

The logo for E29, featuring the letters 'E', '2', and '9' in a large, bold, orange font. The 'E' is a simple block letter, the '2' is a rounded, stylized number, and the '9' is a rounded, stylized number with a small tail. The logo is set against a solid black rectangular background.

a copper company

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited - Expressed in Canadian dollars)**

**Three and nine months ended September 30, 2020**

**Element 29 Resources Inc.****Condensed Consolidated Interim Statements of Financial Position**

As at September 30, 2020 and December 31, 2019 (Unaudited)

(expressed in Canadian dollars, except where indicated)

	Note	September 30, 2020	December 31, 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,055,455	\$ 424,562
Receivables	3	8,985	45,314
Prepaid expenses		26,621	15,123
		<b>1,091,061</b>	484,999
<b>Non-current assets</b>			
Promissory notes receivable	9	229,541	459,000
Property and equipment		4,670	2,790
Exploration and evaluation assets	4	6,014,701	5,512,308
		<b>6,248,912</b>	5,974,098
<b>Total assets</b>		<b>\$ 7,339,973</b>	\$ 6,459,097
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 70,412	\$ 150,427
Acquisition price payable	4	-	1,500,000
Senior secured convertible debenture	5	1,482,500	-
Embedded derivative	5	8,799	-
Interest payable	5	50,456	-
		<b>1,612,167</b>	1,650,427
<b>Non-current liabilities</b>			
Unsecured convertible debentures	6	278,781	-
Embedded derivatives	6	9,360	-
Interest payable	6	16,321	-
Loan payable	7	40,000	-
<b>Total liabilities</b>		<b>1,956,629</b>	1,650,427
<b>Shareholders' equity</b>			
Share capital	8	5,868,541	5,929,000
Commitment to issue shares	4	1,500,000	-
Reserves	8	248,188	90,790
Deficit		(2,233,385)	(1,211,120)
<b>Total shareholders' equity</b>		<b>5,383,344</b>	4,808,670
<b>Total liabilities and shareholders' equity</b>		<b>\$ 7,339,973</b>	\$ 6,459,097

Nature of operations (Note 1)

Subsequent events (Note 14)

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

## Element 29 Resources Inc.

### Condensed Consolidated Interim Statements of Comprehensive Loss

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
<b>General and administrative expenses</b>					
Administration and office		\$ 23,983	\$ 36,491	\$ 48,094	\$ 55,510
Consulting		-	-	698	14,330
Investor relations		21,828	22,028	56,462	97,511
Personnel costs	9	140,062	168,316	502,443	460,489
Professional fees		124,872	19,101	220,327	106,496
Foreign exchange loss (gain)		24,861	(2,850)	(33,987)	(19,505)
Share-based compensation	8,9	-	38,635	166,939	90,790
Other		662	-	1,238	-
<b>Operating loss</b>		<b>336,268</b>	<b>281,721</b>	<b>962,214</b>	<b>805,621</b>
Interest income		(3,085)	(11,879)	(4,306)	(11,879)
Interest expense	5,6	36,248	378	66,777	895
Accretion expense	5,6	15,121	-	26,665	-
Change in fair value of embedded derivatives	5,6	(14,645)	-	(29,085)	-
<b>Net loss and comprehensive loss for the period</b>		<b>\$ 369,907</b>	<b>\$ 270,220</b>	<b>\$ 1,022,265</b>	<b>\$ 794,637</b>
<b>Net loss per common share</b>					
Basic and fully diluted		\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>		<b>44,945,833</b>	<b>45,379,000</b>	<b>45,490,276</b>	<b>32,032,666</b>
<b>Total common shares issued and outstanding</b>	8	<b>44,945,833</b>	<b>45,379,000</b>	<b>44,945,833</b>	<b>45,379,000</b>

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

## Element 29 Resources Inc.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

	Note	Number of Shares	Share capital	Commitment to issue shares	Reserves	Deficit	Total
<b>Balance at December 31, 2019</b>		45,645,833	\$ 5,929,000	\$ -	\$ 90,790	\$ (1,211,120)	\$ 4,808,670
Issuance of share capital – share options	8	300,000	39,541	-	(9,541)	-	30,000
Commitment to issue shares	4	-	-	1,500,000	-	-	1,500,000
Cancellation of common shares	8	(1,000,000)	(100,000)	-	-	-	(100,000)
Net loss and comprehensive loss		-	-	-	-	(1,022,265)	(1,022,265)
Share-based compensation	8	-	-	-	166,939	-	166,939
<b>Balance at September 30, 2020</b>		<b>44,945,833</b>	<b>\$ 5,868,541</b>	<b>\$ 1,500,000</b>	<b>\$ 248,188</b>	<b>\$ (2,233,385)</b>	<b>\$ 5,383,344</b>

