CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021
and December 31, 2020

Expressed in Canadian Dollars, unless otherwise noted

ARTEMIS
GOLD INC

Independent auditor's report

To the Shareholders of Artemis Gold Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Artemis Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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.
- 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 Craig McMillan.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 29, 2022

ARTEMIS GOLD INC.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes	As at December 31, 2021 $	As at December 31, 2020 $
Assets			
Current assets			
Cash and cash equivalents		**131,359,116**	51,846,826
Receivables and prepayments		**651,139**	953,973
Marketable securities		**1,121,097**	3,997,280
		133,131,352	56,798,079
Non-current assets			
Restricted cash	*9*	**824,300**	540,800
Investment in Velocity	*5*	**19,603,492**	23,156,210
Deferred financing costs		**2,978,123**	-
Mineral property, plant and equipment	*6*	**313,254,164**	-
Plant and equipment	*6*	**-**	7,100,302
Mineral property	*7*	**-**	265,077,974
TOTAL ASSETS		**469,791,431**	352,673,365
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**5,068,652**	4,509,559
Consideration payable	*8(a)*	**-**	47,247,708
Lease liability - current portion		**361,871**	138,699
		5,430,523	51,895,966
Non-current liabilities			
Lease liability - non-current portion		**880,308**	707,943
Other variable consideration payable	*8(b)*	**36,809,082**	32,484,283
Asset retirement obligation	*9*	**7,344,283**	8,347,027
TOTAL LIABILITIES		**50,464,196**	93,435,219
Shareholders' equity			
Share capital	*10(a)*	**417,276,031**	250,411,031
Contributed surplus	*10(a),(b),(c)*	**10,058,314**	3,567,530
Accumulated other comprehensive income		**3,360,055**	2,915,998
Retained (deficit) earnings		**(11,367,165)**	2,343,587
Total Shareholders' equity		**419,327,235**	259,238,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**469,791,431**	352,673,365

Subsequent events (Note 15)

Approved for Issuance by the Board of Directors:

"Elise Rees" Director

"Steven Dean" Director

The accompanying notes are an integral part of the consolidated financial statements

ARTEMIS GOLD INC.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars, except number of shares outstanding)

	Notes	**For the year ended December 31, 2021 $**	For the year ended December 31, 2020 $
Operating expenses			
Depreciation		**340,641**	167,483
Management fees and wages	*12*	**3,216,248**	2,183,408
Investor relations and corporate development		**297,600**	422,706
Office, insurance and general		**864,495**	424,344
Professional fees		**1,121,112**	758,557
Share-based payments	*10,12*	**4,579,325**	2,371,263
Transfer agent and regulatory		**302,147**	179,950
Loss from operations		**(10,721,568)**	(6,507,711)
Other (expense) income			
Accretion expense on lease liability		**(81,921)**	(53,775)
Accretion expense on asset retirement obligation	*9*	**(76,850)**	(22,983)
Equity loss from investment in associate	*5*	**(701,729)**	(418,996)
Fair value adjustment on convertible debenture	*5*	**(795,646)**	1,410,550
Fair value adjustment on warrants	*5*	**(2,055,343)**	106,721
Interest income		**722,305**	554,663
Other expenses		**-**	(274,937)
Net loss before income taxes		**(13,710,752)**	(5,206,468)
Deferred income tax recovery		**-**	1,274,061
Net loss		**(13,710,752)**	(3,932,407)
Other comprehensive loss, net of tax			
Items that will not be reclassified to net loss			
Gains on marketable securities		**444,057**	2,861,695
Comprehensive loss		**(13,266,695)**	(1,070,712)
Loss per common share			
Basic		**(0.10)**	(0.05)
Diluted		**(0.10)**	(0.05)
Weighted average number of common shares outstanding			
Basic		**142,224,347**	75,234,362
Diluted		**142,224,347**	75,234,362

The accompanying notes are an integral part of the consolidated financial statements

ARTEMIS GOLD INC.

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars, except number of shares)

	Notes	Share capital					
		Number of shares	**Amount**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings (deficit)**	**Total shareholders' equity**
		#	$	$	$	$	$
Balance - January 1, 2021		124,204,936	250,411,031	3,567,530	2,915,998	2,343,587	259,238,146
Exercise of share purchase warrants	*10(a)(c)*	1,699,443	1,835,399	-	-	-	1,835,399
Exercise of stock options	*10(a)(b)*	13,666	66,884	(24,167)	-	-	42,717
Bought Deal Offering - May 19, 2021	*10(a)*	18,853,100	115,003,910	-	-	-	115,003,910
Non-Brokered Offering - May 25, 2021	*10(a)*	9,200,000	56,120,000	-	-	-	56,120,000
Share issue costs	*10(a)*	-	(6,161,193)	-	-	-	(6,161,193)
Shared-based payments		-	-	6,514,951	-	-	6,514,951
Gain on marketable securities		-	-	-	444,057	-	444,057
Net loss		-	-	-	-	(13,710,752)	(13,710,752)
Balance - December 31, 2021		**153,971,145**	**417,276,031**	**10,058,314**	**3,360,055**	**(11,367,165)**	**419,327,235**

	Notes	Share capital					
		Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
		#	$	$	$	$	$
Balance - January 1, 2020		48,180,105	41,647,399	942,447	54,303	6,275,994	48,920,143
Consideration Shares, issued to the Vendor	*10(a)*	7,407,407	34,444,443	-	-	-	34,444,443
Private placement - August 21, 2020	*10(a)*	64,825,925	175,029,998	-	-	-	175,029,998
Exercise of share purchase warrants	*10(a)(c)*	3,528,499	3,810,779	-	-	-	3,810,779
Exercise of stock options	*10(a)(b)*	13,000	28,564	(13,484)	-	-	15,080
Private placement - September 2, 2020	*10(a)*	250,000	1,362,500	-	-	-	1,362,500
Share issue costs	*10(a)*	-	(5,912,652)	-	-	-	(5,912,652)
Shared-based payments		-	-	2,638,567	-	-	2,638,567
Unrealized gain on marketable securities		-	-	-	2,861,695	-	2,861,695
Net loss		-	-	-	-	(3,932,407)	(3,932,407)
Balance - December 31, 2020		**124,204,936**	**250,411,031**	**3,567,530**	**2,915,998**	**2,343,587**	**259,238,146**

