# Consolidated Financial Statements

## For the years ended September 30, 2020 and 2019

**(Expressed in Canadian Dollars)**

McGovern Hurley

Audit. Tax. Advisory.

**Independent Auditor's Report**

To the Shareholders of Emerita Resources Corp.

**Opinion**

We have audited the consolidated financial statements of Emerita Resources Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

**Basis for opinion**

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

**Other information**

Management is responsible for the other information. The other information comprises 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.

251 Consumers Road, Suite 800
Toronto, Ontario
M2J 4R3
mcgovernhurley.com
t. 416-496-1234

McGovern Hurley

**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 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 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 judgement 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 risks 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.

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 of the audit resulting in this independent auditor's report is Chris Milios

**McGovern Hurley LLP**

McGovern Hurley LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Toronto, Ontario
January 28, 2021

# Emerita Resources Corp.

## Consolidated Statements of Financial Position

*Expressed in Canadian Dollars*

| As at: | Note | **September 30, 2020 $** | September 30, 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash | | **778,065** | 69,783 |
| Amounts receivable | | **80,966** | 58,598 |
| Prepaid expenses | | **220,117** | 109,182 |
| **Total current assets** | | **1,079,148** | 237,563 |
| Long-term | | | |
| Reclamation deposit | | **17,976** | 16,604 |
| Equipment | 5 | **7,877** | 10,048 |
| **Total assets** | | **1,105,001** | 264,215 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 11,12 | **1,230,809** | 829,711 |
| Loans payable | 10 | **339,013** | - |
| Other liabilities | 15 | **-** | 1,005,602 |
| **Current liabilities** | | **1,569,822** | 1,835,313 |
| Long-term loans payable | 10 | **-** | 284,149 |
| **Total liabilities** | | **1,569,822** | 2,119,462 |
| **SHAREHOLDERS' DEFICIENCY** | | | |
| Common shares | 8 | **15,416,180** | 13,695,088 |
| Warrant reserve | 9 | **659,987** | 1,059,905 |
| Option reserve | 9 | **621,445** | 343,100 |
| Deficit | | **(17,162,433)** | (16,953,340) |
| **Total shareholders' deficiency** | | **(464,821)** | (1,855,247) |
| **Total liabilities and shareholders' deficiency** | | **1,105,001** | 264,215 |

| | |
|---|---|
| Nature of operations and going concern | 1 |
| Commitments and contingencies | 7,15 |
| Subsequent events | 16 |

Approved on behalf of the Board of Directors on January 28, 2021:

Signed: *“Catherine Stretch”*, Director

Signed: *“David Gower”*, Director

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

# Emerita Resources Corp.
## Consolidated Statements of Loss and Comprehensive Loss
*Expressed in Canadian Dollars*

| | Note | Year ended September 30, 2020 $ | 2019 $ |
|---|---|---|---|
| **Expenses** | | | |
| Project evaluation expenses | 7 | **312,810** | 41,113 |
| Consulting and management fees | 12 | **835,791** | 791,364 |
| Professional fees | | **119,976** | 77,890 |
| Shareholder communication and filing fees | | **62,361** | 72,423 |
| Promotion | | **93,165** | 42,391 |
| Travel expenses | | **7,943** | 39,904 |
| Office expenses | | **99,848** | 96,143 |
| Share-based compensation | 9,12 | **354,445** | - |
| **(Loss) for the year before other items** | | **(1,886,339)** | (1,161,228) |
| **Other items** | | | |
| Loss on investment in associate | 6 | **-** | (722,857) |
| Gain on settlement of liabilities | 12 | **719,498** | - |
| Interest income | | **263** | 781 |
| Interest expense | 10 | **(68,335)** | (113,607) |
| Foreign exchange loss | | **(1,385)** | (90,530) |
| **Comprehensive (loss) for the year** | | **(1,236,298)** | (2,087,441) |
| **Basic and diluted (loss) per share** | | **$ (0.02)** | $ (0.06) |
| **Weighted average number of common shares outstanding** | | | |
| Basic and Diluted | | **57,653,287** | 36,126,288 |

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

# Emerita Resources Corp.
## Consolidated Statements of Changes in Shareholders' Equity
*Expressed in Canadian Dollars*

| | Note | Number of shares | Common Shares | Warrant Reserve | Option Reserve | Deficit | Shareholders' equity/(deficiency) |
|---|---|---|---|---|---|---|---|
| | | # | $ | $ | $ | $ | $ |
| **Balance, September 30, 2019** | | **50,614,165** | **13,695,088** | **1,059,905** | **343,100** | **(16,953,340)** | **(1,855,247)** |
| Common shares issued, net of issue costs | 8 | 34,142,847 | 2,243,240 | - | - | - | 2,243,240 |
| Warrants issued | 9 | - | (573,179) | 573,179 | - | - | - |
| Warrants exercised | 9 | 290,384 | 51,031 | (21,992) | - | - | 29,039 |
| Warrants expired unexercised | 9 | - | - | (951,105) | - | 951,105 | - |
| Options expired unexercised | 9 | - | - | - | (76,100) | 76,100 | - |
| Share-based compensation | 9 | - | - | - | 354,445 | - | 354,445 |
| Loss and comprehensive loss for the year | | - | - | - | - | (1,236,298) | (1,236,298) |
| **Balance, September 30, 2020** | | **85,047,396** | **15,416,180** | **659,987** | **621,445** | **(17,162,433)** | **(464,821)** |
| **Balance, September 30, 2018** | | **28,419,165** | **11,775,614** | **951,105** | **348,000** | **(14,870,799)** | **(1,796,080)** |
| Common shares issued, net of issue costs | 8 | 22,195,000 | 2,028,274 | - | - | - | 2,028,274 |
| Warrants issued | 9 | - | (108,800) | 108,800 | - | - | - |
| Options expired unexercised | 9 | - | - | - | (4,900) | 4,900 | - |
| Loss and comprehensive loss for the year | | - | - | - | - | (2,087,441) | (2,087,441) |
| **Balance, September 30, 2019** | | **50,614,165** | **13,695,088** | **1,059,905** | **343,100** | **(16,953,340)** | **(1,855,247)** |

