MEGASTAR DEVELOPMENT CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED FEBRUARY 29, 2020

EXPRESSED IN CANADIAN DOLLARS

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Megastar Development Corp.

Opinion

We have audited the accompanying consolidated financial statements of Megastar Development Corp. (the "Company"), which comprise the consolidated statements of financial position as at February 29, 2020 and February 28, 2019, and the consolidated statements of operations and comprehensive loss, changes in shareholders' 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2020 and February 28, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had an accumulated deficit of $5,363,522 and had a working capital of $239. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes 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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Glenn Parchomchuk.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

June 15, 2020

MEGASTAR DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	February 29, 2020	February 28, 2019
ASSETS			
Current assets			
Cash and cash equivalents	4	$ 52,384	$ 187,106
Amounts receivable		9,947	3,277
Taxes recoverable	5	36,865	3,542
Marketable securities	6	34,275	69,325
Prepaid expenses and deposits		5,779	5,050
Total current assets		139,250	268,300
Non-current assets			
Equipment	7	89	127
Exploration and evaluation assets	8, 13	1,031,941	403,945
Total non-current assets		1,032,030	404,072
TOTAL ASSETS		$ 1,171,280	$ 672,372
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and accrued liabilities	9	$ 60,979	$ 149,752
Due to related parties	13	78,032	63,139
Total current liabilities		139,011	212,891
Total liabilities		139,011	212,891
Shareholders' equity			
Share capital	10	6,187,930	5,238,678
Reserves	10	207,861	82,458
Deficit		(5,363,522)	(4,861,655)
Total shareholders' equity		1,032,269	459,481
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 1,171,280	$ 672,372

Subsequent events (Note 17)

Approved and authorised for issue on behalf of the Board on June 15, 2020

"Robert Archer" Director *"Paul Smith"* Director

Robert Archer Paul Smith

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

MEGASTAR DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	Year Ended February 29, 2020	Year Ended February 28, 2019
Expenses			
Accounting and audit fees		$ 50,429	$ 28,148
Consulting fees	13	68,227	15,896
Depreciation	7	38	139
Insurance		8,721	7,910
Investor relations and promotion		6,909	489
Legal fees		10,310	56,333
Management fees	13	92,000	60,000
Office, telephone and miscellaneous		6,209	2,561
Property investigation		-	32,127
Rent		11,000	12,000
Salaries and benefits		845	-
Share-based payments	10, 13	140,406	-
Shareholder information		9,450	24,711
Transfer agent and filing fees		27,795	15,483
Loss before other income (expenses)		(432,339)	(255,797)
Other income (expenses):			
Unrealized loss on marketable securities	6	(55,050)	(43,825)
Loss on foreign exchange		(14,603)	(2,944)
Interest income		125	65
Net loss for the year		$ (501,867)	$ (302,501)
Weighted average number of common shares Outstanding (basic and diluted)		41,039,127	29,835,072
Basic and diluted loss per share		$ (0.012)	$ (0.010)

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

MEGASTAR DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Share Capital (Note 10)		Reserves (Note 10)		Accumulated other comprehensive income		
	Number of shares issued	Amount	Warrant reserve	Share based payments reserve	Unrealized marketable securities gain	Deficit (Note 10)	Total
Balance, February 28, 2018	28,996,716	$ 5,141,178	$ 52,573	$ 29,885	$ 28,600	$ (4,587,754)	$ 664,482
Shares issued for exploration and evaluation assets	1,500,000	97,500	-	-	-	-	97,500
Net loss for the year	-	-	-	-	-	(302,501)	(302,501)
Unrealized loss on marketable securities	-	-	-	-	(28,600)	28,600	-
Balance, February 28, 2019	30,496,716	$ 5,238,678	$ 52,573	$ 29,885	$ -	$ (4,861,655)	$ 459,481
Private placements	11,210,000	672,600	-	-	-	-	672,600
Options exercised	825,000	71,135	-	(29,885)	-	-	41,250
Warrants exercised	50,000	5,000	-	-	-	-	5,000
Shares issued for exploration and evaluation assets	1,600,000	249,000	-	-	-	-	249,000
Share issuance costs	-	(48,483)	14,882	-	-	-	(33,601)
Share based compensation	-	-	-	140,406	-	-	140,406
Net loss for the year	-	-	-	-	-	(501,867)	(501,867)
Balance, February 29, 2020	44,181,716	$ 6,187,930	$ 67,455	$ 140,406	$ -	$ (5,363,522)	$ 1,032,269