The accompanying notes are an integral part of the consolidated financial statements

(Expressed in Canadian Dollars)

	For the year ended December 31, 2021 $	For the year ended December 31, 2020 $
Operating activities		
Net loss	**(13,710,752)**	(3,932,407)
Items not involving cash:		
Depreciation	**340,641**	167,483
Share-based payments	**4,579,325**	2,371,263
Accretion expense on lease liability	**81,921**	53,775
Accretion expense on asset retirement obligation	**76,850**	-
Equity loss from investment in associate	**701,729**	418,996
Fair value adjustment on convertible debenture	**795,646**	(1,410,550)
Fair value adjustment on warrants	**2,055,343**	(106,721)
Interest income	**(722,305)**	(554,663)
Other expenses	**-**	274,937
Deferred income tax recovery	**-**	(1,274,061)
Net changes in non-cash working capital:		
Accounts payable and accrued liabilities	**(98,949)**	664,593
Due to related parties	**(19,907)**	(8,764)
Receivables and prepayments	**192,375**	(797,861)
Net cash used in operating activities	**(5,728,083)**	(4,133,980)
Investing activities		
Interest received	**949,930**	286,049
Proceeds from (investment in) marketable securities	**3,320,240**	(513,422)
Investment in associate	**-**	(4,066,755)
Mineral property, plant and equipment	**(33,644,296)**	-
Mineral property - Exploration and Evaluation Asset	**-**	(138,301,764)
Purchase of plant and equipment	**-**	(6,546,243)
Acquisition of mineral property - Blackwater	**(50,000,000)**	-
Restricted cash	**(283,500)**	(540,800)
Net cash used in investing activities	**(79,657,626)**	(149,682,935)
Financing activities		
Deferred financing costs	**(1,646,305)**	-
Exercise of stock options	**42,717**	15,080
Exercise of share purchase warrants	**1,835,399**	3,810,779
Lease payments	**(296,529)**	(144,272)
Share issuance proceeds	**171,123,910**	176,392,498
Share issuance costs	**(6,161,193)**	(5,912,653)
Net cash provided by financing activities	**164,897,999**	174,161,432
Change in cash and cash equivalents	**79,512,290**	20,344,517
Cash and cash equivalents, beginning	**51,846,826**	31,502,309
Cash and cash equivalents, ending	**131,359,116**	51,846,826
Restricted cash, ending	824,300	540,800
Total cash, cash equivalents and restricted cash, ending	**132,183,416**	52,387,626

The accompanying notes are an integral part of the consolidated financial statements

1. NATURE OF OPERATIONS

Artemis Gold Inc. ("**Artemis**" or the "**Company**") was incorporated under the Business Corporations Act (British Columbia) on January 10, 2019. The Company is a development-stage company focused on the development of the Blackwater Gold Project ("**Blackwater**" or the "**Blackwater Project**") in central British Columbia. The Company's common shares are traded on the Toronto Venture Exchange ("**TSXV**") under the symbol "ARTG".

The Company acquired Blackwater from New Gold Inc. ("**New Gold**") on August 21, 2020. The Company also has an equity investment in Velocity Minerals Ltd. ("**VLC**"), which is in the business of acquiring, exploring, and evaluating mineral resource properties in Bulgaria.

The Company operates a single reportable segment, being the exploration and development of mineral properties.

The Company maintains its head office at 595 Burrard Street, Suite 3083, Vancouver, B.C., Canada. The Company's registered and records office is located at 595 Burrard Street, Suite 2600, Vancouver, B.C., Canada.

2. BASIS OF PREPARATION

Basis of preparation and measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The accounting policies followed in these consolidated financial statements have been consistently applied in all periods presented.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. References to "**US$**" are to United States Dollars. Certain prior period amounts have been reclassified to conform to the presentation in the current period.

These consolidated financial statements were approved by the board of directors on March 29, 2022.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, BW Gold Ltd. Both entities are domiciled in Canada. All inter-company balances, transactions, revenues and expenses have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, term deposits, and highly liquid instruments with a maturity of three months or less at the time of issuance or which are readily convertible to known amounts of cash at any time without penalty.

b) Investment in associates

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor a joint arrangement.

The Company has significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control.

The Company's investment in the common shares of VLC has been treated as an investment in an associate and has been accounted for using the equity method.

Under the equity method, the Company's investment in the common shares of the associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of net income and losses of the associate, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the associate's reserves, and for impairment losses after the initial recognition date. The Company's share of income and losses of the associate is recognized in net income during the period.

Dividends and repayment of capital received from an associate are accounted for as a reduction in the carrying amount of the Company's investment. Intercompany balances and interest expense and income arising on loans and borrowings between the Company and its associates are not eliminated.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less costs of disposal and value-in-use. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net income in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Earnings (loss) per common share

The basic earnings per share is computed by dividing the earnings by the weighted average number of common shares outstanding during the period. The diluted earnings per share reflects the potential dilution of common share equivalents, such as convertible debentures, outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if exercised. For this purpose, the treasury stock method is used whereby the assumed proceeds upon the exercise of stock options and warrants are assumed to be used to purchase common shares at the average market price during the period.

d) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and the expense is recognized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The amount recognized as an expense is adjusted to reflect the number of awards that are expected to vest and charges for options that are forfeited before vesting are reversed from contributed surplus and share-based payment expense.

Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

e) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment includes the acquisition cost or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located and, for qualifying assets, the associated borrowing costs.

Where an item of plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of plant and equipment. Costs incurred for major overhaul of existing equipment are capitalized as plant and equipment and are subject to depreciation once they are available for use.

