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**SKARB EXPLORATION CORP.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**

***JUNE 30, 2020 and 2019***

(Expressed in Canadian Dollars)

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## Independent Auditor's Report

To the Shareholders of Skarb Exploration Corp.

### Opinion

We have audited the financial statements of Skarb Exploration Corp. (the "Company"), which comprise the statements of financial position as at June 30, 2020 and June 30, 2019, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020 and June 30, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has an accumulated deficit of \$ 568,367 and a working capital of \$ 121,470. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

Our opinion on the 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 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 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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



In preparing the 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 Financial Statements**

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Gordon Cummings.

***"D&H Group LLP"***

Vancouver, B.C.  
September 25, 2020

**Chartered Professional Accountants**

**SKARB EXPLORATION CORP.**  
**Statements of Financial Position**  
As at June 30, 2020 and 2019  
(Expressed in Canadian Dollars)

	Note	2020	2019
<b>ASSETS</b>			
Current			
Cash		\$ 130,980	\$ 214,871
Amounts receivable		3,764	795
Prepays		6,090	15,120
		\$ 140,834	\$ 230,786
Non-Current			
Exploration & evaluation asset	4	7,656	104,708
<b>TOTAL ASSETS</b>		<b>\$ 148,490</b>	<b>\$ 335,494</b>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		\$ 13,274	\$ 29,329
Promissory notes	5	27,000	27,000
<b>TOTAL LIABILITIES</b>		<b>\$ 40,274</b>	<b>\$ 56,329</b>
<b>EQUITY</b>			
Share capital	6	\$ 528,150	\$ 528,150
Option reserve	6	148,433	8,544
Deficit		(568,367)	(257,529)
<b>TOTAL EQUITY</b>		<b>\$ 108,216</b>	<b>\$ 279,165</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 148,490</b>	<b>\$ 335,494</b>

Nature of operations and going concern (Note 1)

These financial statements were authorized for issue by the Board of Directors on September 25, 2020

*/s/ "Craig Parry"*

**CRAIG PARRY, Chairman**

*/s/ "Ota Hally"*

**OTA HALLY, Chief Financial Officer**

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

**SKARB EXPLORATION CORP.****Statements of Loss and Comprehensive Loss**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	2020	2019
<b>Expenses</b>			
Accounting and audit fees		\$ 15,929	\$ 39,150
Bank Fees		129	757
Dues and Subscriptions		500	-
Exploration costs' write-off		116,362	-
Office and administrative		636	63
Transfer agent & filing fees		10,707	23,507
Insurance		10,830	4,680
Listing fees		8,300	23,504
Meals and entertainment		490	1,772
Professional fees		7,066	102,296
Share-based compensation	6	139,889	8,544
<b>Loss and comprehensive loss</b>		<b>\$ 310,838</b>	<b>\$ 204,273</b>
Loss per common share – basic and diluted	2	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding - basic and diluted		17,651,500	19,268,405

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

**SKARB EXPLORATION CORP.**  
**Statements of Changes in Equity**  
(Expressed in Canadian Dollars)

	Note	Number of Common Shares	Number of Special Warrants	Share Capital	Special Warrants	Option Reserve	Deficit	Total
<b>Balance as at June 30, 2018</b>		<b>21,350,000</b>	-	<b>\$ 385,000</b>	-	-	<b>\$ (53,256)</b>	<b>\$ 331,744</b>
Special Warrants		-	1,401,500	-	140,150	-	-	140,150
Special Warrants converted to shares		1,401,500	(1,401,500)	140,150	(140,150)	-	-	-
Repurchase of shares		(5,400,000)	-	(27,000)	-	-	-	(27,000)
Shares issued		300,000	-	30,000	-	-	-	30,000
Share-based compensation		-	-	-	-	8,544	-	8,544
Net Loss for the year		-	-	-	-	-	(204,273)	(204,273)
<b>Balance as at June 30, 2019</b>		<b>17,651,500</b>	-	<b>\$ 528,150</b>	-	<b>\$ 8,544</b>	<b>\$ (257,529)</b>	<b>\$ 279,165</b>
Share-based compensation		-	-	-	-	139,889	-	139,889
Net Loss for the year		-	-	-	-	-	(310,838)	(310,838)
<b>Balance as at June 30, 2020</b>		<b>17,651,500</b>	-	<b>\$ 528,150</b>	-	<b>\$ 148,433</b>	<b>\$ (568,367)</b>	<b>\$ 108,216</b>