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

MEGASTAR DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

	Year ended February 29, 2020	Year ended February 28, 2019
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	$ (501,867)	$ (302,501)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	38	139
Share-based payments	140,406	-
Interest income	(125)	(65)
Unrealized loss on marketable securities	55,050	43,825
Loss on foreign exchange	14,603	-
Net changes in non-cash working capital accounts		
Increase in taxes recoverable	(33,323)	(1,390)
Increase in amounts receivable	(6,670)	(560)
Increase in prepaid expenses and deposits	(729)	(290)
Increase (decrease) in amounts payable and accrued liabilities	(110,320)	52,750
Increase in due to related parties	26,601	58,139
Cash used in operating activities	(416,336)	(149,953)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	125	65
Exploration and evaluation expenditures	(413,760)	(121,949)
Proceeds received for disposition of exploration and evaluation assets	10,000	10,000
Cash used in investing activities	(403,635)	(111,884)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	672,600	-
Warrants exercised	5,000	-
Options exercised	41,250	-
Share issuance cost - cash	(33,601)	-
Cash provided by financing activities	685,249	-
Net change in cash and cash equivalents	(134,722)	(261,837)
Cash and cash equivalents, beginning balance for the year	187,106	448,943
	$ 52,384	$ 187,106

Supplemental cash flows information (Note 14)

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

1. NATURE OF OPERATIONS

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public company listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is assessing its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

On August 24, 2018, the Company incorporated a subsidiary, Minera Mazateca, S.A. de C.V. ("Minera Mazateca" or "Subsidiary"), under the laws of the United Mexican States.

The Company is listed as a Tier 2 mining exploration issuer. These consolidated financial statements (the "Financial Statements") present the consolidated operations of the Company and its subsidiary. The Company is primarily engaged in the acquisition, exploration and development of mineral properties in Quebec, Canada and in the state of Oaxaca, Mexico (via its subsidiary). At February 29, 2020, the Company had no revenue producing operations and has an accumulated deficit of $5,363,522 (February 28, 2019 - $4,861,655) since its inception. The Company has cash exploration and evaluation obligations for approximately $497,000 during twelve months from the end of the reporting year with a working capital of $239. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

Subsequent to year ended February 29, 2020, the COVID-19 pandemic has caused significant and negative impact to the global financial market. The Company continues to monitor and assess the impact on its business activities. The potential impact is uncertain, and it is difficult to reliably measure the extent of the effect of the COVID-19 pandemic on future financial results.

These Financial Statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were exclusively funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

The head office, and principal address of the Company is Suite 1450, 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2. The Company's registered and records address is at the corporate solicitor's office, Fasken Martineau DuMoulin LLP, 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3.

2. BASIS OF PRESENTATION

Basis of consolidation and preparation

These Financial Statements include the accounts of the Company and its subsidiary, Minera Mazateca. Details of the controlled entity are as follows:

	Country of incorporation	Percentage owned
Minera Mazateca, S.A. de C.V.	Mexico	100%

The Company's Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, and are presented in Canadian dollars, and except where otherwise indicated. All intercompany transactions and balances have been eliminated.

2. BASIS OF PRESENTATION (continued)

Statement of compliance

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

These Financial Statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments measured at fair value through profit or loss. Unless otherwise noted, these Financial Statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary.

Approval of the audited consolidated financial statements

The Financial Statements of the Company for the year ended February 29, 2020, were authorized for issue on June 15, 2020 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may differ from these estimates and assumptions. The loss effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Significant accounting judgements

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements (continued)

ii) Title to Mineral Property Interests

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

iii) Income Taxes

The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

iv) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, and term deposits with maturities of three months or less.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in profit or loss.

Depreciation

Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at 30% per annum for office equipment. Half of the normal depreciation is taken in the year of acquisition.

Depreciation is recognized in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Foreign currencies

The functional currency of the Company and its subsidiary is measured using the currency of the primary economic environment in which it operates. Management has determined that the functional currency of the Company and its subsidiary is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Gains and losses are included in net earnings.

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.

The financial results and position of foreign operations whose functional currency is different from the reporting currency are translated as follows:

i. assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
ii. income and expenses are translated at average exchange rates for the period.

Exchange gains and losses arising on translation are recognized in accumulated other comprehensive loss.

Earnings/Loss per share

Basic (loss) earnings per share is computed by dividing the net loss or income applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted (loss) earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period.

In periods that the Company reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss except where these are issued to consultants directly involved in the sourcing of finance in which case they are measured at the fair value of the equity instruments granted. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in share-based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of equity units issued in private placements (cont'd…)

If the warrants are issued as share issuance costs, the fair value will be recorded as warrant reserve using the Black-Scholes option pricing model. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Exploration and Evaluation Assets

Pre-exploration costs are expensed in the period in which they are incurred.

Costs incurred to acquire the legal right to explore a property are capitalized. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property-by-property basis. These direct expenditures include such costs as surveying costs, drilling costs, labour and contractor costs, materials used and licensing and permit fees.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

Once commercial production has commenced all capitalized costs related to the property are transferred to producing properties and the costs of acquisition, exploration and development will be written off 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, with any excess included in other income for the period. If a property is abandoned, the acquisition, deferred exploration and development costs will be written off to other expenses.