Major overhauls include improvement programs that increase the productivity or extend the useful life of an asset beyond that initially envisaged. The costs of routine maintenance and repairs that do not constitute improvement programs are accounted for as an expense in the statements of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Plant and equipment (continued)

Depreciation of plant and equipment

The carrying amounts of plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life-of-mine ("**LOM**"), if shorter. Depreciation starts on the date when the asset is available for its intended use. The major categories of plant and equipment are depreciated using the estimated lives indicated below:

Vehicles	5 - 7 years
Camp	LOM
Equipment	17 years
Furniture	5 years
Buildings	LOM

f) Mineral properties

Mineral properties consist of exploration and mining concessions or options and contracts related to such concessions. Acquisition, exploration and evaluation costs are capitalized and deferred to mineral properties until such time as the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable or the property is disposed of, either through sale or abandonment, or becomes impaired. Where the cost of mineral properties includes variable payments based on future performance of the asset, the Company records variable consideration as an increase to the cost of the asset, which will subsequently be expensed as depletion during periods of commercial production. Once the technical feasibility and commercial viability of extracting a mineral reserve for a particular property are demonstrable, the capitalized amounts are first tested for impairment and then transferred to property, plant and equipment. If a property is put into production, the carrying value will be depleted over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property. If a property is abandoned, the carrying value will be written off to net income.

Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of mineral properties

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Evaluating for recoverability during the exploration and evaluation and development phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's intention to continue exploration and evaluation activities, the impact of government legislation and political stability in the region, and the impact of current and expected future prices on potential reserves.

h) Reclamation and closure cost obligations

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. The Company has recorded a liability and corresponding asset for the estimated future cost of reclamation and closure, including site rehabilitation and long-term treatment and monitoring costs. These costs represent management's best estimates which incorporate assumptions on the effects of inflation and other specific risks associated with the related liabilities. The costs are discounted to net present value using the risk-free rate applicable to the future cash outflows. Such estimates are, however, subject to changes in laws and regulations or changes to market inputs to the decommissioning model.

The present value of estimated costs is recorded in the period in which the asset is installed or the environment is disturbed and a reasonable estimate of future costs and discount rates can be made.

After the initial measurement, the obligation is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized in the statements of (loss) income and comprehensive (loss) income. Increases and decreases due to changes in the estimated future cash flows are capitalized and depreciated over the life of the related asset unless the amount deducted from the cost exceeds the carrying value of the asset, in which case the excess is recorded in the statements of (loss) income and comprehensive (loss) income. Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established for those costs. Upon settlement of the liability, a gain or loss may be recorded in the statements of (loss) income and comprehensive (loss) income.

i) Current and deferred income taxes

Current income tax charges are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Company operates and generates taxable income.

Deferred income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements. The deferred tax assets or liabilities are calculated using the tax rates enacted or substantially enacted for the periods in which the differences are expected to be settled. Deferred tax assets are recognized only to the extent that they are considered more likely than not to be realized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments

IFRS 9 – Financial Instruments establishes three primary measurement categories for financial assets: (i) amortised cost, (ii) fair value through other comprehensive income ("**FVOCI**") and (iii) fair value through profit or loss ("**FVPL**"). The Company determines the classification of the financial assets at initial recognition. The basis of classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. A financial asset that is a debt instrument is measured at amortised cost if it meets both of the following conditions and is not designated at FVPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in equity instruments are required to be measured by default at FVPL, unless the Company makes an irrevocable election on the day of acquisition (on an instrument-by-instrument basis) to designate them as FVOCI.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVPL as FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributed to its acquisition.

Financial liabilities are classified as measured at amortised cost, unless they are classified as measured at FVPL. In cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than in net earnings.

The Company's investment in convertible debentures and warrants that were issued by VLC have been classified as FVPL. The Company has elected to account for its marketable securities as FVOCI. Cash, receivables, accounts payable, and amounts due to related parties are classified at amortised cost.

k) Leases and right of use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Leases and right of use assets (continued)

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The initial value of the lease liability at the commencement date is subsequently adjusted to reflect interest on the lease liability, lease payments and reassessments or modifications.

The Company elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. Payments associated with short-term leases and all leases of low-value assets are recognized as an expense in the statements of (loss) income and comprehensive (loss) income.

l) Changes in accounting standards

i) Accounting standards adopted January 1, 2021

There were no new standards effective January 1, 2021 that had an impact on the consolidated annual financial statements or are expected to have a material effect in the future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Changes in accounting standards (continued)

ii) Accounting standards and amendments issued but not yet adopted

The following standards and interpretations, which may be applicable to the Company, have been issued but are not yet effective as of December 31, 2021: Amendment to IAS 16 On May 14, 2020, the IASB amended *IAS 16 - Property, Plant and Equipment* ("**IAS 16**") to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The new pronouncement does not have any impact on the Company's historical financial statements, but management will consider the impact of the new pronouncement as it advances the development activities associated with the Blackwater Project.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are regularly evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements that could result in a material effect in the next financial year on the carrying amounts of assets and liabilities.

Judgments

<u>Acquisition accounting</u>

The Company accounted for the acquisition of Blackwater as an asset acquisition. Significant judgment was required to determine that the application of this accounting treatment was appropriate for the transaction. These included, among others, the determination that Blackwater was not considered a business under *IFRS 3 - Business combinations* as Blackwater did not have inputs and substantive processes that can collectively contribute to the creation of outputs.

<u>Blackwater gold stream agreement</u>

The Company has applied significant judgment in determining the appropriate accounting for the Blackwater gold stream agreement which formed part of the overall consideration in the acquisition of Blackwater. This involved an evaluation of the terms and conditions of the stream as well as the substance of the overall arrangement related to the Acquisition. Judgement was also required to assess whether the arrangement included embedded derivatives which required separate accounting. Based on this evaluation, the Company considered the 65% discount given to the gold stream holder on a percentage of future gold sales under the stream agreement to be in substance a royalty retained by the gold stream holder on a portion of the property and accounted for this as variable consideration in exchange for the acquisition of a group of assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Impairment of investment in associate

At the end of each financial reporting period, the carrying amount of the investment in associate is reviewed to determine whether there is any indication of an impairment loss has incurred. With respect to its investment in associate, the Company is required to make estimates and judgments about future events and circumstances and whether the carrying amount of the asset exceeds its recoverable amount. Recoverability depends on various factors, including the discovery of economically recoverable reserves at VLC's exploration properties, the ability of VLC to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition of the VLC shares themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact VLC's assessment as to the overall viability of its properties or its ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's investment in VLC.

