



Audited Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Honey Badger Exploration Inc.

Opinion

We have audited the accompanying consolidated financial statements of Honey Badger Exploration Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficit) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a loss of \$1,023,921 during the year ended December 31, 2019 and, as of that date, the Company's accumulated deficit was \$12,742,163. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

May 25, 2020

Honey Badger Exploration Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	December 31, 2019 \$	December 31, 2018 \$
Assets			
Current assets			
Cash and cash equivalents	4	315,558	1,132,962
Taxes and other receivables		108,125	22,385
Prepaid expenses		5,915	1,507
Total Assets		429,598	1,156,854
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities			
Accounts payable and accrued liabilities	5	278,275	104,527
Flow-through share premium liability	6	-	117,083
Flow-through provision	7	265,031	265,031
Total Liabilities		543,306	486,641
Shareholders' Equity (Deficit)			
Share capital	8	9,540,406	9,300,406
Contributed surplus	8	3,088,049	3,088,049
Accumulated deficit		(12,742,163)	(11,718,242)
Total Shareholders' Equity (Deficit)		(113,708)	670,213
Total Liabilities and Shareholders' Equity (Deficit)		429,598	1,156,854

Nature of operations and Going Concern (Note 1)

Commitments (Note 13)

Subsequent event (Note 16)

These financial statements are authorized for issuance by the Board of Directors on May 22, 2020.

Approved on behalf of the Board of Directors:	(Signed) " <i>Quentin Yarie</i> "	(Signed) " <i>Kevin Tanas</i> "
	Director	Director

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

Honey Badger Exploration Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Notes	For the years ended December 31,	
		2019	2018
		\$	\$
Expenses			
Exploration expenditures	9, 11	1,110,662	1,753,823
Salaries, professional and consulting fees	9	90,140	163,322
General and administrative		37,349	181,178
Shareholder communication		38,003	-
Share-based compensation	8b, 9	-	301,502
Part XII.6 tax		2,057	1,923
Deferred flow-through share premium	6	(117,083)	(33,490)
		(1,161,128)	(2,368,258)
Other income	10	137,207	-
Loss and comprehensive loss		(1,023,921)	(2,368,258)
Loss per share - basic and diluted		(0.01)	(0.04)
Weighted average number of common shares outstanding – basic and diluted		76,770,824	63,688,166

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

Honey Badger Exploration Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the years ended December 31,	
	2019	2018
	\$	\$
Operating activities		
Loss for the year	(1,023,921)	(2,368,258)
Items not affecting cash:		
Shares and warrants issued for properties	240,000	1,092,856
Deferred premium on flow-through shares	(117,083)	(33,490)
Share-based compensation	-	301,502
Net change in non-cash working capital items:		
Taxes and other receivables	(85,740)	45,014
Prepaid expenses	(4,408)	(157)
Accounts payable and accrued liabilities	173,748	(114,696)
Net cash used in operating activities	(817,404)	(1,077,229)
Financing activities		
Proceeds from private placement	-	1,941,500
Share issue costs	-	(138,665)
Exercise of warrants	-	75,000
Net cash provided by financing activities	-	1,877,835
Change in cash and cash equivalents	(817,404)	800,606
Cash and cash equivalents, beginning of year	1,132,962	332,356
Cash and cash equivalents, end of year	315,558	1,132,962
Supplemental cash-flow disclosures:		
Flow-through premium liability	-	117,385
Fair value of broker units	-	116,721
Fair value of warrants	-	284,808
Transfer of contributed surplus on exercise of warrants	-	24,556
Cash paid for interest	-	94
Cash paid for income taxes	2,057	-

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

Honey Badger Exploration Inc.
Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in Canadian dollars)