	Note	Number of Shares	Share capital	Commitment to issue shares	Reserves	Deficit	Total
<b>Balance at January 1, 2019</b>		4,520,001	\$ 452,000	\$ -	\$ -	\$ (78,489)	\$ 373,511
Issuance of share capital – acquisition of mineral property	4	28,112,501	2,811,250	-	-	-	2,811,250
Issuance of share capital – private placement at \$0.10 per common share	8	5,967,000	596,700	-	-	-	596,700
Issuance of share capital – private placement at \$0.30 per common share	8	6,779,498	2,033,849	-	-	-	2,033,849
Share issuance costs	8	-	(44,849)	-	-	-	(44,849)
Loss and comprehensive loss		-	-	-	-	(519,916)	(519,916)
Share-based compensation		-	-	-	52,155	-	52,155
<b>Balance at September 30, 2019</b>		<b>45,379,000</b>	<b>5,848,950</b>	<b>-</b>	<b>52,155</b>	<b>(598,405)</b>	<b>5,302,700</b>
Issuance of share capital – private placement at \$0.30 per common share		266,833	80,050	-	-	-	80,050
Loss and comprehensive loss		-	-	-	-	(612,715)	(612,715)
Share-based compensation		-	-	-	38,635	-	38,635
<b>Balance at December 31, 2019</b>		<b>45,645,833</b>	<b>\$ 5,929,000</b>	<b>\$ -</b>	<b>\$ 90,790</b>	<b>\$ (1,211,120)</b>	<b>\$ 4,808,670</b>

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

## Element 29 Resources Inc.

### Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

	Note	For the nine months ended	
		2020	2019
<b>Cash flows used in operating activities</b>			
Net loss		\$ (1,022,265)	\$ (794,637)
Items not affecting cash:			
Accretion expense	5, 6	26,665	-
Interest expense	5, 6	66,777	-
Change in fair value of embedded derivatives	5, 6	(29,085)	-
Share-based compensation	8	166,939	90,790
Unrealized foreign exchange losses (gains)		33,987	(19,505)
		(756,982)	(723,352)
Changes in non-cash operating working capital:			
Decrease (increase) in receivables and prepaid expenses		24,833	(1,176)
Decrease in accounts payable and accrued liabilities		(79,518)	(42,291)
		(811,667)	(766,819)
<b>Cash flows used in investing activities</b>			
Purchase of equipment		(1,880)	(3,511)
Payment for exploration and evaluation assets	4	(536,379)	(631,740)
		(538,259)	(635,251)
<b>Cash flows from financing activities</b>			
Issuance of unsecured convertible debentures	6	295,000	-
Finance fees – unsecured convertible debentures	6	(13,140)	-
Issuance of senior secured convertible debentures	5	1,500,000	-
Proceeds from loan payable	7	40,000	-
Receipts from promissory notes receivable	9	128,959	-
Proceeds from issuance of common shares – share options	8	30,000	-
Proceeds from issuance of common shares – private placement		-	2,320,750
		1,980,819	2,320,750
<b>Increase in cash and cash equivalents</b>		<b>630,893</b>	<b>916,680</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>424,562</b>	<b>47,614</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 1,055,455</b>	<b>\$ 966,294</b>
<b>Cash and cash equivalents is represented by:</b>			
Cash		\$ 1,055,455	\$ 966,294
Cash equivalents		-	-
<b>Total cash and cash equivalents</b>		<b>\$ 1,055,455</b>	<b>\$ 966,294</b>

#### Supplemental cash flow information (Note 11)

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

# Element 29 Resources Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

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### 1 Nature of operations

#### Nature of operations

Element 29 Resources Inc. together with its subsidiaries (collectively referred to as the “Company” or “E29”), is focused on the exploration of mineral property interests in Peru. The Company is in the process of completing an initial public offering (“IPO”) and listing on the TSX Venture Exchange (“TSX-V”).

The Company was incorporated on August 30, 2017 in British Columbia. The Company’s registered office is at 1900-1040 West Georgia Street, Vancouver, BC, V6E 4H3, Canada.

All amounts are expressed in Canadian dollars, except for certain amounts denoted in United States dollars (“US\$”).