Determination of technical feasibility and commercial viability

The determination of technical feasibility and commercial viability of a mineral property requires significant judgement and takes into account, among other factors, a combination of (i) the extent to which mineral reserves or mineral resources have been defined in a definitive feasibility study in accordance with *National Instrument 43- 101, Standards of Disclosure for Mineral Projects*; (ii) the results of any optimization studies and further technical evaluation carried out to mitigate project risks identified in the definitive feasibility study; (iii) the status of environmental permits; and (iv) the status of mining leases or permits.

Estimates

Fair value measurements

The Company's significant fair value estimates made during the period included the determination of the fair value of its convertible debenture investment and warrants held in VLC, as described in Note 5, as well as the fair value of consideration payable and other variable consideration payable recognized during the year, as described in Note 8(b).

Reclamation and closure cost obligations

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

COVID-19

The Company has assessed the economic impacts of the novel coronavirus ("**COVID-19**") pandemic on its consolidated financial statements, including the valuation of the Company's investment in VLC. As at December 31, 2021, management has determined that its general operation of business and the value of the Company's assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, disruptions and potential disruptions in commodity prices and capital markets.

(Expressed in Canadian Dollars, unless otherwise noted)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

COVID-19 (continued)

While the Company has not experienced any significant negative impact to date, the extent to which communicable diseases may impact future business activity or financial results, and the duration of any such negative impact, will depend on future developments, which are highly uncertain and unknown at this time.

5. INVESTMENT IN VLC

The investment in VLC is comprised of:

	Investment in associate $	Convertible debenture $	Warrants $	Total $
Balance, January 1, 2020	**5,639,902**	**9,999,434**	**2,351,844**	**17,991,180**
Investment	3,825,858	-	240,897	4,066,755
Fair value change for the year	-	1,410,550	106,721	1,517,271
Equity loss on investment in associate	(418,996)	-	-	(418,996)
Shares received in settlement of interest	432,990	(432,990)	-	-
Balance, December 31, 2020	**9,479,754**	**10,976,994**	**2,699,462**	**23,156,210**
Fair value change for the year	-	(795,646)	(2,055,343)	(2,850,989)
Conversion of debenture	10,181,348	(10,181,348)	-	-
Equity loss on investment in associate	(701,729)	-	-	(701,729)
Balance, December 31, 2021	**18,959,373**	**-**	**644,119**	**19,603,492**

On March 25, 2021, the Company exercised its conversion option on the convertible debenture which had a face value of $5,094,000 plus accrued interest of $208,784, in exchange for 21,211,136 common shares of VLC. This brought the Company's interest in the common shares of VLC to 50,701,138 (or 32% of VLC's issued and outstanding common shares) which as at December 31, 2021 had a fair market value of $15,717,353 (December 31, 2020 - 29,490,002 VLC shares at a fair market value of $14,745,001).

As at December 31, 2021, the Company held 9,300,000 share purchase warrants which are exercisable at $0.25 per warrant until March 14, 2022 (Note 15).

The Company applies equity accounting to the investment in the common shares of VLC as the Company has significant influence over VLC due to the Company's share ownership and representation on VLC's Board of Directors. As a result, the common shares were recognized at cost, with the carrying amount of the investment increasing or decreasing at each reporting period to recognize the Company's share of the profit or loss of VLC for the particular period.

The warrants are measured at fair value through profit and loss, with the loss recorded in the consolidated statements of loss and comprehensive loss. The Company used the Black-Scholes option pricing model to calculate the fair value of the warrants held in VLC. The Company used the following weighted average assumptions to fair value the warrants:

(Expressed in Canadian Dollars, unless otherwise noted)

5. INVESTMENT IN VLC (continued)

	December 31, 2021	December 31, 2020
Share price	**$0.31**	$0.50
Volatility	**60%**	61%
Expected life in years	**0.20**	1.07
Dividend rate	**0.00%**	0.00%
Risk-free rate	**0.95%**	0.25%

The assets and liabilities of VLC are summarized in the following table and incorporates VLC's most recently available financial information, which was as at September 30, 2021.

	September 30, 2021 $
Current assets	5,776,374
Non-current assets	22,967,913
	28,744,287
Current liabilities	472,846
Non-current liabilities	42,647
	515,493
Net assets	28,228,794
Company's equity share of net assets	9,040,223
Loss and comprehensive loss for the twelve months ended September 30, 2021	(2,342,313)

(Expressed in Canadian Dollars, unless otherwise noted)