	Common Shares	Share Capital	Contributed Surplus	Accumulated Deficit	Total
		\$	\$	\$	\$
Balance at December 31, 2017	48,615,605	6,824,073	2,409,574	(9,349,984)	(116,337)
Private placement	17,398,076	1,941,500	-	-	1,941,500
Fair value of warrants issued	-	(284,808)	284,808	-	-
Fair value of broker warrants issued	-	(116,721)	116,721	-	-
Premium on flow-through shares	-	(117,385)	-	-	(117,385)
Share issue costs	-	(138,665)	-	-	(138,665)
Share-based compensation	-	-	301,502	-	301,502
Fair value of shares issued for property acquisition	7,357,143	1,092,856	-	-	1,092,856
Exercise of warrants	1,000,000	99,556	(24,556)	-	75,000
Loss for the year	-	-	-	(2,368,258)	(2,368,258)
Balance at December 31, 2018	74,370,824	9,300,406	3,088,049	(11,718,242)	670,213
Fair value of shares issued for property acquisition	6,000,000	240,000	-	-	240,000
Loss for the year	-	-	-	(1,023,921)	(1,023,921)
Balance at December 31, 2019	80,370,824	9,540,406	3,088,049	(12,742,163)	(113,708)

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

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

1. Nature of operations and going concern

Honey Badger Exploration Inc. (the "Company") was founded in 1992 for the purpose of the acquisition, exploration, and development of mining properties. The Company's head office and the primary location of its registered records is 145 Wellington Street West, Suite 1001, Toronto, Ontario M5J 1H8. The Company owns two wholly owned subsidiaries, 606596 Alberta Ltd and Thunder Bay Silver and Cobalt Corp.

The accompanying consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company is currently in the exploration stage and has not commenced commercial operations.

For the year ended December 31, 2019, the Company had a loss of \$1,023,921 (2018 – \$2,368,258) and an accumulated deficit of \$12,742,163 (2018 - \$11,718,242).

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue operations and fund its mining interest expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. These conditions cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore need 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 consolidated financial statements.

2. Significant Accounting Policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS comprise IFRSs, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC")s and the former Standing Interpretations Committee ("SIC")s).

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries 606596 Alberta Ltd. and The Thunder Bay Silver & Cobalt Corp., both of which are not active and have no assets in the current or prior year. All intercompany balances and transactions have been eliminated.

(d) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar.

(e) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents have maturities of three months or less at the date of acquisition. Interest earned is included in finance income on the statement of profit or loss.

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

(f) Mineral properties and exploration expenditures

The Company expenses all costs relating to the acquisition of, exploration for and development of mineral claims and credits all revenues received against the exploration expenditures. Such costs include, but are not limited to acquisition costs, geological, geophysical studies, exploratory drilling and sampling.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations.

Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

(g) Asset retirement obligation

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, provides guidance relating to asset retirement obligations. An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and charged to expenses as an exploration cost, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflect the time value of money are used to calculate the net present value. The related liability is adjusted each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

As at December 31, 2019 and 2018, the Company had no asset retirement obligations.

(h) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is deferred and recognized as other income as the expenditures are incurred, and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

(i) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share purchase warrants are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

Proceeds received on the issuance of units, consisting of common shares and share purchase warrants, are allocated to common shares and warrants on a relative fair value basis whereby the common shares are valued based on the quoted market price of the common shares at the time the units are issued, and the share purchase warrants are valued using the Black-Scholes option pricing model.

(j) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in loss and comprehensive loss depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(k) Share-based payment transactions

The stock option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

In situations where equity instruments are granted to non-employees and some or all goods and services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

(l) Loss per share

The Company presents the 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. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(m) New standard adopted by the Company

The following standards were adopted by the Company as of January 1, 2019. The impact of the adoption of these standards and the new accounting policies are disclosed below.

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaced IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The adoption of IFRS 16 did not have any financial statement impact on the Company's statements of financial position at transition on January 1, 2019, as the Company does not have any leases in place.

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

(n) Financial Assets and Liabilities

IFRS 9 – Financial instruments (“IFRS 9”) includes guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVTOCI”) based on the business model in which they are held and the characteristics of their contractual cash flows.

Financial Assets

Within the scope of IFRS 9, financial assets are classified as financial assets at amortized costs, FVTPL or FVTOCI, as appropriate. The Company classifies its financial assets as amortized cost or FVTPL.