Currently, all mineral properties of the Company are exploration stage.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties when facts and circumstances suggest that the carrying amount of an asset may be impaired. If the recorded amount is higher than the asset's fair value less cost to sell, management will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mining tax credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Impairment of non-financial assets

The carrying amount of intangible assets with indefinite useful economic lives is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The estimated costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are determined, and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted at each period-end for the unwinding of the discount rate, for changes to the current market-based discount rate, and for changes to the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no known restoration, rehabilitation or environmental costs related to its mineral property interests.

Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (cont'd…)

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVOCI.

Financial assets at FVTPL
Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of operations and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations and comprehensive loss in the period in which they arise. The Company's marketable securities, being in equity securities of other listed entities, are classified as FVTPL.

Financial assets at FVOCI
Investments in equity instruments at FVOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive loss. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. None of the Company's financial assets are classified as FVOCI.

Financial assets at amortized cost
Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets at amortized cost comprise cash and cash equivalents and amounts receivable.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of operations and comprehensive loss. Gains or losses on financial assets classified as FVOCI remain within accumulated other comprehensive income.

(ii) Financial liabilities

The Company classified its financial liabilities as subsequently measured at amortized cost which include amounts payable, accrued liabilities and due to related parties. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

(iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For amounts receivable the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decreases can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's amounts receivables, the Company has no material loss allowance as at February 29, 2020 and February 28, 2019.

(EXPRESSED IN CANADIAN DOLLARS)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies

(i) IFRS 16, Leases

New standard IFRS 16 *Leases* ("IFRS 16") was issued by IASB to replace IAS 17 *Leases* ("IAS 17"). IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company's lease transaction pertains to the rent of its office premises whereby it pays $1,000 plus sales tax. The terms of the contract do not provide a fixed term for the lease, but management intends to stay within the premises for the next twelve months. Given the amount and the short-term nature of the lease, the Company determined that such transaction and the application of IFRS 16 has no material impact on its financial statements as at and for the year ended February 29, 2020.

4. CASH AND CASH EQUIVALENTS

		February 29, 2020		February 28, 2019
Cash in bank	$	41,267	$	176,043
Term deposit		11,117		11,063
Cash and cash equivalents	$	52,384	$	187,106

The term deposit of $11,117 earns interest at an annual interest rate of 1.20%.

5. TAXES RECOVERABLE

As at February 29, 2020, the Company has following amounts as taxes recoverable:

		February 29, 2020		February 28, 2019
GST receivable	$	2,835	$	1,698
Mexican taxes recoverable (VAT)		34,030		1,844
	$	36,865	$	3,542

6. MARKETABLE SECURITIES

	February 29, 2020				February 28, 2019			
		Fair Value		Cost		Fair Value		Cost
Zincx Resources Corp.	$	7,650	$	104,975	$	16,575	$	104,975
Eloro Resources Ltd.		14,625		116,260		12,750		116,260
DeepRock Minerals Inc.		12,000		69,500		40,000		49,500
	$	34,275	$	290,735	$	69,325	$	270,735

On April 5, 2019, the Company received 400,000 DeepRock Minerals Inc.'s common shares valued at $20,000 as per the option agreement for DeepRock Minerals Inc. to acquire a 50% interest in the Ralleau Project (Note 8).

During the year ended February 29, 2020, the Company recorded $55,050 as an unrealized loss (February 28, 2019 – unrealized loss of $43,825) on its marketable securities.

(EXPRESSED IN CANADIAN DOLLARS)

7. EQUIPMENT

		Equipment
Cost:		
At February 28, 2019	$	3,439
At February 29, 2020	$	3,439
Depreciation:		
At February 28, 2019	$	3,312
Charges for the year		38
At February 29, 2020	$	3,350
Net book value:		
At February 28, 2019	$	127
At February 29, 2020	$	89

		Equipment
Cost:		
At February 28, 2018	$	3,439
At February 28, 2019	$	3,439
Depreciation:		
At February 28, 2018	$	3,173
Charges for the year		139
At February 28, 2019	$	3,312
Net book value:		
At February 28, 2018	$	266
At February 28, 2019	$	127

(EXPRESSED IN CANADIAN DOLLARS)

8. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

	Ralleau Project Quebec, Canada	Rama de Oro Project Oaxaca, Mexico	Magdalena Project Oaxaca, Mexico	Yautepec Project Oaxaca, Mexico	Total
Total acquisition costs	$ 96,543	$ -	$ -	$ -	$ 96,543
Total exploration advance	-	-	-	-	-
Total proceeds received from optionees	(5,000)	-	-	-	(5,000)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	-	-	-	660,765
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
Opening Balance, February 28, 2018	**185,857**	**-**	**-**	**-**	**$ 185,857**
Acquisition costs:					
Cash	-	45,703	6,529	6,529	58,761
Shares	-	71,500	13,000	13,000	97,500
Total acquisition costs	-	117,203	19,529	19,529	156,261
Exploration costs:					
Consulting fees	-	28,237	4,939	42,674	75,850
Staking fees	-	15,280	3,357	6,268	24,905
Supplies	-	18,537	-	-	18,537
Others	-	-	422	1,613	2,035
Deferred exploration costs	-	62,054	8,718	50,555	121,327
Proceeds received from optionees	(10,000)	-	-	-	(10,000)
Shares received from optionees	(49,500)	-	-	-	(49,500)
Impairment charge	-	-	-	-	-
Balance of costs:					
Total acquisition costs	96,543	117,203	19,529	19,529	252,804
Total proceeds received from optionees	(15,000)	-	-	-	(15,000)
Total shares received from optionees	(49,500)	-	-	-	(49,500)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	62,054	8,718	50,555	782,092
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
Ending Balance, February 28, 2019	**$ 126,357**	**$ 179,257**	**$ 28,247**	**$ 70,084**	**$ 403,945**

(EXPRESSED IN CANADIAN DOLLARS)

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

	Ralleau Project Quebec, Canada	Rama de Oro Project Oaxaca, Mexico	Magdalena Project Oaxaca, Mexico	Yautepec Project Oaxaca, Mexico	Total
Balance of costs:					
Total acquisition costs	96,543	117,203	19,529	19,529	252,804
Total proceeds received from optionees	(15,000)	-	-	-	(15,000)
Total shares received from optionees	(49,500)	-	-	-	(49,500)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	62,054	8,718	50,555	782,092
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
Opening Balance, February 28, 2019	**$ 126,357**	**$ 179,257**	**$ 28,247**	**$ 70,084**	**$ 403,945**
Acquisition costs:					
Shares	-	96,000	72,000	81,000	249,000
Total acquisition costs	-	96,000	72,000	81,000	249,000
Exploration costs:					
Assays and testing	-	-	18,576	21,413	39,989
Consulting fees	-	10,672	140,924	102,016	253,612
License and taxes	-	-	-	21,660	21,660
Staking fees	-	58	16,675	-	16,733
Exploration costs	-	-	-	33,965	33,965
Misc.	-	126	11,596	5,885	17,607
Rent	-	-	5,075	7,077	12,152
Travel	-	816	2,498	9,964	13,278
Deferred exploration costs	-	11,672	195,344	201,980	408,996
Proceeds received from optionees	(10,000)	-	-	-	(10,000)
Shares received from optionees	(20,000)	-	-	-	(20,000)
Balance of costs:					
Total acquisition costs	96,543	213,203	91,529	100,529	501,804
Total proceeds received from optionees	(25,000)	-	-	-	(25,000)
Total shares received from optionees	(69,500)	-	-	-	(69,500)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	73,726	204,062	252,535	1,191,088
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
Ending Balance, February 29, 2020	**$ 96,357**	**$ 286,929**	**$ 295,591**	**$ 353,064**	**$ 1,031,941**

8. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

1) Ralleau Project, Quebec, Canada

On April 5, 2017, the Company entered into an option agreement with Deeprock Minerals Inc. ("optionee") on the Company's wholly owned Ralleau Property. Under the terms of the option agreement and as amended on March 15, 2018 and on June 30, 2018, the optionee will be deemed to have exercised its option to acquire a 50% interest in the property by fulfilling the following terms:

(a) Cash payment of $100,000 and issuance of 1,700,000 common shares as follows:

i. $5,000 on or before the execution of this agreement (paid);
ii. $5,000 (paid) and 600,000 common shares (issued 600,000 shares on January 29, 2019 at a fair value of $42,000) on or before the exchange listing date (November 16, 2018);
iii. $5,000 (paid) and 200,000 common shares (issued 200,000 shares on April 9, 2018 at a fair value of $7,500) on or before the first anniversary date of this agreement (April 5, 2018);
iv. $10,000 (paid on April 9, 2019) and 400,000 common shares (issued 400,000 shares on April 5, 2019 at a fair value of $20,000) on or before the second anniversary date of this agreement (April 5, 2019);
v. $75,000 and 500,000 common shares on or before the third anniversary date of this agreement (subsequently issued on April 23, 2020 at a fair value of $7,500 (Note 17)).

(b) Exploration expenditures of $250,000 on the Property as follows:

i. $40,000 on or before May 30, 2017 (incurred);
ii. $15,000 on or before July 31, 2017 (incurred);
iii. $25,000 on or before October 31, 2018 (incurred);
iv. $50,000 on or before the second anniversary date of this agreement (April 5, 2019) (incurred);
v. $120,000 on or before the third anniversary date of this agreement (April 5, 2020) (incurred).