6. MINERAL PROPERTY, PLANT AND EQUIPMENT

	Mineral property $	Right-of-use asset $	Camp $	Equipment $	Vehicles $	Other[1] $	Total $
COST							
Balance, January 1, 2020	**-**	**959,744**	**-**	**-**	**-**	**-**	**959,744**
Additions	-	-	-	-	-	37,632	37,632
Acquisition of Blackwater	-	-	4,817,845	1,457,107	126,461	107,200	6,508,613
Balance, December 31, 2020	**-**	**959,744**	**4,817,845**	**1,457,107**	**126,461**	**144,832**	**7,505,989**
Transfer from mineral property – exploration and evaluation asset (Note 7)	297,627,717	-	-	-	-	-	297,627,717
Additions (dispositions)	8,274,158	610,144	(15,000)	215,955	(12,320)	392,856	9,465,793
Balance, December 31, 2021	**305,901,875**	**1,569,888**	**4,802,845**	**1,673,062**	**114,141**	**537,688**	**314,599,499**
ACCUMULATED DEPRECIATION							
Balance, January 1, 2020	**-**	**(39,989)**	**-**	**-**	**-**	**-**	**(39,989)**
Depreciation	-	(159,958)	(160,595)	(28,571)	(8,431)	(8,143)	(365,698)
Balance, December 31, 2020	**-**	**(199,947)**	**(160,595)**	**(28,571)**	**(8,431)**	**(8,143)**	**(405,687)**
Depreciation	-	(288,409)	(480,535)	(92,148)	(24,472)	(54,084)	(939,648)
Balance, December 31, 2021	**-**	**(488,356)**	**(641,130)**	**(120,719)**	**(32,903)**	**(62,227)**	**(1,345,335)**
NET BOOK VALUE							
Balance, December 31, 2020	**-**	**759,797**	**4,657,250**	**1,428,536**	**118,030**	**136,689**	**7,100,302**
Balance, December 31, 2021	**305,901,875**	**1,081,532**	**4,161,715**	**1,552,343**	**81,238**	**475,461**	**313,254,164**

(1) Included in "Other" are furniture, buildings and land.

Total depreciation recognized during the year ended December 31, 2021 amounted to $939,648 (December 31, 2020 – $365,698) of which $340,641 was recognized in the consolidated statements of loss and comprehensive loss (December 31, 2020 – $167,483).

During the year ended December 31, 2021, the additions to mineral property of $8,274,158 included, among other things, $3,067,541 in engineering, $3,548,671 of environmental and permitting costs and $1,141,553 of accretion of other variable consideration payable (Note 8(b)).

During the year ended December 31, 2021, the Company finalized the feasibility study associated with the Blackwater Project, which demonstrated its technical and economic viability as defined in IFRS 6 – Exploration and Evaluation of Mineral Resources ("IFRS 6"). As such, the carrying value of the mineral property associated with the Blackwater Project was transferred from mineral property (exploration and evaluation asset under IFRS 6) to mineral property, plant and equipment under IAS 16.

At the time of transition from IFRS 6 to IAS 16, the Company completed an impairment assessment as required under IFRS 6, and no impairment was identified

(Expressed in Canadian Dollars, unless otherwise noted)

7. MINERAL PROPERTY – EXPLORATION AND EVALUATION ASSET

	Total $
Balance, January 1, 2020	**222,354**
Acquisition of Blackwater	246,319,298
Asset retirement asset recognized upon acquisition of Blackwater	8,626,352
Additions	10,212,278
Change in asset retirement obligation estimate (Note 9)	(302,308)
Balance, December 31, 2020	**265,077,974**
Additions	34,185,314
Change in asset retirement obligation estimate (Note 9)	(1,635,571)
Transfer to mineral property, plant and equipment (Note 6)	(297,627,717)
Balance, December 31, 2021	**-**

On August 21, 2020, the Company acquired the Blackwater Project from New Gold for total consideration of $246,319,298 (the "**Acquisition**") including:

- A $50,000,000 cash payment, which was due one year from closing (the “**Consideration Payable**") (Note 8(a)); and
- A life of mine gold stream (the **"Gold Stream"**) as described in Note 8(b).

The Company’s 100% interest in the Blackwater Project is subject to a number of net smelter royalty (“**NSR**”) arrangements. The majority of these NSRs do not affect the proposed mining operation; the only NSR that affect the proposed open pit operations are the Dave option (1.5% NSR) and the Jarrit option (1.0% NSR).

For the year ended December 31, 2021, the additions to mineral property – exploration and evaluation asset of $34,185,314 included, among other things, $11,262,000 in engineering, $10,922,000 associated with environment and permitting, $5,935,398 of accretion of Consideration Payable (Note 8(a),(b)), as well as $2,958,000 associated with the Company’s 2021 grade control drilling program.

8. CONSIDERATION PAYABLE

a) Consideration payable – Acquisition

As part of the consideration associated with the Acquisition, the Company agreed to pay $50,000,000 cash to New Gold by August 23, 2021. The financial liability was initially recognized at fair value of $45,871,560. Changes to the amortized cost of the financial liability were as follows:

	Carrying amount $
Balance January 1, 2020	**-**
Recognized upon Acquisition	45,871,560
Accretion expense capitalized to mineral property – exploration and evaluation asset	1,376,148
Balance, December 31, 2020	**47,247,708**
Accretion expense capitalized to mineral property – exploration and evaluation asset	2,752,292
Settlement of consideration payable to New Gold	(50,000,000)
Balance, December 31, 2021	**-**

8. CONSIDERATION PAYABLE (continued)

b) Other variable consideration payable – Gold Stream

As part of the consideration associated with the Acquisition, the Company agreed to the Gold Stream with New Gold with the following attributes:

- The stream holder would receive a percentage of gold production from the Blackwater Project as follows: 8% until 279,908 refined gold ounces were delivered to and purchased by New Gold, then 4% thereafter for the remaining life of mine;
- The stream holder would pay a purchase price equal to 35% of the US$ spot price for the gold ounces received. The 65% discount given would be recorded as an increase to the cost of the asset when incurred as variable consideration for the Acquisition; and
- The Gold Stream included a delayed construction/production penalty clause (the "Delay Penalty Clause") whereby, in the event the Blackwater mineral processing facility had not achieved an average of at least 80% of nameplate capacity (as per the definition in the 2021 feasibility study) for a period of 60 days prior to each of August 21, 2027, 2028 and 2029, the Company would be required to make penalty payments to the stream holder in the amount of $28,000,000 (the "Penalty Payment") per annual deadline missed, up to a maximum of $84,000,000. Although the Company does not control all of the events which may have resulted in the payment of the Penalty Payments, it was likely that the minimum benefit to the stream holder, either as a result of the Delay Penalty Clause or through future sales at a discount to the spot price, would have been the sum of the Penalty Payments. Accordingly, the Company had recorded a liability for variable consideration payable upon the acquisition of Blackwater.