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

# Emerita Resources Corp.
**Consolidated Statements of Cash Flows**
*Expressed in Canadian Dollars*

| | Note | Year ended September 30, 2020 $ | 2019 $ |
|---|---|---|---|
| **Cash (used in)/provided by:** | | | |
| **Operating activities** | | | |
| (Loss) for the year | | **(1,236,298)** | (2,087,441) |
| Items not involving cash: | | | |
| Loss on investment in associate | 6 | **-** | 722,857 |
| Share-based compensation | 9 | **354,445** | - |
| Gain on settlement of debt | 12 | **(719,498)** | - |
| Interest expense | 10 | **67,995** | 34,149 |
| Amortization | 5 | **2,171** | 6,893 |
| Working capital adjustments: | | **(19,683)** | (193,417) |
| **Net cash (used in) operating activities** | | **(1,550,868)** | (1,516,959) |
| **Investing activities** | | | |
| Investment in associate | 6 | **-** | (722,857) |
| **Net cash (used in) investing activities** | | **-** | (722,857) |
| **Financing activities** | | | |
| Proceeds from issuance of common shares and warrants | 8 | **2,350,000** | 2,219,500 |
| Cost of issue | | **(106,758)** | (191,226) |
| Proceeds from loans | 10 | **150,000** | 454,630 |
| Loan repayment | 10 | **(163,131)** | (204,630) |
| Warrants exercised | 9 | **29,039** | - |
| **Net cash provided by financing activities** | | **2,259,150** | 2,278,274 |
| **Change in cash, during the year** | | **708,282** | 38,458 |
| **Cash, beginning of year** | | **69,783** | 31,325 |
| **Cash, end of year** | | **778,065** | 69,783 |
| **SUPPLEMENTAL INFORMATION** | | | |
| Broker warrants issued | 8 | **$ 37,554** | $ 108,800 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Emerita Resources Corp. (the “Company”, or “Emerita”) was incorporated on October 30, 2009 as 0865140 BC Ltd. pursuant to the *Business Corporations Act of British Columbia*. On January 8, 2013, the Company completed its Qualifying Transaction and ceased to be a Capital Pool Company. The Company changed its name to Emerita Gold Corp. and commenced trading as a Tier 2 Mining Issuer on the TSX Venture Exchange (“TSXV") on January 11, 2013 under the new trading symbol “EMO”. The Company owns the following subsidiaries:

- A 100% interest in Emerita Resources Espana SL (“Emerita Espana”), a company incorporated on May 30, 2012 in Spain.
- A 99% interest in Emerita do Brazil Mineracao Ltda. (“Emerita Brazil”), a company incorporated on December 9, 2017 in Brazil.

The Company is currently engaged in the acquisition, exploration and development of mineral properties. The head office and principal address of the Company is 65 Queen Street West, Suite 900, Toronto, Ontario, M5H 2M5.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration programs will result in profitable operations.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of exploration and evaluation expenditures is dependent upon the establishment of a sufficient quantity of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition of these assets.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration activities, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The Company has a need for equity financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation. See Note 16.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

## 1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Novel Coronavirus (“COVID-19”)

The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

## 2. BASIS OF PRESENTATION

***Statement of compliance***

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and include interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The policies set out were consistently applied to all the periods presented unless otherwise noted below.

***Basis of presentation***

These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and have been prepared using the historical cost basis. Furthermore, these consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All values are rounded to the nearest dollar.

These consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances between subsidiaries have been eliminated on consolidation. The Company holds a 50% interest in Cantabrica del Zinc (“Cantabrica”), along with its joint venture partner, the Aldesa Group. Cantabrica is reported as a joint venture in these consolidated financial statements. Refer to Note 6.

***Approval of the consolidated financial statements***

These consolidated financial statements of the Company for the year ended September 30, 2020 were reviewed, approved and authorized for issue by the Board of Directors of the Company on January 28, 2021.

## 3. CHANGES IN ACCOUNTING POLICY

During the year ended September 30, 2020, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. This included IFRS 16. These new standards did not have any material impact on the Company’s financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### *Critical judgements and estimation uncertainties*

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

*Income, value added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

*Share-based payments*

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based share awards is determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

*Contingencies*

Refer to Notes 1 and 15.

*Joint arrangement*

The Company has a joint arrangement with the Aldesa Group. The Company has joint control over this arrangement as under the contractual agreement with the Aldesa Group, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Company's joint arrangement is structured as a corporation (JV Company) and provides the Company and the Aldesa Group (parties to the agreements) with rights to the net assets of the limited company under the arrangements. Therefore, this arrangement has been classified as a joint venture and has been recorded as an investment in associate. See Note 6.

Judgement is required to determine the type of joint arrangement that exists. This judgement involves considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Subsidiaries*

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

### *Joint Venture*

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangement and determined it to be a joint venture. Joint ventures are accounted for using the equity method of accounting. Under this method, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Company.