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

**SKARB EXPLORATION CORP.****Statements of Cash Flows**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	2020	2019
<b>Cash flows from (used in) operating activities</b>			
Net loss for the year	\$	(310,838)	\$ (204,273)
Adjustments for items that do not represent changes in cash and cash equivalents			
Stock based compensation	6	139,889	8,544
Write off of exploration asset	4	116,362	-
Changes in non-cash working capital			
Amounts receivable		(2,969)	(420)
Prepays		9,030	(15,120)
Accounts payable and accrued liabilities		(16,055)	(23,771)
Net cash generated (used) in operating activities	\$	(64,581)	\$ (235,040)
<b>Cash flows used in investing activity</b>			
Additions of exploration and evaluation asset	4 \$	(19,310)	\$ (42,208)
Net cash (used) in investing activity	\$	(19,310)	\$ (42,208)
<b>Cash flows provided by (used in) financing activity</b>			
Issuance of special warrants		-	140,150
Net cash provided (used) by financing activity	\$	-	\$ 140,150
<b>Change in cash</b>	\$	(83,891)	\$ (137,098)
Cash, beginning of year		214,871	351,969
<b>Cash, end of year</b>	\$	130,980	214,871

Supplemental cash flow information (Note 11)

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

## **SKARB EXPLORATION CORP.**

### **Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

##### **Nature of Operations**

Skarb Exploration Corp. (“Skarb” or the “Company”) was incorporated pursuant to the provisions of the Business Corporations Act of Ontario on March 6, 2018. The Company’s head office is located at Suite 970 – 1055 West Hastings St., Vancouver, British Columbia.

On February 13, 2019, the Company’s common shares were listed on the Canadian Securities Exchange under the symbol “SKRB”.

The Company’s principal business activities include the acquisition and exploration of mineral property assets. On October 21, 2019, the Company acquired 100% interests in the Gossan and SBS properties, located in the Spences Gold Belt in British Columbia. The company terminated its option agreement to acquire the RDR Project in Quebec. Please refer to Note 4 for details on the properties.

##### **Going Concern**

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at June 30, 2020, the Company had working capital of \$ 121,470, incurred accumulated losses of \$ 568,367, and expects to incur further losses in the development of its business. The Company’s ability to continue as a going concern is dependent upon its ability to complete or develop a business, generate future profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. There is material uncertainty about whether the Company will be able to obtain the required financing and complete or develop a business. This material uncertainty casts significant doubt about the Company’s ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to their reported carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

In respect to the COVID-19 crisis, it has had little to no impact on the Company and material impact in the future is not anticipated.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **a) Basis of Preparation**

The accounting policies followed by the Company as set out below have been consistently followed in the preparation of these financial statements.

##### **b) Statement of Compliance**

These financial statements for the years ended June 30, 2020 and 2019 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”).

##### **c) Basis of Presentation**

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. All monetary references expressed in these notes are references to Canadian dollar amounts (“\$”).



**SKARB EXPLORATION CORP.**  
**Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Functional and Presentation Currency**

These financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

**e) Cash**

Cash includes cash on hand with a Canadian chartered bank.

**f) Exploration and evaluation assets**

All costs related to the acquisition, exploration and evaluation of mineral properties are capitalized as incurred and deferred until management establishes technical feasibility and economic feasibility of a property. When technical feasibility and commercial viability of a property is demonstrated, exploration and evaluation assets will be reclassified into property.