Sale of Gold Stream – New Gold to Wheaton

On December 13, 2021, New Gold sold the Gold Stream to Wheaton Precious Metals™ Corp. ("**Wheaton**").

As the commercial terms above remained in place and there was simply a change to the counterparty, there were no updates made to the underlying assumptions that impacted the carrying value of the other variable consideration payable as at December 31, 2021.

(Expressed in Canadian Dollars, unless otherwise noted)

8. CONSIDERATION PAYABLE (continued)

b) Other variable consideration payable – Gold Stream (continued)

The initial fair value of the financial liability was determined using a discount rate of 12.5% and subsequent changes to the amortized cost were as follows:

	Carrying amount $
Balance, January 1, 2020	-
Recognized upon Acquisition	31,048,644
Accretion expense capitalized to mineral property – exploration and evaluation asset	1,435,639
Balance, December 31, 2020	**32,484,283**
Accretion expense capitalized to mineral property – exploration and evaluation asset	3,183,246
Accretion expense capitalized to mineral property, plant and equipment	1,141,553
Balance, December 31, 2021	**36,809,082**

c) Silver stream

During Q4 2021, the Company concluded a silver stream precious metals purchase agreement (the "**Silver Stream Agreement**") with Wheaton, in respect to the Blackwater Project.

Under the terms of the Silver Stream Agreement, Wheaton will purchase 50% of the silver production from the mineral reserves of Blackwater until approximately 18 million ounces of silver have been delivered, after which the stream reduces to 33% of the silver production for the life of mine. Wheaton will make an up-front deposit payment in cash of approximately US$141 million, payable in tranches during the major works construction of the Project, subject to certain conditions. In addition, Wheaton will make ongoing payments equal to 18% of the spot silver prices until the up-front deposit payment is reduced to zero, and 22% of the spot silver prices thereafter.

The Silver Stream Agreement also contains a partial buy back option such that until the earlier of January 1, 2025 or the achievement of commercial production at Blackwater, the Company will have a one-time option to repurchase up to 33% of the Silver Stream on a change of control for certain consideration.

The proceeds from the Silver Stream Agreement will be used by the Company to fund the advancement of the development and construction of the Project.

Wheaton maintains a security interest over Blackwater in connection with the Gold Stream, subject to certain provisions. The Silver Stream Agreement will be a subordinated secured obligation of the Company.

(Expressed in Canadian Dollars, unless otherwise noted)

9. ASSET RETIREMENT OBLIGATION

Changes to the asset retirement obligation are as follows:

	Carrying amount $
Balance, January 1, 2020	**-**
Assumed on acquisition of Blackwater	8,626,352
Accretion expense	22,983
Change in obligation estimate	(302,308)
Balance, December 31, 2020	**8,347,027**
Accretion expense	76,850
Change in obligation estimate	(1,079,594)
Balance, December 31, 2021	**7,344,283**

The majority of the expenditures are expected to occur after 2047. As at December 31, 2021, the assumptions applied in estimating the asset retirement obligation related to the inflation rate and discount rate were 2.02% and 1.68% per annum (as at December 31, 2020 2.02% and 1.07% per annum), respectively.

As at December 31, 2021, the Company recorded $824,300 of restricted cash on the statements of financial position with respect to cash collateral posted to support surety bonds in the amount of $3,684,000 attributed to the asset retirement obligation and early works permit ($540,800 of restricted cash for a $2,704,000 surety bond attributed to the asset retirement obligation and $196,000 of restricted cash for a $980,000 surety bond related to the early works permit). The remainder of the Company's restricted cash balance relates to collateral provided in regard to general corporate accounts and special use permits.

As at December 31, 2021, the Company's estimate of the undiscounted future cash flows related to the asset retirement obligation was $11,637,000 (Note 13).

10. EQUITY

a) Authorized share capital

Unlimited number of common shares without par value.

During the year ended December 31, 2021, the Company had the following share transactions:

(i) On May 19, 2021, the Company completed a brokered offering with a syndicate of underwriters to issue 18,853,100 common shares on a bought deal basis at a price of $6.10 per common share (the "Bought Deal Offering"). The Company also completed a non-brokered offering for 9,200,000 common shares at a price of $6.10 per common share (the "Non-Brokered Offering") on May 25, 2021, for combined gross proceeds of $171,123,910. The Company incurred share issuance costs in the amount of $6,161,193 in connection with the Bought Deal Offering and Non-Brokered Offering combined.

(ii) In various tranches, the Company issued 1,699,443 common shares pursuant to warrant exercises for gross proceeds of $1,835,399.

(iii) The Company issued 13,666 common shares pursuant to stock option exercises for gross proceeds $42,717. The associated fair value of $24,167 was reclassified from contributed surplus to share capital.

10. EQUITY (continued)

a) Authorized share capital (continued)

During the year ended December 31, 2020, the Company had the following share transactions:

(i) On July 7, 2020, the Company completed brokered and non-brokered offerings for an aggregate of 64,825,925 subscription receipts (the "**Subscription Receipts**") at a price of $2.70 per Subscription Receipt for gross proceeds of $175,029,998. Each Subscription Receipt entitled the holder to receive one common share of the Company for no additional consideration upon satisfaction of certain escrow conditions.

On August 21, 2020, pursuant to the closing of the Acquisition all escrow conditions were satisfied, and the Subscription Receipts were exchanged into 64,825,925 common shares. The Company incurred $5,912,652 in share issue costs related to the offerings.

(ii) Pursuant to the Acquisition, the Company issued 7,407,407 common shares with a fair value of $34,444,443 to New Gold.

(iii) On September 3, 2020, the Company completed a non-brokered private placement financing for gross proceeds of $1,362,500. Pursuant to the private placement the Company issued 250,000 common shares.

(iv) In various tranches, the Company issued 3,528,499 common shares pursuant to warrant exercises for gross proceeds of $3,810,779.

(v) The Company issued 13,000 common shares pursuant to stock option exercises for gross proceeds $15,080. The associated fair value of $13,484 was reclassified from contributed surplus to share capital.

b) Stock options

The Company has established a stock option plan (the "Plan") for its directors, executive officers, employees and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company exercisable for a period of up to 10 years from the date of grant.