Amortized cost

Financial assets classified as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Fair value through profit and loss

Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in net loss.

Classification

The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus or minus, in the case of financial assets not classified as FVTPL, directly attributable transaction costs. The Company’s financial assets include cash and cash equivalents and taxes and other receivables.

Recognition and measurement

Financial assets are initially recognized at fair value plus transaction costs.

Determination of fair values

The determination of fair value requires judgement and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company’s management estimates the fair value of securities based on quoted trading prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period.

Impairment of financial assets

Financial assets not measured at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amounts of the Company’s financial assets are reviewed at each reporting date to determine if there is any indication of impairment. As at December 31, 2019, the fair values of the financial assets approximate their amortized costs due to their short-term nature.

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statements 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: Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

Financial liabilities

Financial liabilities are measured at amortized cost.

Amortized cost

Financial liabilities measured at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective yield basis is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

As at December 31, 2019, the fair values of accounts payable and accrued liabilities approximate their amortized costs due to the short-term nature of the financial liabilities.

Derecognition of financial liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

3. Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgement, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Judgements, estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the financial statements.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could have an effect on the amounts recognized in the financial statements relate to the following:

Going concern

The preparation of the financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 1 of the financial statements.

Deferred taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

Deferred Flow-Through Premium Estimates

Recorded costs of flow-through share premium liabilities reflect premiums received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainties and requires the Company to assess the value of non-flow-through shares. The determination is subjective and does not necessarily provide a reliable single measure of the fair value of the premium liability. The fair values of the flow-through premiums are disclosed in Note 6 of the financial statements.

Honey Badger Exploration Inc.
Notes to consolidated financial statements
For the years ended December 31, 2019 and 2018

Share-based compensation

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 8(b) of the financial statements.

4. Cash and cash equivalents

As at December 31, 2019 and 2018, cash and cash equivalents were held as follows:

	2019		2018	
Cash deposits	\$	305,558	\$	1,122,962
Term deposits		10,000		10,000
	\$	315,558	\$	1,132,962

5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	2019		2018	
Accounts payable	\$	263,580	\$	79,527
Accrued liabilities		14,695		25,000
	\$	278,275	\$	104,527

6. Deferred flow-through premium

The following table sets out the changes to the deferred premium balances:

	Total	
Balance – January 1, 2018	\$	33,188
Recognition of deferred premium		117,385
Decrease of deferred premium		(33,490)
Balance - December 31, 2018	\$	117,083
Decrease of deferred premium		(117,083)
Balance – December 31, 2019	\$	-

7. Flow-through provision

During the year ended December 31, 2014:

- The Company recorded a contingent provision of \$100,973 for the subscriber liability related to the 2011 F/T series, which was calculated using a 35% combined rate applied against the estimated CEE shortfall.

During the year ended December 31, 2015:

- The Company increased the contingent provision to a total of \$335,015 consisting of \$102,000 for the subscriber

Honey Badger Exploration Inc.
Notes to consolidated financial statements
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liability related to the 2011 F/T series, which was calculated using a 35% combined rate applied against the estimated CEE shortfall, and \$132,042 for the Part XII.6 taxes.

During the year ended December 31, 2016:

- Based on the results of a CRA audit for the years ended December 31, 2011 and 2012 it was determined there was a shortfall of \$1,022,839 in qualified CEEs for the 2011 F/T Series. As a result:
 - The 2011 contingent provision for the obligation to 2011 FT series subscribers was increased by \$155,021 to \$357,994, which was calculated using a 35% combined rate applied against the estimated CEE shortfall.
 - The provision for Part XII.6 taxes was increased by \$100,973. Upon receiving an invoice from the CRA for a total of \$233,015 in Part XII.6 taxes and penalties, this amount was reclassified to accounts payable.
- The Company determined there was a shortfall of \$206,571 in qualified CEEs for the 2014 F/T Series. As a result, a contingent provision for the obligation to 2014 FT series subscribers was recognized of \$72,300, which was calculated using a 35% combined rate applied against the estimated CEE shortfall. All Part XII.6 taxes related to the 2014 F/T series and the associated shortfall were expensed during the year ended December 31, 2015 and have been paid to the CRA.
- During the year ended December 31, 2019, the Company made a cash payment of \$nil (2018 – \$nil) pursuant to the indemnity under the flow-through financings. On November 15, 2017, the Company completed a share-for-debt transaction whereby the Company agreed to settle certain of its flow-through obligations totalling \$165,061 through the issuance of common shares.

