at a price of $0.50 per unit for proceeds of $1,500.0. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.75 until 28 February 2024.