As at February 29, 2020, the Company had a receivable balance of $3,277 from the optionee.

During the year ended February 29, 2020, the Company received $10,000 in cash (February 28, 2019 - $10,000) and $20,000 in common shares (February 28, 2019 - $49,500) from the optionee pursuant to the option agreement.

2) Rama de Oro Project, Oaxaca, Mexico

On May 9, 2018, the Company entered into an option agreement to acquire a 100% interest in the Rama de Oro Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$35,000, issue a total of 2,900,000 common shares of the Company, and incur total work expenditures of US$350,000 over a two-year period as follows:

i. Pay US$35,000 (paid $45,703) and issue 1,100,000 common shares (issued on August 8, 2018 with a fair value of $71,500) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.

8. EXPLORATION AND EVALUATION ASSETS (continued)

2) Rama de Oro Project, Oaxaca, Mexico (continued)

ii. Issue 600,000 common shares (issued on July 24, 2019 with a fair value of $96,000) to the optionor and incur US$150,000 work expenditures (incurred $73,727 (US$55,817) as of February 29, 2020) on or before the first anniversary of the agreement (May 9, 2019).

iii. Issue 1,200,000 common shares (subsequently issued on May 15, 2020 with a fair value of $108,000 (Note 17)) to the optionor and incur US$200,000 work expenditures on or before the second anniversary of the agreement (May 9, 2020).

A 2% net smelter return royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

As of the date of the report, parties to the option agreement were negotiating amended terms of work expenditures.

3) Yautepec Project, Oaxaca, Mexico

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Yautepec Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$5,000, issue a total of 1,550,000 common shares of the Company, and incur total work expenditures of US$310,000 over a three-year period as follows:

i. Pay US$5,000 (paid $6,529) and issue 200,000 common shares (issued on August 8, 2018 with a fair value of $13,000) to the optionor within 15 days following the execution of the agreement, approved by the TSX-V.
ii. Issue 450,000 common shares (issued on July 24, 2019 with a fair value of $72,000) to the optionor and incur US$40,000 work expenditures (incurred) on or before the first anniversary of the agreement (June 1, 2019).
iii. Issue 900,000 common shares (subsequently issued on June 1, 2020 with a fair value of $45,000 (Note 17)) to the optionor and incur US$80,000 work expenditures (incurred) on or before the second anniversary of the agreement (June 1, 2020).
iv. Incur US$190,000 work expenditures on or before the third anniversary of the agreement (June 1, 2021). As of February 29, 2020, the Company had incurred $88,492 (US$65,900) in work expenditures.

A 2% net smelter return royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

On October 16, 2019, the Company entered into an Option Agreement with Gunpoint Exploration Ltd. ("Gunpoint") and Gunpoint's subsidiary, Minera CJ Gold S.A. de C.V. ("CJ Gold"), whereas the Company, through its subsidiary, Minera Mazateca, may acquire a 100% interest in the Cerro Minas mineral concession (title # 234333) having a surface area of 899 hectares, located in the state of Oaxaca, Mexico (the "Property"). Under the terms of the Agreement, the Company may earn the said interest in the Property by paying Gunpoint US$100,000 and issuing 800,000 common shares (the "Shares") as follows:

i. US$10,000 (paid $13,200 October 25, 2019) and 100,000 Shares (issued on October 23, 2019 with a fair value of $9,000) on the Effective Date (October 23, 2019);
ii. US$20,000 and 150,000 Shares on the first anniversary of the Effective Date (October 23, 2020);

8. EXPLORATION AND EVALUATION ASSETS (continued)

3) Yautepec Project, Oaxaca, Mexico (continued)

iii. US$30,000 and 250,000 Shares on the second anniversary of the Effective Date (October 23, 2021); and
iv. US$40,000 and 300,000 Shares on the third anniversary of the Effective Date (October 23, 2022).

Gunpoint shall retain a 1.5% Net Smelter Returns Royalty on the Property, of which the Company may purchase, at any time, 0.5% for US$1,000,000. The agreement was approved by the TSX-V on October 21, 2019 and Gunpoint satisfying certain conditions, specifically: (a) Gunpoint having delivered to the Company (and to Mazateca) all reports and other filings regarding the Property which were required to be filed by CJ Gold under applicable laws (including, notably, the Ley Minera and the regulations adopted thereunder), and (b) having paid all outstanding fees and having provided written evidence of same to the Company (and to Mazateca). All conditions were met as of October 23, 2019.

All shares issued pursuant to the Agreement will be subject to a hold period of four months and one day following issuance.