### *Equipment*

Equipment is stated at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

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

Amortization is provided on a straight-line basis over the estimated useful lives of the equipment using the following number of years:

| | |
|---|---|
| Office equipment | 4 - 10 years |
| Office furniture | 5 - 10 years |
| Software | 3 - 5 years |

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Assets and Liabilities

### Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either fair value through profit or loss ("FVPL") or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

### Subsequent measurement- financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss. The Company's cash and amounts receivable are recorded at amortized cost.

### Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of earnings (loss). The Company does not measure any financial assets at FVPL.

### Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of earnings (loss) when the right to receive payments is established.

### Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Assets and Liabilities (continued)

### Impairment of financial assets

The Company's only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, amounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

### Financial Liabilities

### Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, other liabilities, and loans payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of loans payable, net of directly attributable transaction costs.

### Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the statements of loss.

### Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of loss.

### *Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

### *Exploration and evaluation properties*

All expenditures on exploration and evaluation activities, including costs incurred to acquire and secure exploration property licenses, are recorded as project evaluation expenses until it has been established that a mineral property is commercially viable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Development assets*

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

### *Common shares*

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares, warrants and share options are recognized as a deduction from equity, net of any tax effects.

### *Foreign currency translation*

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Exchange differences are recognized in operations in the period in which they arise.

### *Income taxes*

Any income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income/loss, in which case the income tax is recognized in equity or other comprehensive income/loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### *Share-based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in the equity reserves note (Note 9).

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Share-based payments (continued)*

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

### *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 period. The diluted loss per share calculation assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive. All the Company's outstanding stock options and warrants were anti-dilutive for the years ended September 30, 2020 and 2019.

### *Impairment of non-financial assets*

The carrying values of equipment and other non-financial assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to loss to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Rehabilitation provisions***

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

The obligation generally arises when the asset is installed, or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in loss.

The Company does not currently have any such significant legal or constructive obligations and therefore, no rehabilitation provision has been recorded as at September 30, 2020 or 2019.

***Future accounting changes***

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory for accounting periods beginning on or after October 1, 2020. Updates that are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted and are being evaluated to determine their impact on the consolidated financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was revised in January 2020 and July 2020 to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place “at the end of the reporting period” should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however early adoption is permitted.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended in May 2020 to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. IAS 16 is effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

*Expressed in Canadian Dollars*

## 5. EQUIPMENT

| | | Office Equipment | | Office Furniture | | Software | | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost as at September 30, 2018, 2019 and 2020** | **$** | **26,712** | **$** | **19,411** | **$** | **1,881** | **$** | **48,004** |
| Accumulated amortization as at September 30, 2018 | | 19,053 | | 10,129 | | 1,881 | | 31,063 |
| Charge for the year, 2019 | | 3,093 | | 3,800 | | - | | 6,893 |
| Accumulated amortization as at September 30, 2019 | | 22,146 | | 13,929 | | 1,881 | | 37,956 |
| Charge for the year, 2020 | | 340 | | 1,831 | | - | | 2,171 |
| **Accumulated amortization as at September 30, 2020** | **$** | **22,486** | **$** | **15,760** | **$** | **1,881** | **$** | **40,127** |
| | | | | | | | | |
| **Net book value as at September 30, 2019** | $ | 4,566 | $ | 5,482 | $ | - | $ | 10,048 |
| **Net book value as at September 30, 2020** | $ | 4,226 | $ | 3,651 | $ | - | $ | 7,877 |

## 6. INVESTMENT IN AND ADVANCES TO ASSOCIATE

On October 26, 2017, the Company, along with its Spanish joint venture partner the Aldesa Group (“Aldesa”), were awarded exploration concessions in the Santillana Syncline (the “Plaza Norte Project”). The Plaza Norte Project is in the Reocin Basin in Cantabria, Spain. The rights to the Plaza Norte Project were renewed by the Ministry of Mines in Cantabria in December 2020. All activities are suspended in this area due to the COVID-19 pandemic.

The Company and Aldesa each own a 50% interest in Cantabrica, a corporation registered in Spain, and will be equally represented on the board of directors. Emerita is the operator of the Plaza Norte Project. The Company recognizes its jointly controlled interest in the joint venture relationship with Aldesa as an investment in associate. Effective October 26, 2017, the Company accounts for this investment in associate using the equity method.

Changes in the investment in associate for the years ended September 30, 2020 and 2019 were as follows:

| | |
|---|---|
| **Balance, September 30, 2018** | **-** |
| Investment in associate | 722,857 |
| Loss from investment in associate, equity method | (722,857) |
| **Balance, September 30, 2019 and 2020** | **-** |

The Company accounts for its 50% interest in the investment in associate using the equity method. The 50% share of the loss from the investment in associate’s operations attributable to the Company for the year ended September 30, 2020, was $171,150. As the losses exceed the amount of the Company’s interest in the investment in associate, $171,150 of the losses have not been reflected in the Company’s consolidated statement of loss and comprehensive loss for the year ended September 30, 2020. The cumulative share of losses from the investment in associate’s operations attributable to the Company that has not been recognized on the Company’s consolidated statement of loss and comprehensive loss is $288,308.