The recoverability of mineral properties and exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

When properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

Exploration and evaluation assets are assessed for impairment when facts or circumstances suggest that the carrying value of an exploration and evaluation asset may exceed its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The estimated recoverable amount is determined on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the recoverable amount is estimated at the cash generating unit level. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company will measure, present and disclose any resulting impairment loss.

**g) Share-based payments**

The fair value of share options granted is recognized as an expense over the vesting period with a corresponding increase in equity. The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**h) Loss per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share, where applicable, is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

## SKARB EXPLORATION CORP.

### Notes to the Financial Statements

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) Income Taxes

Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using income tax rates and income tax laws that have been enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

### j) Financial Assets

All financial instruments are classified and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss ("FVTPL"). Cash is measured at amortised cost.

### k) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable are classified as other financial liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

### l) New Accounting Pronouncements

The IFRS 16 standard was adopted as of January 1, 2019. The Company does not currently have any leases.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### *Significant accounting judgments*

- i. the consideration of whether impairment indicators exist for exploration and evaluation assets;
- ii. the determination tax losses are currently not probable to be utilized against taxable profit; and
- iii. assumptions and expectations utilized in the calculation of stock-based compensation expense which includes the valuation of stock options.

**SKARB EXPLORATION CORP.**  
**Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019  
(Expressed in Canadian Dollars)

**4. EXPLORATION AND EVALUATION ASSET**

	2020 \$	2019 \$
RDR Gold property:		
Balance forward	104,708	-
Acquisition Costs	(80,000)	80,000
Exploration Costs	(24,708)	24,708
	<u>-</u>	<u>104,708</u>
Gossan property:		
Balance forward	-	-
Acquisition Costs	1,579	-
Exploration Costs	1,804	-
	<u>3,383</u>	<u>-</u>
SBS property:		
Balance forward	-	-
Acquisition Costs	2,469	-
Exploration Costs	1,804	-
	<u>4,273</u>	<u>-</u>
Total acquisition and exploration	<u>7,656</u>	<u>104,708</u>

As at June 30, 2020, exploration costs were as follows:

	\$
Geology and consulting	<u>3,608</u>
Total	<u>3,608</u>

As at June 30, 2019, exploration costs were as follows:

	\$
Geology and consulting	<u>24,708</u>
Total	<u>24,708</u>

**RDR Gold Property**

Pursuant to an option agreement (the "Agreement") dated March 14, 2018 (the "Effective Date"), the Company was granted an option to acquire a 100% right, title and interest in and to the RDR Gold Property (the "Property") located in the Province of Quebec.

## **SKARB EXPLORATION CORP.**

### **Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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#### **4. EXPLORATION AND EVALUATION ASSET (continued)**

##### **RDR Gold Property (continued)**

In accordance with the Agreement, the Company had the option to acquire a 100% right, title and interest in and to the Property by issuing a total of 1,550,000 common shares of the Company to the optionor, making cash payments totaling \$50,000, and incurring a total of \$1,000,000 in exploration expenditures.

On March 24, 2020, the Company terminated the Option Agreement due to results from the most recent exploration work that was completed. The total acquisition and exploration cost of \$116,362 was expensed.

##### **Gossan Property**

The Gossan property ("Gossan"), which is approximately a 902 ha property, is located approximately 7 km north-west of Princeton, British Columbia. The Company acquired 100% interest and was only required to pay the staking claim fees.

##### **SBS Property**

The SBS property ("SBS"), which is approximately a 1,411 ha property, is located approximately 27 km south-east of Princeton, British Columbia. The Company acquired 100% interest and was only required to pay the staking claim fees.

#### **5. PROMISSORY NOTES**

On December 10, 2018, the Company repurchased 5,400,000 common shares from related parties in exchange for the issuance of two promissory notes. Each promissory note has a principal amount equal to \$13,500 (the original subscription price for the Common Shares), payable on demand with interest calculated at the rate of 3% per annum. The Company also has the right to repay any portion of the notes payable at its discretion.