The Company has not yet determined whether its exploration and evaluation assets contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

#### Going concern

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has not generated revenues from its operations to date. As at September 30, 2020, the Company has accumulated net losses of \$2,233,385 since inception and has a working capital deficit of \$521,106. The operations of the Company have primarily been funded by the issuance of common shares. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

If the going concern assumption was not appropriate for these condensed consolidated interim financial statements, then adjustments may be necessary to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

#### COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business, results of operations and the timing of proposed transactions at this time.

### 2 Basis of presentation

#### Basis of presentation

The Company prepares its condensed consolidated interim financial statements in accordance with International Accounting Standards 34, Interim Financial Reporting (“IAS 34”), under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretation of the International Reporting Interpretations Committee (“IFRIC”). These should be read in conjunction with the Company’s annual audited consolidated financial statements as at and for the year ended December 31, 2019 (“annual financial statements”). The accounting policies and critical estimates and judgements applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company’s annual financial statements, unless otherwise stated.

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

The condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors on November 27, 2020.

### 3 Receivables

The Company's receivable balance consists of the following:

	September 30, 2020	December 31, 2019
Goods and services tax receivable	\$ 8,985	\$ 45,314
	\$ 8,985	\$ 45,314

### 4 Exploration and evaluation assets

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristics of many mineral properties. The Company has investigated title to its mineral properties, to the best of its knowledge, title to the mineral property assets remains in good standing.

In April 2019, the Company acquired from Globetrotters Resource Group Inc. ("Globetrotters"), a private company incorporated under the laws of British Columbia, Canada, two copper projects, the Flor de Cobre Project ("Flor de Cobre") located in the Arequipa and Moquegua regions of southern Peru and the Elida Project located in the province of Ocos, Peru, for a purchase price of \$2,811,250 which was paid for with 28,112,501 common shares of the Company. The acquisition of the Flor de Cobre Project and the Elida Project were effected by way of purchase of 100% interest in the shares of Candelaria Resources S.A.C. (Peru) ("Candelaria") and Elida Resources S.A.C. (Peru) ("Elida"), respectively. Candelaria and Elida are subsidiaries of the Company. As at December 31, 2018, the Company had also advanced a total of \$225,897 to Candelaria and Elida that is considered a cost of the acquisition. Globetrotters also retained a 2% net smelter royalty ("NSR") on the projects. The Company and Globetrotters share certain directors in common.

The Company's acquisition of Candelaria and Elida is being accounted for as acquisition of net assets of these entities. Total consideration for the acquisition and the allocation of the consideration to the assets and liabilities acquired are as follows:

Consideration	Flor de Cobre Project	Elida Project
Value of shares	\$ 467,598	\$ 2,343,652
Transaction costs	1,251	6,270
Deferred acquisition costs	49,367	176,530
<b>Total consideration</b>	<b>\$ 518,216</b>	<b>\$ 2,526,452</b>
<b>Net assets acquired</b>		
Cash	\$ 10,196	\$ 40,433
Prepaid expenses	55	-
Receivable	21,308	21,595
Exploration and evaluation assets	487,764	2,496,832
Accounts payable and accrued liabilities	(1,107)	(32,408)
	<b>\$ 518,216</b>	<b>\$ 2,526,452</b>

In November 2019, the Company acquired the Pahuay Copper Skarn Project ("Pahuay") and the Muñaorjo Copper Skarn Porphyry Project ("Muñaorjo") from Globetrotter for \$1,500,000. The acquisition of Pahuay and Muñaorjo projects were

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

effected by way of purchase of 100% interest in the shares of Pahuay. In September 2020, the Company entered into an amended agreement with the vendor of the Pahuay project whereby the purchase price of \$1,500,000 will be paid by the Company by way of issuing common shares of the Company equal to the price per common share which is established for the purpose of an IPO, reverse merger or other transaction whereby the Company's securities are listed for trading on a recognized stock exchange, less a discount of twenty percent (20%). Accordingly, the acquisition price payable of \$1,500,000 has been reclassified to Commitment to issue shares on the statement of financial position. Globetrotters also retained a 2% NSR on the project.

The Company's acquisition of Pahuay is being accounted for as acquisition of net assets of Pahuay. Total consideration for the acquisition and the allocation of the consideration to the assets and liabilities acquired are as follows:

<b>Consideration</b>	<b>Pahuay Project</b>
Acquisition price payable	\$ 1,500,000
<b>Total consideration</b>	<b>\$ 1,500,000</b>
<b>Net assets acquired</b>	
Cash	\$ 887
Prepaid expenses	392
Receivable	793
Exploration and evaluation assets	1,503,822
Accounts payable and accrued liabilities	(5,904)
	<b>\$ 1,500,000</b>

#### **Flor de Cobre copper project**

The Company owns 100% of the Flor de Cobre copper project, with the exception of certain claims ("Candelaria claims"), where it has an option to earn 100% interest.