*Expressed in Canadian Dollars*

## 7. EXPLORATION AND EVALUATION EXPENDITURES

| | For the years ended September 30, 2020 | 2019 |
|---|---|---|
| Land management fees, taxes and permits | $ 28,809 | $ 20,113 |
| Labour | 163,747 | (41,671) |
| Drilling and geophysics | 18,273 | - |
| Technical reports | - | 685 |
| Travel, meals and accomodations | 1,475 | 12,360 |
| Legal fees | 44,484 | 10,873 |
| Project overhead costs | 56,022 | 38,753 |
| Total project evaluation expenses | **$ 312,810** | **$ 41,113** |

As at September 30, 2020, the Company has valid permits for two zinc and gold exploration properties in Spain, one zinc exploration property in Spain held through the Company's joint arrangement with the Aldesa Group, and one lithium property in Brazil. The gold properties are comprised of exploration permits that were issued by the Asturias regulatory authorities in Spain. The zinc property is comprised of exploration permits that were issued by the Cantabrian and Andalusian regulatory authorities in Spain, respectively.

### a) Iberia Belt West Property (formerly called the Paymogo Project)

- The Iberia Belt West Project ("IBW Project") consists of one exploration permit and 51 mineral claims in southwestern Spain.

- On September 1, 2020, Emerita was officially notified through a resolution that it is the winning bidder of the IBW Project mining rights in Huelva. The Tender resolution has been issued by the Provincial Secretary of the Regional Ministry of Industry in Huelva. The resolution declares that Emerita Espana is the winning bidder of the tender. Emerita Espana is registered on the Junda de Andalusia official website as the owner of the mineral rights to the IBW Project. The initial rights are for a period of 26 months and providing the Company initiates drilling in a timely manner, it has the right to apply to have this period extended for a further 36 months.

### b) Falcon Litio Property

- In June 2016, the Company entered into a binding letter agreement (the "Falcon Agreement") with Falcon Metais Ltda. ("Falcon") pursuant to which Emerita acquired a 100% interest in the Falcon Litio MG Project (the "Litio Project"). The Litio Project is located in Minas Gerais State, Brazil, and is comprised of five exploration permits and one application for exploration permits.

- Falcon retains a transferable 2% net smelter royalty on all commercial sales from the Litio Project.

- In addition, if a "mineral resource", as defined in National Instrument 43-101 ("NI 43-101"), of at least 20 million tonnes with a grade of at least 1.3% LiO2 is delineated at the project, Emerita shall either, (i) pay $5 million in cash to Falcon or, by its sole discretion, (ii) issue $5 million worth (to be determined on a reasonable volume weighted average price basis) of common shares to Falcon (the "Resource Consideration").

- The Resource Consideration shall only be paid by Emerita if (i) the mineral resource is verified by a "qualified person", as such term is defined in NI 43-101, who is independent of Emerita and Falcon, and (ii) at least 50% of the mineral resource is categorized as an "indicated mineral resource" or "measured mineral resource", as defined in NI 43-101.

*Expressed in Canadian Dollars*

## 7. EXPLORATION AND EVALUATION EXPENDITURES (continued)

### c) Sierra Alta Property

- The Sierra Alta Property is comprised of one exploration permit which consists of 90 mining claims in the Asturias region in northwestern Spain. The Company applied for the permit on November 18, 2013 and received notice that the property had been granted on July 8, 2015. The concession was valid for a three-year term and was renewable for equal and successive periods of three years. Permit renewals were submitted in 2020, and the renewal is still pending.

- On April 20, 2020, the Company signed a binding letter agreement with Western Metallica Corp. ("Western"), a private company, pursuant to which Western may earn a 55% interest in the Sierra Alta project (the "Sierra Transaction"). A director and officer of Western is also a director and officer of the Company. Refer to Note 12.

- To earn its 55% interest, Western shall:
  1. Pay $50,000 in cash to the Company (paid);
  2. Issue 500,000 shares of Western to the Company upon the renewal of the license for the Sierra Alta project;
  3. Spend $500,000 on mineral exploration of the project within 24 months of the signing of the definitive agreement, and;
  4. Enter into a binding joint venture agreement with the Company.

## 8. COMMON SHARES

### Authorized

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

### Common Shares Issued

| | Number of shares outstanding | | Amount |
|---|---|---|---|
| **Balance, September 30, 2018 (iv)** | **28,419,165** | **$** | **11,775,614** |
| Private placement, net of issuance costs (v,vi) | 22,195,000 | | 2,028,274 |
| Warrant valuation | - | | (108,800) |
| **Balance, September 30, 2019** | **50,614,165** | **$** | **13,695,088** |
| Private placements, net of issuance costs (i,ii) | 34,142,847 | | 2,243,240 |
| Warrant valuation | - | | (535,625) |
| Broker warrant valuation | - | | (37,554) |
| Broker warrant exercise (iii) | 290,384 | | 29,039 |
| Valuation allocation of exercise of warrants | - | | 21,992 |
| **Balance, September 30, 2020** | **85,047,396** | | **15,416,180** |

(i) On July 10, 2020, the Company completed the first tranche of a private placement financing by issuing 27,000,000 units at a price of $0.05 per unit for gross proceeds of $1,350,000. Each unit is comprised on one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.15 for a period of 24 months, subject to an acceleration provision whereby in the event that at any time after the expiry of the statutory hold period, the common shares trade at $0.25 or higher on the TSX Venture Exchange for a period of 20 consecutive days, the Company shall have the right to accelerate the expiry date of the warrants to the date that is 30 days after the date the Company issues a news release announcing that it has elected to exercise the acceleration right. The grant date fair value of the warrants issued was estimated at $275,402 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of $0.04; expected volatility of 153.2%; risk-free interest rate of 0.27% and expected life of 2 years.

## 8. COMMON SHARES (continued)

### Common Shares Issued (continued)

In connection with the offering, the Company paid $70,160 in finders' fees and issued 1,259,000 non-transferable finder warrants. Each finder warrant is exercisable into one common share of the Company at a price of $0.15 per warrant until July 10, 2022. The grant date fair value of the finder warrants issued was estimated at $25,688 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of $0.04; expected volatility of 153.2%; risk-free interest rate of 0.27% and an expected life of 2 years.