#### **6. SHARE CAPITAL**

##### **a) Authorized Capital:**

Unlimited number of common shares with no par value.

##### **b) Shares**

Upon incorporation on March 6, 2018 the Company issued 5,400,000 common shares at a value of \$0.005.

On May 10, 2018, the Company issued 6,900,000 common shares at a value of \$0.02.

On May 25, 2018, the Company issued 7,750,000 common shares at a value of \$0.02.

On June 29, 2018, the Company issued 1,300,000 common shares at a value of \$0.05.

On December 10, 2018, the Company repurchased 5,400,000 Common Shares, which were issued on March 6, 2018, from related parties of the Company in exchange for the issuance of two promissory notes (Note 5).

On February 13, 2019, 300,000 shares were issued for the RDR Gold Property (Note 4).

**SKARB EXPLORATION CORP.**  
**Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019  
(Expressed in Canadian Dollars)

**6. SHARE CAPITAL** (continued)

c) **Stock options**

On July 5, 2018, the Company implemented a share option plan (the “**Plan**”). The purposes of the Plan are to (a) support the achievement of the Company’s performance objectives and (b) ensure that interests of key persons are aligned with the success of the Company.

On July 9, 2018, the Company granted 175,000 stock options. The options granted have an exercise price of \$0.10 and expire 10 years from the grant date and vest annually in four equal tranches starting on the first anniversary from the grant date. The stock options were accounted for at their fair value determined by the Black-Scholes option pricing model based on the vesting period and on the assumption that follow: Average expected life, 7.5 years; Forfeiture rate, NIL; Volatility, 131%, and risk-free rate, 2.13%. The full grant value of \$16,285 is expensed over the expected life of the options.

On October 21, 2019, the Company granted 1,570,000 stock options. The options granted have an exercise price of \$0.10 and expire 5 years from the grant date and were all vested immediately. The stock options were accounted for at their fair value determined by the Black-Scholes option pricing model based on the assumption that follow:

Average expected life, 5 years; Forfeiture rate, NIL; Volatility, 131%, and risk-free rate, 2.13%. The full grant value of \$135,488 is expensed immediately.

At June 30, 2020, the Company had granted 1,745,000 stock options. As of June 30, 2019 1,613,750 options were vested. During the year ended June 30, 2020, the Company recognized \$139,889 of stock-based compensation expense.

A summary of the Company’s share options at June 30, 2020 and 2019, and the changes for the years ended on those dates, is as follows:

	2020		2019	
		\$		\$
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Balance, beginning of year	175,000	0.10	175,000	0.10
Awarded	1,570,000	0.10	-	-
Balance, end of year	1,745,000	0.10	175,000	0.10

The following is a summary of share options outstanding and exercisable at June 30, 2020:

Expiry date	Number exercisable	Number outstanding	Exercise price \$
October 21, 2024	1,570,000	1,570,000	0.10
July 9, 2028	43,750	175,000	0.10
Balance	1,613,750	1,745,000	0.10

The fair value of share options awarded to directors and share purchase warrants issued were estimated on the dates of issue using the Black-Scholes option price model with the following assumptions:

The average fair value of share options awarded during the year ended June 30, 2020 was \$0.0862 per option.

## **SKARB EXPLORATION CORP.**

### **Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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#### **7. RELATED PARTY DISCLOSURES**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of executive and non-executive members of the Company's Board of Directors and corporate officers.

During the year ended June 30, 2020, no common shares were issued to related parties of the Company.

The Company implemented a share option plan and granted share options to officers, director and consultants of the Company (see Note 6), such remuneration totaling \$124,894 attributable to key management personnel for the year ended June 30, 2020 classified as share-based compensation.