The Company can earn 100% interest in the Candelaria claims at Flor de Cobre by making payments to the vendor in the total amount of approximately US\$5 million over five years between 2020 and 2024. An additional US\$6 million payment would be due on the positive feasibility study for the claim area.

During the year ended December 31, 2019, the Company acquired several claims through a government auction (the "San Jose Property"). The San Jose Property forms part of the Flor de Cobre project.

#### **Elida copper project**

The Company owns 100% of the Elida copper project, subject to a 2% NSR to Globetrotters.

#### **Pahuay copper skarn project**

The Company owns 100% of the Pahuay copper skarn project, subject to a 2% NSR to Globetrotters. The property is located 270 kilometres south of Lima, Peru.

#### **Muñaoarjo copper skarn project**

The Company owns 100% of the Muñaoarjo copper skarn porphyry project, subject to a 2% NSR to Globetrotters. The project is located approximately 200 kilometres northeast of Arequipa, Peru.



## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

Expenditures for the nine months period ended September 30, 2020 were as follows:

	Flor de Cobre	Elida	Pahuay and Muñaorjo	Total
<b>Balance at December 31, 2019</b>	\$ 1,148,499	\$ 2,859,246	\$ 1,504,563	\$ 5,512,308
Additions:				
Option payments	82,379	-	-	82,379
Geological and mapping	341	-	-	341
Geophysics	22,346	-	-	22,346
Permitting	3,045	2,107	-	5,152
Community, health, safety and environment	21,916	41,973	-	63,889
Concessions and taxes	52,415	116,053	5,192	173,660
Technical report	13,422	8,000	-	21,422
Property maintenance and administration	68,540	56,921	7,743	133,204
<b>Balance at September 30, 2020</b>	<b>\$ 1,412,903</b>	<b>\$ 3,084,300</b>	<b>\$ 1,517,498</b>	<b>\$ 6,014,701</b>

Expenditures for the year ended December 31, 2019 were as follows:

	Flor de Cobre	Elida	Pahuay and Muñaorjo	Total
<b>Balance at December 31, 2018</b>	\$ -	\$ -	\$ -	\$ -
Additions:				
Property acquisition cost	487,764	2,496,832	1,503,822	4,488,418
Option payments	165,803	-	-	165,803
Geological and mapping	14,190	318	-	14,508
Geophysics	116,808	-	-	116,808
Permitting	17,887	38,058	-	55,945
Community, health, safety and environment	7,626	6,598	-	14,224
Concessions and taxes	46,120	148,029	741	194,890
Technical report	23,310	-	-	23,310
Property maintenance and administration	268,991	169,411	-	438,402
<b>Balance at December 31, 2019</b>	<b>\$ 1,148,499</b>	<b>\$ 2,859,246</b>	<b>\$ 1,504,563</b>	<b>\$ 5,512,308</b>

## 5 Senior secured convertible debenture

In April 2020, the Company completed a senior secured convertible debenture financing (the “Senior Secured Debenture”) for proceeds of \$1,500,000.

The Senior Secured Debenture is secured by a pledge to the holder of the original share certificates of the Company’s subsidiaries, Candelaria and Elida.

Interest equal to a rate of 8% (eight percent) per annum, being a 365 day year, is compounded quarterly provided, however, that (a) if the pledge execution has not occurred by the pledge execution date or (b) if the pledge registration has not occurred

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

by pledge registration date, the rate shall be 10% (ten percent) per annum from the pledge execution date or the pledge registration date, as the case may be, being a 365 day year, compounded quarterly.

The Senior Secured Debenture is convertible immediately prior to the occurrence of a Liquidity Event (as hereinafter defined). If all, or any, of the indebtedness at that time remains unpaid, then such indebtedness shall automatically convert into Units (as hereinafter defined) at a 20% (twenty percent) discount to the Liquidity Event price (the “Liquidity Conversion Price”). The Units consist of one (1) common share of the Company (a “Common Share”) and one half (0.5) of one common share purchase warrant of the Company (a “Warrant”).

Each whole Warrant will entitle the holder to acquire one additional Common Share at the price of \$1.00 or the Liquidity Event price, whichever is lower, for a period of three years following the Liquidity Event closing date.