Directors and officers of the Company subscribed for 4,620,000 units in the first tranche of the offering, for gross proceeds of $231,000.

(ii) On August 13, 2020, the Company completed the second and final tranche of a private placement financing by issuing 7,142,847 units at a price of $0.14 per unit for gross proceeds of $1,000,000. Each unit is comprised on one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.15 for a period of 24 months, subject to an acceleration provision whereby in the event that at any time after the expiry of the statutory hold period, the common shares trade at $0.25 or higher on the TSX Venture Exchange for a period of 20 consecutive days, the Company shall have the right to accelerate the expiry date of the warrants to the date that is 30 days after the date the Company issues a news release announcing that it has elected to exercise the acceleration right. The grant date fair value of the warrants issued was estimated at $260,223 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of $0.10; expected volatility of 163%; risk-free interest rate of 0.31% and an expected life of 2 years.

In connection with the offering, the Company paid $22,800 in finders' fees and issued 162,862 non-transferable finder warrants. Each finder warrant is exercisable into one common share of the Company at a price of $0.15 per warrant until August 13, 2022. The grant date fair value of the finder warrants issued was estimated at $11,867 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; share price of $0.10; expected volatility of 163%; risk-free interest rate of 0.31% and an expected life of 2 years.

Directors and officers of the Company subscribed for 2,117,120 units in the second tranche of the offering, for gross proceeds of $296,397.

(iii) During the year ended September 30, 2020, 290,384 of the Company's finder warrants were exercised at a price of $0.10 per common share, generating gross proceeds of $29,039.

(iv) On May 16, 2019, the Company completed a 5:1 share consolidation. Prior to the consolidation, the Company had 142,095,829 common shares outstanding, and following the consolidation had 28,419,165 common shares outstanding. All current and comparative common shares and per share amounts in these consolidated financial statements have been retroactively adjusted to reflect this share consolidation.

*Expressed in Canadian Dollars*

## 8. COMMON SHARES (continued)

### Common Shares Issued (continued)

(v) On May 23, 2019, the Company completed the first tranche of a private placement financing by issuing 20,750,000 common shares at a price of $0.10 per share for gross proceeds of $2,075,000. The Company paid $56,248 in legal fees, $114,725 in finders' fees and issued 1,337,550 broker options. Each broker option is exercisable into one common share of the Company at a price of $0.10 per option until May 23, 2021. The fair value of the broker options issued was estimated at $101,300 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 171%; risk-free interest rate of 1.58% and an expected life of 2 years.

(vi) On July 12, 2019, the Company completed the second tranche of financing by issuing 1,445,000 common shares at a price of $0.10 per share for gross proceeds of $144,500. The Company paid $20,253 in finders fees and issued 106,350 broker warrants. Each broker warrant is exercisable into one common share of the Company at a price of $0.10 per option until July 12, 2021. The fair value of the broker options issued was estimated at $7,500 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 169%; risk-free interest rate of 1.58% and an expected life of 2 years.

## 9. EQUITY RESERVES

### Warrants

The changes in warrants issued during the years ended September 30, 2020 and 2019 are as follows:

| | Number of warrants | Weighted average exercise price | Value of warrants |
|---|---|---|---|
| **Balance, September 30, 2018** | **4,762,019** | **$ 1.00** | **$ 951,105** |
| Granted, May 2019 | 1,337,550 | 0.10 | 101,300 |
| Granted, July 2019 | 106,350 | 0.10 | 7,500 |
| **Balance, September 30, 2019** | **6,205,919** | **$ 0.17** | **$ 1,059,905** |
| Expired, December 2019 | (4,762,019) | 0.20 | (951,105) |
| Granted, July 2020 | 14,759,200 | 0.15 | 301,090 |
| Granted, August 2020 | 3,734,285 | 0.15 | 272,090 |
| Exercised, August 2020 | (168,560) | 0.10 | (12,766) |
| Exercised, September 2020 | (121,824) | 0.10 | (9,226) |
| **Balance, September 30, 2020** | **19,647,001** | **$ 0.15** | **$ 659,987** |

On May 16, 2019, the Company completed a 5:1 share consolidation. Prior to the consolidation, the Company had 23,810,095 warrants outstanding, and following the consolidation had 4,762,019 warrants outstanding as at September 30, 2018. All current and comparative warrant and warrant exercise amounts in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

*Expressed in Canadian Dollars*

## 9. EQUITY RESERVES (continued)

### Warrants (continued)

The following summarizes the warrants outstanding as of September 30, 2020:

| Number outstanding # | Number exercisable # | Grant date | Expiry date | Exercise price $ | Estimated grant date fair value $ | Volatility | Risk-free interest rate | Expected life (Yrs) # | Expected dividend yield |
|---|---|---|---|---|---|---|---|---|---|
| 1,047,166 | 1,047,166 | 23-May-19 | 23-May-21 | $0.10 | 79,308 | 171% | 1.58% | 2.00 | 0% |
| 106,350 | 106,350 | 12-Jul-19 | 12-Jul-21 | $0.10 | 7,500 | 169% | 1.58% | 2.00 | 0% |
| 13,500,000 | 13,500,000 | 10-Jul-20 | 10-Jul-22 | $0.15 | 275,402 | 153% | 0.27% | 2.00 | 0% |
| 1,259,200 | 1,259,200 | 10-Jul-20 | 10-Jul-22 | $0.15 | 25,688 | 153% | 0.27% | 2.00 | 0% |
| 3,571,423 | 3,571,423 | 13-Aug-20 | 13-Aug-22 | $0.15 | 260,223 | 163% | 0.31% | 2.00 | 0% |
| 162,862 | 162,862 | 13-Aug-20 | 13-Aug-22 | $0.15 | 11,867 | 163% | 0.31% | 2.00 | 0% |
| **19,647,001** | **19,647,001** | | | | **659,987** | | | | |

The weighted-average remaining contractual life of the warrants as of September 30, 2020 is 1.73 years (September 30, 2019: 0.56 years).