(Expressed in Canadian Dollars, unless otherwise noted)

10. EQUITY (continued)

b) Stock options (continued)

The Company uses the Black Scholes option pricing model to determine the fair value of stock options granted. As at December 31, 2021, the Company had the following stock options outstanding and exercisable:

	Number of stock options #	Weighted-average exercise price $
Outstanding – January 1, 2020	**1,520,000**	**1.16**
Granted	3,275,000	5.00
Exercised	(13,000)	1.16
Outstanding – December 31, 2020	**4,782,000**	**3.79**
Granted	4,221,500	5.66
Exercised	(13,666)	3.13
Forfeited	(13,334)	5.19
Outstanding – December 31, 2021	**8,976,500**	**4.67**

The following table summarizes the options outstanding and exercisable at December 31, 2021:

	Total options outstanding			Total options exercisable		
Range of exercise price	**Number**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**
$1.00-$3.00	1,700,000	7.8	$1.18	1,700,000	7.8	$1.18
$5.01-$7.00	7,076,500	4.2	5.43	1,018,335	3.7	5.24
$7.01-$9.00	200,000	4.9	7.25	-	-	-
	8,976,500	**4.9**	**$4.67**	**2,718,335**	**6.3**	**$2.70**

Total share-based payments recognized during the year ended December 31, 2021 was $6,514,951 (during the year ended December 31, 2020 – $2,638,567), of which $1,935,626 was capitalized to mineral property and $4,579,325 was expensed in the consolidated statements of loss and comprehensive loss (during the year ended December 31, 2020 - $267,304 and $2,371,263), respectively.

The following assumptions were used in the valuation of the stock options granted in the year ended December 31, 2021 and the period ended December 31, 2020:

	2021	2020
Annualized volatility	**54%**	58% - 100%
Expected life in years	**5**	5 – 10
Dividend rate	**0.00%**	0.00%
Risk-free rate	**0.42% - 1.56%**	0.41% - 1.31%
Forfeiture rate	**0.00%**	0.00%

(Expressed in Canadian Dollars, unless otherwise noted)

10. EQUITY (continued)

b) Stock options (continued)

The weighted average fair value of the options granted during the year ended December 31, 2021 was $2.66 / option (December 31, 2020 - $2.68 / option).

The risk-free rate for periods within the contractual term of the option is based on the Bank of Canada administered interest rates in effect at the time of the grant. The Company has assumed that any granted stock options will not be exercised until the expiry date.

Expected volatilities are based on historical volatilities of stock prices of comparable companies given the limited life of the Company as an exploration and development company. Expected forfeiture rates have been assumed to be nil to date.

As at December 31, 2021, outstanding stock options had a weighted average remaining life of 4.9 years (December 31, 2020 – 6.4 years).

c) Share purchase warrants

All share purchase warrants expire on August 27, 2024. A summary of the changes in share purchase warrants is as follows:

	Number of warrants \#	Weighted-average exercise price $
Outstanding – January 1, 2020	**36,268,407**	**1.08**
Exercised	(3,528,499)	1.08
Outstanding – December 31, 2020	**32,739,908**	**1.08**
Exercised	(1,699,443)	1.08
Outstanding – December 31, 2021	**31,040,465**	**1.08**

As at December 31, 2021, outstanding share purchase warrants had a weighted average remaining life of 2.7 years (December 31, 2020 – 3.7 years).

d) Loss per common share

For the years ended December 31, 2021 and December 31, 2020 the effect of all potentially dilutive securities was anti-dilutive, given that the Company reported a net loss for both periods.

(Expressed in Canadian Dollars, unless otherwise noted)

11. INCOME TAX

Income tax expense differs from the amount that would result from applying the Canadian and federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Loss before income taxes	(13,710,752)	(5,206,468)
Combined federal and provincial income tax rates	27.00%	27.00%
Expected income tax recovery	(3,701,903)	(1,405,746)
Increase (decrease) due to:		
Non-taxable portion of unrealized gains	475,625	(89,813)
Non-deductible expenses and other	1,254,361	658,243
Losses recognized	-	(436,745)
Losses not recognized	1,971,918	-
Deferred Income tax recovery	-	**(1,274,061)**

The components of the deferred tax assets and liabilities are as follows:

	As at December 31, 2021 $	As at December 31, 2020 $
Deferred Tax Assets		
Non-capital losses	61,909,971	32,193,317
Lease liability	335,388	228,593
Financing costs	-	347,005
Asset retirement obligation	26,955	6,205
Consideration payable	-	371,560
Other variable consideration payable	1,555,318	387,623
	63,827,632	33,534,303
Deferred Tax Liabilities		
Mineral property, plant and equipment	62,938,619	31,839,568
Investments	889,013	1,694,735
	63,827,632	33,534,303
Net Deferred Tax Liability	**-**	-

(Expressed in Canadian Dollars, unless otherwise noted)

11. INCOME TAX (continued)

The change for the year in the Company's net deferred tax position was as follows:

	For the year ended December 31, 2021 $	For the year ended December 31, 2020 $
Opening Balance	-	956,198
Deferred tax recovery	-	(1,274,061)
Deferred tax charged against equity	-	317,863
Ending balance	-	-

The Company has non-capital losses of $8,094,443 (2020 - $Nil) and financing fees of $8,539,211 (2020- $3,607,585) for which a tax benefit has not been recognized. The non-capital losses expire between 2039 and 2041.

12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

a) Key management compensation

Key management for the year ended December 31, 2021 included the Company's directors, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer (for the year ended December 31, 2020 – Company's directors, Chief Executive Officer and Chief Financial Officer).

Compensation awarded to key management for the years ended December 31, 2021 and December 31, 2020 was:

	For the year ended December 31, 2021 $	For the year ended December 31, 2020 $
Salaries and benefits	**1,197,790**	431,180
Consulting fees	**1,129,584**	836,657
Director fees	**439,375**	205,833
Share-based payments	**4,081,337**	1,886,756
	6,848,086	**3,360,426**

b) Amounts payable to (receivable from) related parties

As at December 31, 2021, the Company owed $7,500 in fees to directors of the Company (December 31, 2020 - $7,500).