The Senior Secured Debenture matures on April 27, 2021 (the “Maturity”).

The Senior Secured Debenture, including accrued and unpaid interest owing, automatically convert into Units at the Liquidity Conversion Price upon a Liquidity Event or on Maturity at the holder’s option into Units at \$1.00 per Unit.

For the purposes of the Senior Secured Debenture, a “Liquidity Event” means (i) the listing of the Common Shares on a recognized exchange acceptable to the holder, together with a concurrent financing from arm’s length third party investors of not less than \$5,000,000; (ii) the sale of all or substantially all of the issued and outstanding Common Shares or all or substantially all of the assets of the Company for cash proceeds or for securities provided that such securities are listed and posted for trading on a stock exchange; or (iii) the amalgamation, merger, arrangement, reverse takeover or any other corporate transaction involving the Company with or into another entity pursuant to which the common shares of the resulting issuer from such transaction are listed on a stock exchange together with a concurrent financing from arm’s length third party investors of not less than \$5,000,000.

The following is a continuity schedule of the Senior Secured Debenture:

Opening balance at January 1, 2020	\$ -
Additions	1,500,000
Debt issue costs	-
Embedded derivatives	(30,000)
Accretion expense	12,500
<b>Balance at September 30, 2020</b>	<b>\$ 1,482,500</b>

As a result of the variability in the number of shares issuable under the senior secured convertible debentures, the cash received under each of the senior secured convertible debentures has been allocated between the fair value of the loan conversion feature, which is considered an embedded derivative liability, and the value of the loan liability. The value ascribed to the loan conversion feature is determined using the Black Scholes option pricing model as at the loan date, and the residual amount has been allocated to the loan liability. The fair value of the embedded derivative component of the senior secured convertible debenture was estimated using the Black-Scholes pricing model with weighted average assumptions as follows: risk free interest rate of 0.88%, expected life of 1 year, expected volatility of 75% and expected dividends of nil.

The following is a continuity schedule of the current Embedded Derivative:

Opening balance at January 1, 2020	\$ -
Recognition of embedded derivative	30,000
Change in fair value	(21,201)
<b>Balance at September 30, 2020</b>	<b>\$ 8,799</b>

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

Accrued interest payable at September 30, 2020 was \$50,456.

## 6 Unsecured convertible debentures

In January 2020, the Company issued unsecured convertible debentures (the “Debentures”) for gross proceeds of \$295,000. Commissions in the amount of \$13,140 were paid in connection with the Debentures.

The Debentures are convertible into units of the Company (“Units”) consisting of one (1) common share of the Company (a “Common Share”) and one half (0.5) of one common share purchase warrant of the Company (a “Warrant”).

Interest equal to 8% of the par value of a Debenture outstanding per year will be accrued quarterly and added to the principal (with interest deemed to be satisfied) and will be payable in Common Shares on Maturity (as hereinafter defined) or on a Liquidity Event (as hereinafter defined).

The Debentures are convertible at any time until Maturity at the holder’s option into Units at \$1.00 per Unit (the “Holders’ Conversion Price”). Upon a Liquidity Event (as hereinafter defined), the Debentures will automatically convert at a 20% discount to the applicable Liquidity Event price per security issued under the Liquidity Event (the “Liquidity Conversion Price”).

Each whole Warrant will entitle the holder to acquire one additional Common Share at the price of \$1.00 or the Liquidity Event price, whichever is lower, for a period of one year following the Liquidity Event closing date.

The Debentures mature in two (2) years from the Liquidity Event closing date (the “Maturity”).

The Debentures, including accrued and unpaid interest owing, automatically convert into Units at the Liquidity Conversion Price upon a Liquidity Event or on Maturity at the Holders’ Conversion Price.

For the purposes of the Debentures, a “Liquidity Event” means (i) the listing of the Common Shares on a recognized exchange; (ii) the sale of all or substantially all of the issued and outstanding Common Shares or all or substantially all of the assets of the Company for cash proceeds or for securities provided that such securities are listed and posted for trading on a stock exchange; or (iii) the amalgamation, merger, arrangement, reverse takeover or any other corporate transaction involving the Company with or into another entity pursuant to which the common shares of the resulting issuer from such transaction are listed on a stock exchange.