### Share-based payments

The changes in stock options issued during the years ended September 30, 2020 and 2019 are as follows:

| | Number of options | Weighted average exercise price | Estimated grant date fair value |
|---|---|---|---|
| **Balance, September 30, 2018** | **1,060,000** | **$ 0.10** | **$ 348,000** |
| Expired, May 2019 | (10,000) | 0.50 | (3,500) |
| Expired, September 2019 | (20,000) | 0.50 | (1,400) |
| **Balance, September 30, 2019** | **1,030,000** | **$ 0.50** | **$ 343,100** |
| Granted, November 2019 | 3,700,000 | 0.10 | 329,995 |
| Granted, May 2020 | 500,000 | 0.05 | 24,450 |
| Expired, June 2020 | (210,000) | 0.35 | (76,100) |
| **Balance, September 30, 2020** | **5,020,000** | **$ 0.16** | **$ 621,445** |

On May 16, 2019, the Company completed a 5:1 share consolidation. Prior to the consolidation, the Company had 5,300,000 options outstanding, and following the consolidation had 1,060,000 options outstanding as at September 30, 2018. All current and comparative option and option exercise amounts in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

On November 7, 2019, the Company granted a total of 3,700,000 stock options to directors, management and consultants of the Company pursuant to its stock option plan. The options vest immediately and may be exercised at a price of $0.10 per option for a period of 5 years from the date of grant. The fair value of the stock options was estimated using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield 0%, expected annual volatility 167%, risk-free interest rate 1.54% and expected average life 5 years.

*Expressed in Canadian Dollars*

## 9. EQUITY RESERVES (continued)

### Share-based payments (continued)

On May 27, 2020, the Company granted a total of 500,000 stock options to a consultant of the Company pursuant to its stock option plan. The options vest immediately and may be exercised at a price of $0.05 per option for a period of 5 years from the date of grant. The fair value of the stock options was estimated using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield 0%, expected annual volatility 140%, risk-free interest rate 0.40% and expected average life 5 years.

During the year ended September 30, 2020, 210,000 options expired and $76,100 was transferred to deficit (year ended September 30, 2019- 30,000 options expired and $4,900 transferred to deficit).

Options outstanding as of September 30, 2020 are as follows:

| Number outstanding # | Number exercisable # | Grant date | Expiry date | Exercise price $ | Estimated grant date fair value $ | Volatility | Risk-free interest rate | Expected life (Yrs) # | Expected dividend yield |
|---|---|---|---|---|---|---|---|---|---|
| 620,000 | 620,000 | 29-Aug-16 | 29-Aug-21 | $0.50 | 217,000 | 128% | 0.72% | 5.00 | 0% |
| 200,000 | 200,000 | 24-Oct-16 | 24-Oct-21 | $0.50 | 50,000 | 111% | 0.53% | 5.00 | 0% |
| 3,700,000 | 3,700,000 | 07-Nov-19 | 07-Nov-24 | $0.10 | 329,995 | 167% | 1.54% | 5.00 | 0% |
| 500,000 | 500,000 | 27-May-20 | 27-May-25 | $0.05 | 24,450 | 140% | 0.40% | 5.00 | 0% |
| **5,020,000** | **5,020,000** | | | | **621,445** | | | | |

The weighted average remaining contractual life of the options as at September 30, 2020 is 3.65 years (September 30, 2019: 1.95 years).

## 10. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of common shares, warrants and options.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and evaluation and pay for administrative costs, the Company must raise additional amounts.

The Company may continue to assess new properties and may seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no significant changes in the Company's approach to capital management during the years ended September 30, 2020 and 2019.

The Company and its subsidiaries are not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required to maintain operations and cover general and administrative expenses for a period of 6 months.

## 10. CAPITAL MANAGEMENT (continued)

On December 7, 2018, the Company entered into a loan agreement with an unrelated party for a total principal amount of $250,000. The loan is secured, and interest accrued at 18% per annum. The loan was due and payable on December 5, 2020, settled either in cash or shares at the lender's option. As at September 30, 2020, the total amount owed by the Company, including principal and accrued interest, is $339,013 (September 30, 2019 - $284,149). The loan was repaid subsequent to the year end.

On December 7, 2018, the Company entered into loan agreements with unrelated parties for a total principal amount of $204,630. Interest expense of $79,437 (40% of the principal amounts) was paid in relation to these agreements. These loans were repaid on June 19, 2019.

On January 24, 2020, the Company entered into a loan agreement with a related party, Western Metallica Corp., for a principal amount of $100,000. The loan was unsecured, and interest accrued at a rate of 7% per annum. The loan principal, accrued interest, and an establishment fee of $10,000 was due and payable by the Company on March 31, 2020. The loan was repaid in full on July 14, 2020. The total amount repaid by the Company, including principal and accrued interest, was $113,131.

On June 29, 2020, a director of the Company loaned a total principal amount of $50,000 to the Company. No interest was paid in relation to the loan, and the loan was repaid on July 14, 2020.