4) Magdalena Project, Oaxaca, Mexico

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Magdalena Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$5,000, issue a total of 1,550,000 common shares of the Company, and incur total work expenditures of US$230,000 over a three-year period as follows:

i. Pay US$5,000 (paid $6,529 on August 9, 2018) and issued 200,000 common shares on August 8, 2018 with a fair value of $13,000.
ii. Issue 450,000 common shares (issued on July 24, 2019 with a fair value of $72,000) to the optionor and incur US$40,000 (incurred) work expenditures on or before the first anniversary of the agreement (June 1, 2019)
iii. Issue 900,000 common shares (subsequently issued on June 1, 2020 with a fair value of $45,000 (Note 17)) to the optionor and incur US$70,000 work expenditures (incurred) or before the second anniversary of the agreement (June 1, 2020).
iv. Incur US$120,000 work expenditures on or before the third anniversary of the agreement (June 1, 2021). The Company has incurred $56,523 (US$42,093) of work expenditures as on February 29, 2020.

The Company shall also pay, for and on behalf of Minera Zalamera, all cash payments to be made to the Concession holder for a total amount of $50,000 (paid) over an 18-month period and the granting of a 1% net smelter returns royalty.

A 2% net smelter returns royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

As of the date of the report, parties to the option agreement were negotiating amended terms of work expenditures on the project.

(EXPRESSED IN CANADIAN DOLLARS)

9. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

As at February 29, 2020 and February 28, 2019, the Company has following amounts payable:

	February 29, 2020	February 28, 2019
Accounts payable	$ 21,513	$ 132,110
Accrued liabilities	39,466	17,642
	$ 60,979	$ 149,752

10. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issuance of share capital

<u>During the year ending February 29, 2020</u>

On May 8, 2019, the Company closed its non-brokered private placement financing for total gross proceeds of $672,600. The Company issued 11,210,000 units (the "Units") at a price of $0.06 per Unit. Each Unit consists of one common share and one non-transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 24 months at a price of $0.10.

On July 24, 2019, pursuant to the agreements with respect to its Mexican properties, the Company issued an aggregate of 1,500,000 common shares valued at $240,000, which comprises 450,000 common shares valued at $72,000 towards the Magdalena property, 450,000 common shares valued at $72,000 towards the Yautepec property, and 600,000 common shares valued at $96,000 towards the Rama de Oro property.

In addition, the Company paid $33,601 in finders' fees and issued 560,000 finders' warrants (the "Finders Warrants"). Each Finders Warrant is exercisable into one common share for a period of up to 24 months at a price of $0.06.

The 560,000 Finders Warrants with an estimated fair value of $14,882, were included in warrant reserve. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 2 years, volatility 110.36%, risk-free rate 1.53%, dividend yield 0%.

On October 23, 2019, pursuant to the option agreement with respect to the Cerro Minas property, the Company issued 100,000 common shares valued at $9,000.

During the year ended February 29, 2020, 825,000 stock options were exercised at $0.05 by officers for gross proceeds of $41,250, a current director and a former director with a fair value adjustment of $29,885 against stock option reserves. An aggregate of 50,000 warrants were exercised at $0.1 by brokers for proceeds of $5,000. (Note 13)

<u>During the year ended February 28, 2019:</u>

On August 8, 2018, the Company issued 1,500,000 common shares valued at $97,500 for the acquisition of the Rama de Oro project, Yautepec project, and Magdalena project.

(EXPRESSED IN CANADIAN DOLLARS)

10. SHARE CAPITAL (continued)

Share Options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, or consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

A summary of share options outstanding as at February 29, 2020, and February 28, 2019 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Number of Years to Expiry
Balance, February 28, 2018	825,000	$0.00	1.49
No options granted, expired or exercised	-	-	
Balance, February 28, 2019	825,000	$0.00	0.49
Granted	2,225,000	$0.11	1.93
Exercised	(825,000)	$0.05	
Balance, February 29, 2020	2,225,000	$0.11	2.27

Total share-based payments expenses as a result of options granted and vested during the year ended February 29, 2020 was $140,406 (February 28, 2019 - $Nil)

On June 26, 2019 the Company granted 1,850,000 stock options to directors and officers with an exercise price of $0.11, expiring on June 27, 2022 (Note 13). The 1,850,000 stock options have an estimated fair value of $123,689 and were included in share-based payment reserve. The fair value of the stock options was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 3 years, volatility 101.97%, risk-free rate 1.42%, dividend yield 0%.

On November 8, 2019, the Company granted 250,000 stock options to consultants with an exercise price of $0.09, expiring on May 7, 2022. The 250,000 stock options have a fair value of $15,703 which was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: expected life 2.5 years, volatility 116.35%, risk-free rate 1.58%, dividend yield 0%.

On November 12, 2019, the Company granted 125,000 stock options to consultants with an exercise price of $0.09, expiring on November 12, 2021. The 125,000 stock options have a fair value of $6,033 which was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: expected life 2 years, volatility 110.38%, risk-free rate 1.60%, dividend yield 0%.