The following is a continuity schedule of the Debentures:

Opening balance at January 1, 2020	\$ -
Additions	295,000
Debt issue costs	(13,140)
Embedded derivatives	(17,244)
Accretion expense	14,166
<b>Balance at September 30, 2020</b>	<b>\$ 278,782</b>

As a result of the variability in the number of shares issuable under the unsecured convertible debentures, the cash received under each of the unsecured convertible debentures has been allocated between the fair value of the loan conversion feature, which is considered an embedded derivative liability, and the value of the loan liability. The value ascribed to the loan conversion feature is determined using the Black Scholes option pricing model as at the loan date, and the residual amount has been allocated to the loan liability. The fair value of embedded derivative component of the unsecured convertible debentures was estimated using the Black-Scholes pricing model with weighted average assumptions as follows: risk free interest rate of 0.88%, expected life of 1.56 year, expected volatility of 75% and expected dividends of nil.

The following is a continuity schedule of the current Embedded Derivative:

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

Opening balance at January 1, 2020	\$ -
Recognition of embedded derivative	17,244
Change in fair value	(7,884)
<b>Balance at September 30, 2020</b>	<b>\$ 9,360</b>

Accrued interest payable at September 30, 2020 was \$16,321.

## 7 Loan payable

The Company entered into an arrangement with its principal banker for a \$40,000 Canada Emergency Business Account (“CEBA”) interest free loan that was launched in April 2020. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25% (\$10,000) of the balance outstanding.

## 8 Share capital

### a) Common shares

The Company’s authorized share capital consists of unlimited common shares without par value. At September 30, 2020, the Company had 44,945,833 (December 31, 2019 – 45,645,833) shares issued and outstanding.

### b) Issued share capital

The Company’s share capital transactions for the nine months ended September 30, 2020 as follows:

- The Company issued 300,000 common shares at a price of \$0.10 per common share through the exercise of share options.
- The Company cancelled 1,000,000 common shares with a value of \$100,000 when the Non-Executive Chairman resigned and cancelled the related promissory note receivable (Note 9).

The Company issued share capital during the year ended December 31, 2019 as follows:

- the Company issued 28,112,501 common shares at a price of \$0.10 per common share with a value of \$2,811,250 to Globetrotter (Note 4).
- the Company completed a non-brokered private placement of 2,467,000 common shares of the Company at a price of \$0.10 per share for gross proceeds of \$246,700.
- the Company issued 3,500,000 common shares of the Company at a price of \$0.10 per share to the Chief Executive Officer and Vice President of Business Development of the Company in return for a promissory notes receivable (Note 9).
- the Company completed a non-brokered private placement of 7,046,331 common shares at a price of \$0.30 per common share for gross proceeds of \$2,113,899. Commissions in the amount of \$44,849 were paid in connection with this private placement.

### c) Share options

The Company provides share-based compensation to its directors, officers, employees, and consultants through grants of share options.

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

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(expressed in Canadian dollars, except where indicated)

The Company has adopted a stock option plan (the “Plan”), as amended, to grant options to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding shares of the Company. Vesting is determined at the discretion of the Board of Directors.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. For employees, the share-based compensation expense is amortized on a graded vesting basis over the requisite service period which approximates the vesting period. Share-based compensation expense for share options granted to non-employees is recognized over the contract services period or, if none exists, from the date of grant until the share options vest.

The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the share options. Since the Company has not paid and does not anticipate paying dividends on its common shares, the expected dividend yield is assumed to be zero. Companies are required to utilize an estimated forfeiture rate when calculating the share-based compensation expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of nil in determining the share-based compensation expense recorded in the accompanying Condensed Consolidated Interim Statements of Comprehensive Loss.

Share option transactions are summarized as follows:

	Number of share options	Weighted average exercise price \$
Outstanding – December 31, 2018 and 2017	-	-
Granted	2,040,000	0.13
Outstanding – December 31, 2019	2,040,000	0.13
Exercised	(300,000)	0.10
Granted	1,500,000	0.30
<b>Outstanding – September 30, 2020</b>	<b>3,240,000</b>	<b>0.21</b>

At September 30, 2020, the following share options were outstanding:

Number of share options	Number of share options vested	Exercise price per share option \$	Expiry date
1,440,000	1,440,000	0.10	January 31, 2021
300,000	300,000	0.30	August 23, 2024
500,000	166,667	0.30	May 19, 2025
850,000	283,333	0.30	September 25, 2025
150,000	50,000	0.30	September 29, 2025
3,240,000	2,240,000		

	September 30, 2020
Weighted average exercise price for exercisable share options	\$ 0.17
Weighted average share price for share options exercised	\$ 0.10
Weighted average years to expiry for exercisable share options	2.94 years

For the period ended September 30, 2020, the total share-based compensation charges relating to 1,500,000 options granted to officers, directors and consultants was \$166,939 (2019 - \$90,790).