The following table sets out the changes to the provision for the obligation to flow-through subscribers:

Balance – January 1, 2017	\$ 430,294
Reclassification to accounts payable	(202)
Shares issued to settle obligations	(165,061)
Balance – December 31, 2017	\$ 265,031
Balance – December 31, 2018	\$ 265,031
Balance – December 31, 2019	\$ 265,031

8. Shareholders' equity (deficit)

(a) Common shares

The Company's authorized capital stock includes an unlimited number of common shares (issued 80,370,824 common shares) having no par value. During the year ended December 31, 2019, the Company issued 6,000,000 common shares (2018 – 25,755,219).

Common shares issued for property

On August 7, 2019 the Company issued 6,000,000 common shares, valued at \$240,000, in connection with the Cairngorm option agreement (*Note 11 – Mineral Properties*).

On August 10, 2018, the Company issued 357,143 common shares, valued at \$42,857, in connection with the Cairngorm option agreement (*Note 11 – Mineral Properties*).

On June 22, 2018, the Company issued 7,000,000 common shares, valued at \$1,050,000, in connection with the acquisition of Thunder Bay Silver & Cobalt Corp. (*Note 11 – Mineral properties*).

May and June 2018 financing

On May 17, 2018 and June 5, 2018, the Company completed a non-brokered private placement financing for gross

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proceeds of \$1,941,501 through the sale of 10,675,000 units (the “2018 Units”) and 6,723,086 flow-through common shares (the “2018 FT Shares”). Each 2018 Unit was priced at \$0.10 per 2018 Unit and consisted of one common share and one half of one share purchase warrant, with each such full warrant exercisable to acquire one common share in the capital of the Company for a period of three years following the issuance thereof at a price of \$0.16 per common share. Each 2018 FT Shares was priced at \$0.13 per 2018 FT Share. The Company paid finder’s fees totalling \$129,495.

In connection with the private placement, the Company paid \$138,665 cash commission and issued 1,158,096 non-transferable compensation warrants entitling the holder to acquire one common share for a price of \$0.10 per share with an expiry date of three years from date of issuance, with each compensation option having a fair value of \$0.10 (*Note 8(c) - Warrants*).

(b) Stock Options

The Company has a stock option plan (the “Plan”) pursuant to which the Company’s Board of Directors may grant incentive stock options to directors, officers, employees and consultants at the discretion of the Board of Directors. The exercise price of the options cannot be less than the closing price of the Company’s shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The Board, in accordance with applicable Exchange or other regulatory requirements, if any, will determine the vesting period. There is no minimum vesting period unless the optionee is engaged in investor relation activities, The maximum aggregate number of common shares under option at any time under the Plan cannot exceed 10% of the issued shares. The fair value of the share-based compensation is recognized as contributed surplus upon vesting.

During the year ended December 31, 2019, the Company granted nil stock options (2018 – 3,390,000) to directors, employees and officers. The fair value of the stock options granted and vested during the year was \$nil (2018 - \$301,502)

The fair value of the stock options granted during the year ended December 31, 2018 was calculated using the Black-Scholes option pricing model and utilized the following weighted average assumptions: risk-free rate – 2.127%; volatility – 243.9%; expected life – 4.5 years ; dividend yield - 0% and forfeiture rate - 0% , and resulted in a weighted average fair value of \$0.089 per stock option.