During the year ended February 29, 2020, 825,000 stock options were exercised at $0.05 by officers, a current director and a former director for proceeds of $41,250 with a cumulative adjustment of $29,825 posted against share-based payment reserves (Note 13).

(EXPRESSED IN CANADIAN DOLLARS)

10. SHARE CAPITAL (continued)

Share Options (continued)

As at February 29, 2020, the following incentive share options were outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
1,850,000	$0.11	June 26, 2022
250,000	$0.09	May 7, 2022
125,000	$0.09	November 12, 2021
2,225,000	$0.11	

Warrants

A summary of changes in warrants outstanding as at February 29, 2020 and February 28, 2019 is as follows:

	Warrants Outstanding	Weighted average Exercise price	Weighted Average number of years to expiry
Balance, February 28, 2019 and February 28, 2018	-	-	-
Warrants issued	11,770,000	$ 0.10	2
Warrants exercised	(50,000)	$ 0.10	
Balance, February 29, 2020	11,720,000	$ 0.10	1.19

On May 8, 2019, pursuant to the non-brokered private placement financing, the Company issued 11,210,000 units (the “Units”). Each Unit comprises one common share and one non-transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 24 months at a price of $0.10.

Pursuant to the May 8, 2019 private placement, the Company granted 560,000 Finders Warrants, expiring on May 7, 2021 with an exercise price of $0.06, an estimated fair value of $14,882, were included in warrant reserve. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 2 years, volatility 110.36%, risk-free rate 1.53%, dividend yield 0%.

During the year ended February 29, 2020, 50,000 of the broker’s warrants were exercised at $0.10 each for proceeds of $5,000.

As at February 29, 2020, the following warrants were outstanding and exercisable:

Issued for	Number of Warrants		Exercise Price	Expiry Date
Finders' fee	11,160,000	$	0.10	May 8, 2021
Broker's fee	560,000	$	0.06	May 8, 2021
	11,720,000	$	0.10	

(EXPRESSED IN CANADIAN DOLLARS)

11. CAPITAL DISCLOSURE

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital comprises the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term.

The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital was mostly from proceeds from the issuance of common shares.

The Company is not subject to externally imposed capital restrictions nor were there any changes to the Company's capital management provisions during the period.

12. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Per IFRS 7, a three-level hierarchy that reflects the significance of inputs used in making fair value measurements is required. The three levels of the fair value hierarchy are as follows:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 – Inputs for assets or liabilities that are not based on observable market data.

Financial Instrument Risks

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair value measurement.

Assets	As at February 29, 2020		As at February 28, 2019	
Cash and cash equivalents	$	52,384	$	187,106
Marketable securities		34,275		69,325
Total	$	86,659	$	256,431

The Company's cash and cash equivalents, and marketable securities are valued using quoted market prices in active markets for identical assets, and therefore are classified as Level 1.

The fair value of amounts receivable, accounts payable and accrued liabilities and due to related parties approximates their carrying values due to their short term to maturity.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

12. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

Financial Instrument Risks (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash, cash equivalents and amounts receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at February 29, 2020, the Company had working capital of $239 (February 28, 2019 - $55,409). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

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 marketable securities bear market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of February 29, 2020, the Company had cash and cash equivalents balance of $52,384 of which $11,117 was in a term deposit, earning interest at a rate of 1.20% per annum. The Company had no interest-bearing debt.

Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company is exposed to foreign currency risk on fluctuations related to amounts payable and Mexican property expenditures that are denominated in US dollars and Mexican pesos. A 10% fluctuation in the Mexican peso against the Canadian dollar would affect comprehensive loss for the year by approximately $4,410.

13. RELATED PARTY TRANSACTIONS

The amounts due to related parties are for amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment.

(EXPRESSED IN CANADIAN DOLLARS)

13. RELATED PARTY TRANSACTIONS (continued)

As at February 29, 2020, $78,032 (February 28, 2019 - $63,139) was due to directors and officers of the Company.

	Year ended	
	February 29, 2020	February 28, 2019
Company controlled by Chief Executive Officer	$ 13,000	$ -
Company controlled by Chief Financial Officer	18,600	5,000
Company controlled by a director	46,432	58,139
	$ 78,032	$ 63,139

During the year ended February 29, 2020 and February 28, 2019, the Company entered into the following transactions with related parties:

	Year ended	
	February 29, 2020	February 28, 2019
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors:		
Management fees	$ 92,000	$ 15,000
Professional fees	21,613	2,000
Consulting fees	35,755	-
Mineral exploration consulting	144,978	-
Share based payments	123,689	-
	$ 418,035	$ 17,000

Management fees consisted of the following:

	Year ended	
	February 29, 2020	February 28, 2019
Company controlled by Chief Executive Officer	$ 50,000	$ 9,000
Company controlled by Chief Financial Officer	42,000	6,000
	$ 92,000	$ 15,000

Consulting fees consisted of the following:

	Year ended	
	February 29, 2020	February 28, 2019
Company controlled by the Corporate Secretary	$ 30,000	$ -
Company controlled by a director	5,755	-
	$ 35,755	$ -

(EXPRESSED IN CANADIAN DOLLARS)

13. RELATED PARTY TRANSACTIONS (continued)

Exploration and evaluation assets include mineral exploration consulting amounts totalling $98,547 paid to a company controlled by a director.