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

The weighted average fair value at date of grant for the options granted during the period ended September 30, 2020 was \$0.18 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share options granted:

	September 30, 2020
Risk-free interest rate	0.88%
Expected life of share options (years)	5 years
Expected volatility	75%
Expected dividend	0.00%

#### d) Net loss per common share

Net loss per common share information in these condensed consolidated interim financial statements is computed by dividing the net loss attributable to common shares by the weighted average number of common shares outstanding during the period. All share options and share purchase warrants outstanding at each period end have been excluded from the weighted average share calculation as they are anti-dilutive.

## 9 Related party transactions

The Company's related parties include key management personnel and directors. Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Board of Directors and corporate officers, including the Company's Non-executive Chairman, Chief Executive Officer, Chief Financial Officer and Vice President of Business Development.

Direct remuneration paid to the Company's directors and key management personnel during the nine month period ended September 30, 2020 and 2019 was as follows:

	2020	2019
Salaries and benefits – personnel costs	\$ 206,250	\$ 194,792
Consulting fees – personnel costs	245,050	254,133
Directors' fees – personnel costs	35,250	-
Share-based compensation	166,939	90,790
	\$ 653,489	\$ 539,715

As at September 30, 2020, included in accounts payable and accrued liabilities was an amount of \$6,600 (December 31, 2019 - \$6,600) due to the Company's Chief Financial Officer and \$Nil (December 31, 2019 – Nil) due to directors of the Company. Included in Unsecured convertible debentures (Note 6) was an amount of \$26,000 (December 31, 2019 – Nil) owed to a previous director of the Company.

The Company issued common shares of the Company to certain executives in exchange for promissory notes (the "Promissory Note") to the Company.

In November 2018, the Non-Executive Chairman was issued 1,500,000 common shares of the Company in exchange for a Promissory Note of \$150,000. The Non-Executive Chairman's Promissory Note bears interest at 2% per annum, matures on April 1, 2022 and is secured by the 1,500,000 common shares of the Company acquired with the Promissory Note and are held in escrow. In January 2020, the Non-Executive Chairman repaid \$51,250 of the outstanding balance. In May 2020, the Non-Executive Chairman resigned from the Company and cancelled the remaining balance of the Promissory Note. As a result, 1,000,000 common shares in relation to this Promissory Note were returned to treasury and cancelled.

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

In February 2019, the Vice President of Business Development was issued 1,500,000 common shares of the Company in exchange for a Promissory Note of \$150,000. The Vice President of Business Development's Promissory Note bears interest at 2% per annum, matures on September 1, 2022 and is secured by the 1,500,000 common shares of the Company acquired with the Promissory Note and are held in escrow.

In January 2019, the Chief Executive Officer was issued 2,000,000 common shares of the Company in exchange for a Promissory Note of \$200,000. The Chief Executive Officer's Promissory Note bears interest at 2% per annum, matures on September 15, 2022 and is secured by the 1,500,000 common shares of the Company acquired with the Promissory Note and are held in escrow. The Chief Executive Officer repaid \$50,000 in 2019 and \$80,209 in 2020 of the respective Promissory Note.

The following is a continuity schedule of Promissory Notes:

Balance at January 1, 2019	\$ 150,000
Promissory note advances	350,000
Repayments	(50,000)
Interest	9,000
Balance at December 31, 2019	459,000
Repayments	(131,459)
Cancellation	(101,750)
Interest	3,750
<b>Balance at September 30, 2020</b>	<b>\$ 229,541</b>
Current portion	-
Non-current portion	\$ 229,541

Name	Position	Initial Loan	Interest	Repayments	Balance at September 30, 2020
Brian Booth	Director and Chief Executive Officer	\$ 200,000	\$ 4,500	\$ (130,209)	\$ 74,291
Aleksandra Bukacheva	Vice President of Business Development	150,000	5,250	-	155,250
		<b>\$ 350,000</b>	<b>\$ 9,750</b>	<b>\$ (130,209)</b>	<b>\$ 229,541</b>

## 10 Segmented information

The Company has one business segment, the exploration of mineral properties. As at September 30, 2020, all of the Company's significant non-current non-financial assets are located in Peru.

## 11 Supplemental cash flow information

	Note	Nine months ended September 30, 2020
Non-cash financing activities	(i)	\$ 101,750

## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

- (i) The Non-Executive Chairman resigned from the Company and cancelled the outstanding balance of the Promissory Note to acquire common shares of the Company. The related common shares were returned to treasury of the Company and cancelled (Note 9).