## 11. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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 and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company's financial instruments include cash, amounts receivable, loans payable, other liabilities, and accounts payable and accrued liabilities. The carrying values of these financial instruments reported in the statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments. As at September 30, 2020 and 2019, the Company had no instruments to classify in the fair value hierarchy.

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

(a) *Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

## 11. FINANCIAL INSTRUMENTS (continued)

a. *Trade credit risk*
The Company is not exposed to significant trade credit risk.

b. *Cash*
In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(b) *Currency risk*

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's foreign currency risk arises primarily with respect to the Euro and Brazilian reals from its property interests in Spain and Brazil, and US dollars from operations. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at September 30, 2020 and 2019, the Company had the following financial instruments denominated in foreign currency (expressed in Canadian dollars):

**September 30, 2020**

| | Euro | US dollars | Brazilian reals |
|---|---|---|---|
| Cash | $ 65,489 | $ 100 | $ 984 |
| Accounts payable and accrued liabilities | (70,003) | (137) | (121,480) |
| | $ (4,514) | $ (37) | $ (120,496) |

**September 30, 2019**

| | Euro | US dollars | Brazilian reals |
|---|---|---|---|
| Cash | $ 36,852 | $ 614 | $ 1,326 |
| Accounts payable and accrued liabilities | (30,856) | (647,932) | (196,078) |
| | $ 5,996 | $ (647,318) | $ (194,752) |

A 10% strengthening (weakening) of the Canadian dollar against the Euro would decrease (increase) net loss by approximately $(400) (2019 - $600).

A 10% strengthening (weakening) of the Canadian dollar against the US dollar would decrease (increase) net loss by approximately $nil (2019 - $65,000).

A 10% strengthening (weakening) of the Canadian dollar against the Brazilian real would decrease (increase) net loss by approximately $12,000 (2019 - $19,500).

*(c) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2020, the Company had a cash balance of $778,065 (September 30, 2019 - $69,783) to settle current liabilities and other liabilities of $1,569,822 (September 30, 2019 - $1,835,313). The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms. See Note 16.

*Expressed in Canadian Dollars*

## 11. FINANCIAL INSTRUMENTS (continued)

*(d) Commodity / Equity price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to gold, zinc, and lithium, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Commodity price risk is remote as the Company is not a producing entity.

## 12. RELATED PARTY TRANSACTIONS

The Company shares office space with other companies who may have common officers or directors. The costs associated with this space are administered by an unrelated company.

The Company has entered into debt waiver agreements with certain directors and officers of the Company, in which the directors and officers agreed to waive amounts owed to them by the Company at September 30, 2020 in the amount of $719,498.

As at September 30, 2020, an amount of $438,231, included in accounts payable and other liabilities, were owed to directors and officers of the Company (September 30, 2019 - $1,261,876). The amounts outstanding on fees are unsecured, non-interest bearing, with no fixed terms of repayment.

On January 24, 2020, the Company entered into a loan agreement with a related party for $100,000. An officer of the Company is also the Chief Executive Officer of the lender. On July 14, 2020, the loan was repaid in full. The amount paid, consisting of principal, administration fees and accrued interest, was $113,131.

On April 20, 2020, the Company signed a binding letter agreement with Western Metallica Corp. (“Western”), pursuant to which Western may earn a 55% interest in the Sierra Alta project. A director and officer of Western is also a director and officer of the Company. See Note 7.

On June 29, 2020, a director of the Company loaned a total principal amount of $50,000 to the Company. No interest was paid in relation to the loan, and the loan was repaid on July 14, 2020.

*Compensation of key management personnel of the Company*

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. During the years ended September 30, 2020 and 2019, the remuneration of directors and other key management personnel are as follows:

| | Year ended September 30, 2020 | 2019 |
|---|---|---|
| Management fees | $ 574,445 | $ 488,544 |
| Share-based compensation | 321,076 | - |

In connection with the July 10, 2020 private placement (see Note 8(i)), officers and directors of the Company subscribed for 4,620,000 units of the Company for total proceeds of $231,000.

*Expressed in Canadian Dollars*

## 12. RELATED PARTY TRANSACTIONS (continued)

In connection with the August 13, 2020 private placement (see Note 8(ii)), officers and directors of the Company subscribed for 2,117,120 units of the Company for total proceeds of $296,397.

In connection with the May 23, 2019 private placement (see Note 8(v)), officers and directors of the Company subscribed for 500,000 common shares of the Company for total proceeds of $50,000.

In connection with the July 12, 2019 private placement (see Note 8(vi)), officers and directors of the Company subscribed for 45,000 common shares of the Company for total proceeds of $4,500.

## 13. SEGMENT INFORMATION

The Company conducts its business as a single operating segment, being mineral exploration and evaluation in Spain and Brazil. The following tables summarize the total assets and liabilities by geographic segment as at September 30, 2020 and 2019:

| **September 30, 2020** | **Spain** | **Canada** | **Brazil** | **Total** |
|---|---|---|---|---|
| Cash | $ 65,489 | $ 711,592 | $ 984 | $ 778,065 |
| Other current assets | 62,997 | 238,061 | 25 | 301,083 |
| Reclamation deposit | 17,976 | - | - | 17,976 |
| Equipment | 4,744 | - | 3,133 | 7,877 |
| **Total Assets** | **$ 151,206** | **$ 949,653** | **$ 4,142** | **$ 1,105,001** |
| | | | | |
| Accounts payable and accrued liabilities | $ 70,003 | $ 1,039,326 | $ 121,480 | $ 1,230,809 |
| Loans payable | - | 339,013 | - | 339,013 |
| **Total liabilities** | **$ 70,003** | **$ 1,378,339** | **$ 121,480** | **$ 1,569,822** |