Stock options to purchase common shares of the Company that have been granted in accordance with the Plan are as follows:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Stock options outstanding, beginning of year	5,855,000	\$ 0.079	2,815,000	\$ 0.065
Granted	-	-	3,390,000	0.089
Cancelled	-	-	(350,000)	0.065
Stock options outstanding, end of year	5,855,000	\$ 0.079	5,855,000	\$ 0.079
Exercisable stock options, end of year	5,855,000	\$ 0.079	5,855,000	\$ 0.079

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Options to purchase common shares outstanding at December 31, 2019, exercise prices and weighted average lives to maturity are as follows:

Exercise price	Outstanding options	Options exercisable	Expiry date	Weighted average life (years)
\$ 0.065	2,150,000	2,150,000	October 10, 2020	0.78
0.065	315,000	315,000	November 15, 2020	0.88
0.055	850,000	850,000	February 20, 2021	1.14
0.100	2,540,000	2,540,000	August 20, 2023	3.64
\$ 0.079	5,855,000	5,855,000		2.08

(c) *Warrants*

The Company has issued warrants as part of equity financings. The fair value of warrants is recognized upon issuance as an equity reserve until expiration or exercise.

Warrants have been granted pursuant to equity financings as follows:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Warrants outstanding, beginning of the year	21,708,037	\$ 0.139	16,684,441	\$ 0.134
Issued	-	-	6,495,596	0.149
Exercised	-	-	(1,000,000)	0.068
Expired	(3,332,960)	0.300	(472,000)	0.275
Warrants outstanding, end of year	18,375,077	\$ 0.107	21,708,037	\$ 0.139

Warrants granted were valued using a Black Scholes model with the following assumptions:

	2019	2018
Stock price	-	\$0.114
Exercise price	-	\$0.15
Expected life	-	3.0
Volatility	-	180.10%
Dividend yield	-	0%
Risk free rate	-	2.16%
Fair value per warrant	-	\$0.099

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Warrants to purchase common shares outstanding at December 31, 2019, exercise prices and weighted average lives to maturity are as follows:

Grant Date	Expiry Date	Exercise Price	Number of Warrants	Remaining life
August 23, 2017	August 23, 2020	\$ 0.100	1,325,000	0.65
August 23, 2017	August 23, 2020	0.075	3,180,000	0.65
August 23, 2017	August 23, 2020	0.056	534,400	0.65
October 25, 2017	October 25, 2020	0.100	1,216,667	0.82
October 25, 2017	October 25, 2020	0.075	2,337,858	0.82
October 25, 2017	October 25, 2020	0.056	108,000	0.82
December 13, 2017	December 13, 2020	0.100	2,016,667	0.95
December 13, 2017	December 13, 2020	0.075	1,088,889	0.95
December 13, 2017	December 13, 2020	0.056	72,000	0.95
May 17, 2018	May 17, 2021	0.016	4,275,000	1.38
May 17, 2018	May 17, 2021	0.100	984,846	1.38
June 5, 2018	June 5, 2021	0.160	1,062,500	1.43
June 5, 2018	June 5, 2021	0.100	173,250	1.43
		\$ 0.107	18,375,077	1.00

9. Related party disclosures

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors and the executive management team. The executive management team comprises the President and Chief Executive Officer and Chief Financial Officer.

Compensation for key management personnel of the Company was as follows:

	2019	2018
Short-term benefits ⁽¹⁾	\$ 89,526	\$ 96,652
Share-based payments ⁽²⁾	-	222,913
	\$ 89,526	\$ 319,565

⁽¹⁾ Included in salaries, professional fees and exploration expenditures

⁽²⁾ Represents the expense of stock options during the year.

As at December 31, 2019, a balance of \$14,805 (2018 - \$55,600) owing to related parties was included in accounts payable and accrued liabilities.

10. Other Income

During the year ended December 31, 2019, the Company provided geophysical consulting services to another mining Company which resulted in a net cash receipt of \$137,207. This was included in the statement of loss and comprehensive loss as other income for the year ended December 31, 2019.