## 12 Financial instruments

### a) Fair value classification of financial instruments

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Level 3 inputs are for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company's financial instruments consist of cash and cash equivalents, receivables, promissory notes receivables, accounts payable and accrued liabilities, loan payable, unsecured convertible debentures and embedded derivatives.

The carrying values of these financial instruments approximate their fair value due to their short terms to maturity. The embedded derivatives are measured at fair value determined based on Level 3 of the fair value hierarchy.

### b) Financial risk management

#### *i) Credit risk*

The Company's credit risk is primarily attributable to cash and cash equivalents and promissory notes receivables.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with large, highly rated financial institutions. The credit risk with promissory notes receivable is low since the amounts are owing from related parties and are secured.

The carrying amount of financial assets recorded in the condensed consolidated interim financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

#### *ii) Liquidity risk*

The Company manages liquidity risk by trying to maintain enough cash balances to ensure that it is able to meet its short term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

The Company's operating results may vary due to fluctuation in commodity price, inflation and foreign exchange rates.

#### *iii) Market risks*

#### Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents and promissory notes receivable. The Company does not believe that it is exposed to material interest rate risk on its cash and cash equivalents and promissory notes receivable.

As at September 30, 2020, the Company has not entered into any contracts to manage interest rate risk.

#### Foreign exchange risk

The functional currency of the parent and its subsidiaries is the Canadian dollar. A portion of the Company's operating expenses are in US\$.



## Element 29 Resources Inc.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

(expressed in Canadian dollars, except where indicated)

As at September 30, 2020, the Company has not entered into contracts to manage foreign exchange risk.

The Company is exposed to foreign exchange risk through the following assets and liabilities:

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,055,455	\$ 424,562
Accounts payable and accrued liabilities	(70,412)	(150,427)
	\$ 985,043	\$ 274,135

As at September 30, 2020, with other variables unchanged, a 5% increase or decrease in value of the US\$ against the currencies to which the Company is normally exposed (Canadian dollar) would result in an insignificant change in net loss.

## 13 Capital management

The Company considers items included in shareholders' equity as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. There are no external restrictions on management of capital and there has been no changes to the Company's capital management during the current year. The Company believes it will be able to raise new funds as required in the long term to fund its exploration programs but recognizes there will be risks involved that may be beyond its control.

## 14 Subsequent events

### Initial public offering

On November 13, 2020, the Company obtained a receipt for its final prospectus filed with the securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario, in connection with the initial public offering (the "Offering") of a minimum of 10,000,000 units of the company (the "Units") and a maximum of 20,000,000 Units at a price of \$0.50 per Unit for minimum gross proceeds of \$5,000,000 and maximum gross proceeds of \$10,000,000 to the Company.

Each Unit comprises one common share in the capital of the Company (each a "Common Share") and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "Warrant"). Each Warrant is exercisable into one common share of the Company (each, a "Warrant Share") at an exercise price of \$0.70 per Warrant Share on the date that is 36 months following the closing of the Offering, subject to adjustment in certain events. Haywood Securities Inc., BMO Capital Markets Corp. and Canaccord Genuity Corp. are acting as agents (together, the "Agents") for the Offering.

The Company has granted the Agents an over-allotment option (the "Over-Allotment Option"), exercisable in whole or in part, at the sole discretion of the Agents, at any time up to 30 days following the closing of the Offering, to purchase up to an additional number of Units equal to 15% of the Units sold pursuant to the Offering (the "Agents' Option Units") at a price of \$0.50 per Agents' Option Unit to cover the Agents' over-allocation position, if any, and for market stabilization purposes. The closing of the Offering is expected to occur on or about December 3, 2020 (the "Closing Date") and is subject to customary closing conditions, including the receipt of all necessary regulatory approvals. The Company has received conditional listing approval of the TSX Venture Exchange (the "TSX-V") for the listing of its Common Shares. Listing remains subject to the Company fulfilling customary TSX-V requirements. The Common Shares are expected to commence trading on the TSX-V under the symbol "ECU" on the Closing Date.

## **Element 29 Resources Inc.**

### **Notes to Condensed Consolidated Interim Financial Statements**

For the three and nine month ended September 30, 2020 and 2019 (unaudited)

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(expressed in Canadian dollars, except where indicated)

#### **Share options**

Subsequent to September 30, 2020, the Company issued 375,000 share options with an exercise price of C\$0.50 per share that vest one-third per year and expire in 5 years from the date of grant.