| **September 30, 2019** | **Spain** | **Canada** | **Brazil** | **Total** |
|---|---|---|---|---|
| Cash | $ 36,852 | $ 31,605 | $ 1,326 | $ 69,783 |
| Other current assets | 74,133 | 93,614 | 33 | 167,780 |
| Reclamation deposit | 16,604 | - | - | 16,604 |
| Equipment | 6,495 | - | 3,553 | 10,048 |
| **Total Assets** | **$ 134,084** | **$ 125,219** | **$ 4,912** | **$ 264,215** |
| | | | | |
| Accounts payable and accrued liabilities | $ 30,856 | $ 602,777 | $ 196,078 | $ 829,711 |
| Other liabilities | - | 1,005,602 | - | 1,005,602 |
| Long-term loans payable | - | 284,149 | - | 284,149 |
| **Total liabilities** | **$ 30,856** | **$ 1,892,528** | **$ 196,078** | **$ 2,119,462** |

*Expressed in Canadian Dollars*

## 13. SEGMENT INFORMATION (continued)

The following tables summarize the loss by geographic segment for the years ended September 30, 2020 and 2019:

| September 30, 2020 | Spain | Canada | Brazil | Total |
|---|---|---|---|---|
| Other income | $ - | $ (719,761) | $ - | $ (719,761) |
| Project evaluation expenses | 304,339 | 7,680 | 791 | 312,810 |
| General and administrative expenses | - | 1,641,864 | - | 1,641,864 |
| Foreign exchange loss | - | 1,385 | - | 1,385 |
| **Loss** | **$ 304,339** | **$ 931,168** | **$ 791** | **$ 1,236,298** |

| September 30, 2019 | Spain | Canada | Brazil | Total |
|---|---|---|---|---|
| Other income | $ - | $ (781) | $ - | $ (781) |
| Project evaluation expenses | (25,641) | - | 66,754 | 41,113 |
| General and administrative expenses | - | 1,233,722 | - | 1,233,722 |
| Losses on investment in associate | - | 722,857 | - | 722,857 |
| Foreign exchange loss | - | 90,530 | - | 90,530 |
| **Loss** | **$ (25,641)** | **$ 2,046,328** | **$ 66,754** | **$ 2,087,441** |

## 14. INCOME TAXES

### *Provision for income taxes*

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2019 – 26.5%) were as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| (Loss) before income taxes | (1,236,297) | (2,087,441) |
| Expected income tax recovery based on statutory rate | (328,000) | (553,000) |
| Adjustment to expected income tax benefit: | | |
| Expenses not deductible for tax purposes | 1,000 | 3,000 |
| Difference in tax rates | (13,000) | (18,000) |
| Difference in foreign exchange rates | 212,000 | 27,000 |
| Change in benefit of tax assets not recognized | 128,000 | 541,000 |
| Deferred income tax provision (recovery) | - | - |

### *Deferred income taxes*

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Non-capital loss carry-forwards | 15,221,000 | 14,713,000 |
| Share issue costs | 304,000 | 313,000 |
| Other temporary differences | 299,000 | 299,000 |
| Total | 15,824,000 | 15,325,000 |

## 14. INCOME TAXES (continued)

***Deferred income taxes (continued)***

Non-capital losses of $7,876,000 in Canada expire between 2029 and 2040. Non-capital losses of €3,378,000 ($4,854,000) in Spain expire between 2030 and 2037. Non-capital losses of R$8,361,000 ($1,946,000) in Brazil carry forward indefinitely.

The potential future benefit of these losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

## 15. COMMITMENTS AND CONTINGENCIES

On September 30, 2019, the Company entered into agreements with certain directors and officers relating to existing liabilities. Under these agreements, these directors and officers agreed to a reduction of $1,005,602 in amounts owing to them if the Company was unable to raise at least $5,000,000 in equity financing prior to December 31, 2021. If the Company was unable to complete an equity financing of at least $5,000,000, these directors and officers would agree to waive and permanently release the Company from these amounts owed. These agreements were superseded by debt waiver agreements entered into by the Company that settle amounts owed to directors and officers at September 30, 2020. See Note 12.

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to make expenditures to comply with such laws and regulations.

The Company is party to certain management contracts. These contracts contain minimum commitments of approximately $313,000 (2019 - $313,000) and additional contingent payments of up to approximately $1,190,000 (2019 - $1,190,000) upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company is subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity.

The Company's joint venture agreement with the Aldesa Group requires the Company to invest an additional €1,250,000 in the development of the Plaza Norte project should the project advance to later phases. It is not currently known whether the Plaza Norte project will advance to a stage where this investment is required, therefore the expenditure has not been reflected in these consolidated financial statements.

## 16. SUBSEQUENT EVENTS

On December 11, 2020, the Company completed a brokered private placement financing of 36,964,285 units at a price of $0.14 per unit for aggregate gross proceeds of $5,175,000. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of $0.16 until December 11, 2022. If at any time prior to the expiry date of the warrants, the closing price of the common shares on the TSX Venture Exchange, or other principal exchange on which the common shares are listed, is greater than $0.25 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, deliver a notice to the holders of warrants accelerating the expiry date to the date that is 30 days from the date of such notice.

In connection with the offering, the Company paid cash finders' fees equal to 8.0% of the gross proceeds of the offering and issued 2,957,142 non-transferable compensation options which will entitle the holder thereof to purchase one common share of the Company at an exercise price of $0.16 until December 11, 2022.