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11. Mineral properties

Exploration and Evaluation Expenditures

The following table summarizes the cumulative exploration and evaluation expenditures the Company has incurred on its various properties:

	Thunder Bay Properties	LG Diamond & Wemindji	Other	Total
	\$	\$	\$	\$
Balance, December 31, 2017	-	517,212	3,337,106	3,854,318
Property acquisition costs	1,220,857	-	-	1,220,857
Exploration expenditures	535,897	22,375	(25,306)	532,966
Total exploration expenditures	1,756,754	22,375	(25,306)	1,753,823
Balance, December 31, 2018	1,756,754	539,587	3,311,800	5,608,141
Property acquisition costs	240,000	-	-	240,000
Exploration expenditures	870,662	-	-	870,662
Total exploration expenditures	1,110,662	-	-	1,110,662
Balance, December 31, 2019	2,867,416	539,587	3,311,800	6,718,803

Thunder Bay Properties, Ontario

Thunder Bay Silver & Cobalt Corp.

On June 7, 2018, the Company acquired Thunder Bay Silver & Cobalt Corp., a private company, which increased the Company's interests in the Thunder Bay area. Under the terms of the acquisition, the Company issued 7,000,000 common shares, valued at \$1,050,000 and made a cash payment of \$53,000. Thunder Bay Silver Cobalt Corp held no other assets other than the mineral claims.

During the year ended December 31, 2018, the Company staked additional ground in the Thunder Bay area, within a prospective silver, cobalt, zinc, lead and gold district.

Beaver Silver Property.

On July 19, 2018, the Company entered into an option agreement to acquire up to a 100% interest in the Beaver Silver Property from Cairngorm Mines Ltd. Under the terms of the option agreement, the Company may exercise the option over a three-year period, by making cash payments totalling \$75,000, issuing common shares with a market value of \$410,000 over the option period and incurring exploration expenditures of \$750,000 over the option period.

On August 10, 2018, the Company made a cash payment of \$75,000 and issued 357,143 common shares, valued at \$42,857, in connection with the Cairngorm option agreement.

On August 7, 2019 the Company issued 6,000,000 common shares, valued at \$240,000, in connection with the Cairngorm option agreement.

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LG Diamond Property, Quebec

During the year ended December 31, 2015, the Company entered into an agreement to acquire the LG Diamond Project located in the James Bay Region of Quebec. As consideration, the Company issued 10,000,000 common shares at a value of \$0.01 each and granted a 2% Net Smelter Royalty (“NSR”). One half, or 1% of the NSR can be bought back for \$1,000,000 and the remaining 1% for \$2,000,000.

Wemindji Property, Quebec

During the year ended December 31, 2016, the Company entered into an agreement to acquire the Wemindji Property, which consists of certain claims located in the James Bay region of Québec. The acquisition costs consisted of the payment of \$10,000 cash (paid) and the issuance of 4,000,000 common shares (issued) of the Company with a fair value of \$120,000. The Company also granted a 2% NSR to the property vendors. The NSR may be bought back from the vendors for \$2,000,000.

Other Properties

Barite-Zinc Property, Quebec

On August 8, 2017, the Company acquired certain claims located in southeastern Quebec (the “Barite-Zinc Property”) by issuing 8,000,000 common shares valued at \$500,000 and granted a 2% NSR to the property vendor. The Company may re-purchase the NSR for \$1,000,000. The Company did not renew these claims which lapsed in April 2018.

Blue Thunder, Quebec

The Company has a 10% interest in certain mineral claims as at December 31, 2019.

12. Income taxes

The reconciliation of income tax provision completed at statutory rates to the reported income tax provision is as follows:

	2019	2018
Loss for the year	\$ (1,023,921)	\$ (2,368,258)
Income tax recovery at statutory tax rates	(273,000)	(633,000)
Permanent difference	(31,000)	72,000
Impact of flow through shares	225,000	146,000
Share issue cost	-	(37,000)
Change in unrecognized deductible temporary differences	(216,000)	607,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	295,000	(155,000)
Income tax expense (recovery)	\$ -	\$ -

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The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019		2018	
Mineral properties	\$ 4,046,000	no expiry	\$ 4,880,000	no expiry
Investment tax credit	37,000	2035	37,000	2033
Property and equipment	1,000	no expiry	1,000	no expiry
Share issue costs	127,000	2040 to 2042	191,000	2038 to 2042
Allowable capital losses	242,000	no expiry	242,000	no expiry
Non-capital losses available for future periods	3,656,000	2026 to 2039	3,567,000	2026 to 2038

Tax attributes are subject to review, and potential adjustment, by tax authorities.