During the year ended February 29, 2020, 1,850,000 stock options, which are exercisable at $0.05 and have an estimated fair value of $123,689 (Note 10), were granted to officers (800,000 options) and directors (1,050,000 options).

During the year ended February 29, 2020, 825,000 stock options were exercised at $0.05 by officers (425,000 options), a director (200,000 options) and a former director (200,000 options) for proceeds of $41,250, with a fair value adjustment of $29,885 posted against stock option reserves.

Share-based compensation made to directors and officers of the company for the period in the form of stock options are broken down as follows:

	Year ended			
		February 29, 2020		February 28, 2019
Chief Executive Officer	$	30,086	$	-
Chief Financial Officer		13,372		-
Corporate Secretary		10,029		-
Directors		70,202		-
	$	123,689	$	-

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended February 29, 2020 and February 28, 2019, the Company incurred non-cash financing and investing activities as follows:

	Year ended	
	February 29, 2020	February 28, 2019
	$	$
Non-cash operating activities		
Fair value of options granted	140,406	-
Non-cash financing activities:		
Fair value of options exercised	29,885	-
Share issuance costs	14,882	-
Non-cash investing activities:		
Shares issued for exploration and evaluations assets	249,000	97,500
Shares received on disposal of exploration and evaluation assets	20,000	49,500
Amounts payable for expenditures incurred towards exploration And evaluation assets	21, 547	-
Amounts payable to related parties for expenditures incurred towards exploration and evaluation assets	46,431	58,139

(EXPRESSED IN CANADIAN DOLLARS)

15. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration and development of mineral properties. Geographical information is as follows:

	Canada	Mexico	Total
Balance, as at February 29, 2020			
Exploration and evaluation assets	$ 501,219	$ 530,722	$ 1,031,941
Balance, as at February 28, 2019			
Exploration and evaluation assets	$ 282,616	$ 121,329	$ 403,945

16. INCOME TAX

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	February 29, 2020	February 29, 2019
Loss for the year	$ (501,867)	$ (302,501)
Expected income tax (recovery)	$ (136,000)	$ (82,000)
Change in statutory, foreign tax, foreign exchange rates and other	105,000	(96,000)
Permanent differences	31,000	-
Share issuance cost	(9,000)	-
Changes in unrecognized deductible temporary differences	9,000	178,000
Total income tax expense (recovery)	**$ -**	**$ -**

Deferred Tax Assets and Liabilities

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets and liabilities are summarized as follows:

	February 29, 2020	February 29, 2019
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ 204,000	$ 287,000
Share issue cost	7,000	-
Marketable securities	35,000	27,000
Allowable capital losses	13,000	17,000
Non-capital losses available for future periods	381,000	300,000
	$ 640,000	$ 631,000
Unrecognized deferred tax assets	(640,000)	(631,000)
Net deferred tax assets	**$ -**	**$ -**

Tax Losses

As at February 29, 2020 the Company had a non-capital losses that may be carried forward of $1,407,000 (February 28, 2019 – 1,112,000) expiring from 2031 and 2040.

17. SUBSEQUENT EVENTS

On April 20, 2020, the Company amended the Ralleau project option agreement dated April 5, 2017 with DeepRock Minerals Inc. ("DeepRock"). The parties have extended the due date on the final cash payment of $75,000 from April 5, 2020 to December 31, 2020. In consideration of the extension, DeepRock has agreed to issue the Company an additional 300,000 common shares on or before April 23, 2020 (received on April 23, 2020 with a fair value of $4,500), bringing the total to 2,000,000 common shares of DeepRock owned by the Company. All other remaining requirements under the option agreement have been fulfilled.

On April 23, 2020, pursuant to the option agreement dated April 5, 2017 with DeepRock, the Company received an aggregate of 500,000 common shares of DeepRock value at $7,500.

On May 15, 2020, pursuant to the option agreement dated May 9, 2018 for Rama de Oro project entered with Paradex Inc., the Company issued an aggregate of 1,200,000 common shares valued at $108,000 (Note 8).

On June 1, 2020, pursuant to the option agreement dated June 1, 2018 for the Yautepec project entered with Paradex Inc., the Company issued an aggregate of 900,000 common shares valued at $45,000 (Note 8).

On June 1, 2020, pursuant to the option agreement dated June 01, 2018 for the Magdalena project entered with Paradex Inc., the Company issued an aggregate of 900,000 common shares valued at $45,000 (Note 8).