(Expressed in Canadian Dollars, unless otherwise noted)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's financial instruments consist of cash and cash equivalents, interest receivables and deposits, and the investment in VLC warrants which are classified as fair value through profit and loss. The Company's marketable securities are designated as fair value through other comprehensive income. The Company's financial instruments also include accounts payable and other variable consideration payable, which are measured at amortised cost.

Financial instrument risk exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Interest rate risk

Interest rate risk is the risk that the future cash flows from a financial instrument will fluctuate due to changes in market interest rates. The Company holds its cash in bank accounts that earn variable interest rates. Based on cash balances at December 31, 2021, a 1% variation in interest rates would have a $1,313,591 impact on the consolidated statement of loss and comprehensive loss.

Credit risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. As at December 31, 2021, the Company has cash on deposit with several large financial institutions to counteract concentration risk from holding a significant amount of the Company's cash and cash equivalents at one financial institution. Management believes the risk of loss to be remote. Although the Company's exposure to the VLC warrants that are convertible into common shares are at the discretion of the Company, there is no certainty the common shares can be sold in an efficient manner.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due. The Company's cash and cash equivalents are invested in business accounts which are available on demand.

The Company's undiscounted contractual commitments as at December 31, 2021 were as follows:

	< 1 year $	1 - 3 years $	4 - 5 years $	> 5 years $	Total $
Accounts payable and accrued liabilites	5,068,652	-	-	-	**5,068,652**
Lease liability	361,871	744,226	285,924	-	**1,392,021**
Other variable consideration payable	-	-	-	84,000,000	**84,000,000**
Asset retirement obligation	-	-	-	11,637,000	**11,637,000**

(Expressed in Canadian Dollars, unless otherwise noted)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

The Company's undiscounted contractual commitments as at December 31, 2020 were as follows:

	< 1 year $	1 - 3 years $	4 - 5 years $	> 5 years $	Total $
Accounts payable and accrued liabilites	4,502,059	-	-	-	**4,502,059**
Lease liability	185,447	416,598	376,706	-	**978,751**
Consideration payable	50,000,000	-	-	-	**50,000,000**
Other variable consideration payable	-	-	-	84,000,000	**84,000,000**
Asset retirement obligation	-	-	-	11,637,000	**11,637,000**

As at December 31, 2021, the Company expects that its working capital position provides sufficient resources available to meet its contractual obligations for the ensuing 12 months.

Working capital is held almost entirely in cash and cash equivalents, significantly reducing any liquidity risk of financial instruments held by the Company.

The Company has not paid any dividends and management does not expect that this will change in the near future.

Market risk

Market risk is the risk that the fair market value of the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, and equity and commodity prices. The fair value of the Company's investment in warrants of VLC is also affected by changes in the underlying share price of VLC. A $0.01 change in the share price of VLC would result in a change of approximately $75,000 in the value of the investment in warrants. The impact of $75,000 correlates with the underlying share price and is magnified as changes in the underlying share price (upward or downward) changes by more than $0.01 per share.

Currency risk

The functional currency of the Company is the Canadian dollar. Currency transaction risk and currency translation risk is the risk that fluctuations of the Canadian dollar in relation to other currencies may impact the fair value of financial assets, liabilities and operating results. As of December 31, 2021, the Company had no financial assets or liabilities that were subject to currency translation risk.

Fair value

A three-level hierarchy for fair value measurements exists based upon the significance of inputs used in making fair value measurements:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value (continued)

- Level 3 – Inputs for the asset or liability that are not based on observable market data.

As at December 31, 2021, the carrying value of the Company's cash and cash equivalents, receivables, as well as accounts payable approximate their fair values due to their short-term nature, while the Company's investments in marketable securities and warrants in VLC are carried at fair value. The carrying value of other variable consideration payable is considered to approximate its fair value. The fair value of the Company's equity investment in VLC is disclosed in Note 5.

Fair value is based on available public market information or, when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The fair value of the Company's investment in the VLC warrants and other variable consideration payable, are categorized as Level 3 in the fair value hierarchy as observable market data for these instruments are not available. Marketable securities are categorized as Level 1.

14. CAPITAL MANAGEMENT

Capital includes all components of shareholders' equity. The Company's objective in managing capital is to safeguard the Company's ability to continue as a going concern, to maintain a flexible capital structure which optimizes cost of capital at acceptable risk, and to provide reasonable returns to shareholders. The Company manages the capital structure and makes adjustments in light of changes in economic conditions, foreign exchange rates and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to improve working capital. The Company has no other externally imposed capital requirements. In order for the Company to meet its obligations and undertake its intended discretionary spending related to further development of the Blackwater Project, it may choose to fund such expenditures by obtaining financing through additional equity financing, debt financing or by other means.

15. SUBSEQUENT EVENTS

a) Subsequent to December 31, 2021 the Company granted 50,000 incentive stock options, exercisable at a weighted average price of $6.08, expiring 5 years from the date of the grant.

b) Subsequent to December 31, 2021 the Company issued 80,000 common shares in various tranches pursuant to warrant exercises for gross proceeds of $86,400.

c) On March 14, 2022, 9,300,000 of the Company's share purchase warrants in VLC expired unexercised, bringing the remaining share purchase warrants balance to nil.

d) On February 24, 2022, the Company announced the execution of a credit-approved commitment letter with Macquarie and National Bank to jointly underwrite a $360 million Project Loan Facility ("PLF"), to fund a significant component of the estimated construction costs of the Company's Blackwater Project. The PLF also provides for up to $25 million in capitalized interest and a $40 million standby cost overrun facility ("Standby COF"). The Standby COF is an addition to the terms previously announced on April 9, 2021, and represents a further enhancement of these financing facilities to de-risk development in the current economic environment.