13. Commitments and contingencies

Flow-Through Expenditure Commitments

The Company completed flow-through share financings that involve a commitment to incur Canadian Exploration Expenditures ("CEEs") prior to the end of specific calendar years and to renounce the CEE tax deductions to the subscribers. As at December 31, 2019 the Company had a CEE shortfall of \$31,830. (2018: \$872,038).

14. Capital management

As of December 31, 2019, the Company had a working capital deficit of \$113,708.

There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

In managing liquidity, the Company's primary objective is to ensure the entity can continue as a going concern while raising additional funding to meet its obligations as they come due. The Company's operations to date have been funded by issuing equity.

The Company's investment policy is to invest excess cash in very low risk financial instruments such as term deposits or by holding funds in high yield savings accounts with major Canadian banks. Financial instruments are exposed to certain financial risks, which may include currency risk, credit risk, liquidity risk and interest rate risk.

The Company's mineral property interests are all in the exploration stage, as such the Company is dependent on external financing to fund its exploration activities and administrative costs. Management continues to assess the merits of mineral properties on an ongoing basis and may seek to acquire new properties or to increase ownership interests if it believes there is sufficient geologic and economic potential.

Management mitigates the risk and uncertainty associated with raising additional capital in current economic conditions through cost control measures that minimizes discretionary disbursements and reduces exploration expenditures that are deemed of limited strategic value.

The Company manages the capital structure (consisting of shareholders' deficit) on an ongoing basis and makes adjustments in response to changes in economic conditions and risk characteristics of its underlying assets. Adjustments to the Company capital structure may involve the issue of new shares, issue of new debt, acquisition or disposition of assets, or adjustments to the amounts held in cash and cash equivalents.

The Company is not subject to any externally imposed capital requirements other than flow-through spending.

15. Financial instrument risk factors

The following disclosures are to enable users of the consolidated financial statements to evaluate the nature and extent of risks arising from financial instruments at the end of the reporting year:

a) Credit risk

The Company's credit risk is the risk of counterparty default on cash and cash equivalents held on deposit with financial institutions. The Company manages this risk by ensuring that deposits are only held with large Canadian banks and financial institutions. The Company's receivables related to sales taxes have negligible counterparty default risk. The Company's receivables related to companies related by common management are subject to counterparty default risk.

b) Liquidity risk

The Company's liquidity risk is the risk that Company has insufficient funds to settle its contractual financial liabilities. The Company manages this risk by ensuring sufficient funds are available as contractual cash flows become due.

As at December 31, 2019, the Company had a cash balance of \$315,558 (2018 - \$1,132,962) to settle current liabilities of \$543,306 (2018 - \$486,641). While the Company has been successful in obtaining required funding in the past, there is no assurance that future financings will be available.

c) Market risks

The Company's market risk arises from changes in interest rates and commodity prices that could have an impact on profit or loss. This includes:

- Interest rate risk, is the sensitivity of the fair value or of the future cash flows of a financial instrument to changes in interest rates. The Company does not have any financial assets or liabilities that were subject to variable interest rates.
- Commodity price risks, particularly with respect to diamonds, is the sensitivity of the fair value of or of the future cash flows of mineral assets. The Company manages this risk by continually monitoring base and precious metal prices and commodity price trends to determine the appropriate timing for funding the exploration of its mineral assets, or for the acquisition or disposition of mineral assets.
- Currency risk, is the sensitivity of the fair value or of the future cash flows of financial instruments to changes in foreign exchange rates. The Company does not have any financial assets or liabilities that were subject to variable foreign exchange rates and as such the Company is not subject to currency risk.

16. Subsequent event

Subsequent to December 31, 2019, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.