#### **8. CAPITAL MANAGEMENT**

The Company's capital consists of share capital, promissory notes and option reserve. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support exploration. The Board of Directors does not impose quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

In the management of capital, the Company considers all types equity and is dependent on third party financing, whether through debt, equity, or other means. Although the Company has been successful in raising funds to date, there is no assurance that the Company will be successful in obtaining required financing in the future or that such financing will be available on terms acceptable to the Company.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

#### **9. FINANCIAL INSTRUMENTS**

##### **a) Fair Value**

The fair value of the Company's financial instruments approximates their carrying value as at June 30, 2020 because of the demand nature or short-term maturity of these instruments.

##### **b) Financial Risk Management Objectives and Policies**

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, and promissory notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

###### **i) Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. As at June 30, 2020, the Company has cash on deposit with a large Canadian bank. Management believes the risk of loss to be remote.

###### **ii) Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its obligations under financial instruments. The Company manages liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital to meet short-term obligations. As at June 30, 2020, the Company had a working capital of \$121,470 (including amounts receivable), including cash of \$130,980.

**SKARB EXPLORATION CORP.**  
**Notes to the Financial Statements**

For the year ended June 30, 2020 and 2019  
(Expressed in Canadian Dollars)

**9. FINANCIAL INSTRUMENTS** (continued)

b) **Financial Risk Management Objectives and Policies** (continued)

iii) **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 does not expect exchange rates, and commodity and equity prices to have a material impact to the Company.

iv) **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.

Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value of the Company's cash and cash equivalent balances as of June 30, 2020.

**10. INCOME TAXES**

The provision for income taxes differs from the amount that would have been obtained by applying the statutory income tax rate of 27% (2019 - 27%) to the Company's net loss. The difference results from the following items:

	2020 \$	2019 \$
Expected income tax expense (recovery)	(84,000)	(55,200)
Permanent differences	69,400	2,600
Unrecognized benefits of loss carryforwards	14,600	52,600
Provision for income taxes (recovery)	-	-

The income tax effects of temporary differences that give rise to significant components of deferred income tax assets and liabilities are as follows:

	2020 \$	2019 \$
Deferred income tax assets and liabilities are as follows:		
<i>Deferred income tax assets</i>		
Non-capital loss carry-forwards	81,600	67,000
Valuation allowance	(81,600)	(67,000)
	-	-

The Company has non-capital losses for income tax purposes of approximately \$ 302,000 (2019 - \$ 248,000) available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as it is not probable such benefit will be realized. The non-capital losses expire between the 2038 and 2040 fiscal years.

## SKARB EXPLORATION CORP.

### Notes to the Financial Statements

For the year ended June 30, 2020 and 2019

(Expressed in Canadian Dollars)

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#### 11. SUPPLEMENTAL CASH FLOW INFORMATION

During the year-ended June 30, 2020, \$116,362 for an exploration asset was expensed.

#### 12. SUBSEQUENT EVENTS

The Company entered into a Letter of Intent with Petratherm Ltd. ("**Petratherm**") on August 23, 2020 to acquire four gold projects located in Australia.

Under the terms of the LOI, upon completion of the Transaction, Skarb will issue 100,000,000 common shares to Petratherm on closing in consideration for the Projects. Within 125 days of completion of the Transaction, Petratherm will distribute the Consideration Shares in specie to its shareholders pro rata in accordance with their shareholdings in Petratherm.

The Transaction is an arm's length transaction. Pursuant to the terms of the LOI, it is anticipated that the definitive agreement (the "**Definitive Agreement**") in respect of the Transaction will be signed on or before October 15, 2020, at which time the Company will issue a comprehensive news release in respect of the Transaction.

Completion of the Transaction is subject to a number of conditions, including but not limited to the following key conditions:

- completion by the Company of a private placement for gross proceeds of not less than \$4,000,000;
- execution of the Definitive Agreement;
- completion of mutually satisfactory due diligence; and
- receipt of all required regulatory, corporate and third party approvals, including the approval of the CSE and the shareholders of the Company and the fulfillment of all applicable regulatory requirements and conditions necessary to complete the Transaction.

Pursuant to the policies of the CSE, it is anticipated that the Company will call a special meeting of its shareholders for the purpose of approving, among other matters, the Transaction.