



# **NEWPORT**

## **EXPLORATION LTD.**

**FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**JULY 31, 2021**



**KPMG LLP**  
**Chartered Professional Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Newport Exploration Limited

### **Opinion**

We have audited the financial statements of Newport Exploration Limited (the Entity), which comprise:

- the statements of financial position as at July 31, 2021 and July 31, 2020;
- the statements of net income and comprehensive income for the years then ended;
- the statements of changes in shareholders' equity for the years then ended;
- the statements of cash flows for the years then ended;
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at July 31, 2021 and July 31, 2020, 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 audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially



inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.



The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Andrew James

Vancouver, Canada

October 28, 2021

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT JULY 31,**  
(Expressed in Canadian Dollars)

	2021	2020
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 2,860,234	\$ 4,795,013
Receivables (Note 4)	2,814,915	1,820,573
Prepaid expenses	9,387	7,221
Short-term investments	<u>2,424,537</u>	<u>2,017,538</u>
	8,109,073	8,640,345
<b>Equipment</b> (Note 5)	9,016	12,882
<b>Exploration and evaluation asset</b> (Note 6)	<u>1</u>	<u>1</u>
	<u>\$ 8,118,090</u>	<u>\$ 8,653,228</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 57,140	\$ 43,698
Income tax payable (Note 13)	<u>475,537</u>	<u>168,169</u>
	<u>532,677</u>	<u>211,867</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9(a))	47,906,989	47,420,898
Reserves (Note 9(c))	2,213,537	2,406,378
Deficit	<u>(42,535,113)</u>	<u>(41,385,915)</u>
	<u>7,585,413</u>	<u>8,441,361</u>
	<u>\$ 8,118,090</u>	<u>\$ 8,653,228</u>

**Nature of operations** (Note 1)

**Commitments** (Note 11)

**Dividends** (Note 15)

**Subsequent event** (Note 15)

"Ian Rozier"	Director	"Barbara Dunfield"	Director
Ian Rozier		Barbara Dunfield	

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME**  
**YEARS ENDED JULY 31,**  
**(Expressed in Canadian Dollars)**

	2021	2020
<b>EXPENSES</b>		
Administration fees	\$ 14,400	\$ 14,400
Amortization	3,866	3,657
Consulting fees	602,575	519,800
Directors' fees	85,836	80,000
Exploration expense	24,634	4,536
Foreign exchange loss (gain)	97,700	(26,048)
Management fees	407,200	348,000
Office and miscellaneous	104,367	124,381
Professional fees	118,962	114,278
Rent	70,516	90,939
Shareholder communications	27,107	39,364
Share-based payments (Note 9(c))	-	614,091
Transfer agent and filing fees	26,156	22,599
Travel and related costs	<u>24,634</u>	<u>78,461</u>
<b>Loss from operations</b>	<u>(1,607,953)</u>	<u>(2,028,458)</u>
<b>OTHER ITEMS</b>		
Interest income	57,927	106,830
Petroleum royalty (Note 7)	<u>10,575,708</u>	<u>10,751,923</u>
	<u>10,633,635</u>	<u>10,858,753</u>
<b>Net income before income taxes</b>	9,025,682	8,830,295
Income tax expense (Note 13)	<u>(2,795,789)</u>	<u>(2,892,035)</u>
<b>Net income and comprehensive income for the year</b>	<u>\$ 6,229,893</u>	<u>\$ 5,938,260</u>
<b>Earnings per common share:</b>		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06
<b>Weighted average number of common shares outstanding:</b>		
Basic (Note 9 (a))	105,362,477	104,429,874
Diluted (Note 9 (a))	<u>106,484,147</u>	<u>104,768,230</u>

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31,**  
**(Expressed in Canadian Dollars)**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	\$ 6,229,893	\$ 5,938,260
Items not affecting cash:		
Amortization	3,866	3,657
Share-based payments	-	614,091
Interest income	(57,927)	(106,830)
Income tax expense	2,795,789	2,892,035
Foreign exchange	(20,487)	34,167
Change in non-cash working capital items:		
Decrease (increase) in receivables	(1,034,423)	1,065,096
Decrease (increase) in prepaids	(2,166)	148
Increase (decrease) in accounts payable and accrued liabilities	13,442	(77,266)
Interest received	115,172	93,352
Income taxes received (paid)	<u>(2,467,197)</u>	<u>(3,217,068)</u>
Net cash provided by operating activities	<u>5,575,962</u>	<u>7,239,642</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(13,042)
Investment redemptions (purchases), net	<u>(424,900)</u>	<u>2,955,343</u>
Cash provided by (used in) investing activities	<u>(424,900)</u>	<u>2,942,301</u>
<b>CASH FLOWS USED FOR FINANCING ACTIVITIES</b>		
Dividends paid	(7,379,091)	(8,354,389)
Issuance of common shares	<u>293,250</u>	<u>-</u>
Cash used for financing activities	<u>(7,085,841)</u>	<u>(8,354,389)</u>
<b>Increase in cash and equivalents during the year</b>	<b>(1,934,779)</b>	<b>1,827,554</b>
<b>Cash and equivalents, beginning of year</b>	<b><u>4,795,013</u></b>	<b><u>2,967,459</u></b>
<b>Cash and equivalents, end of year</b>	<b>\$ 2,860,234</b>	<b>\$ 4,795,013</b>

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian Dollars)

	<u>Capital Stock</u>				
	<u>Number</u>	<u>Amount</u>	<u>Reserves</u>	<u>Deficit</u>	<u>Total</u>
<b>Balance at July 31, 2019</b>	104,429,874	\$ 47,420,898	\$ 1,792,287	\$ (38,969,786)	\$ 10,243,399
Dividend distribution	-	-	-	(8,354,389)	(8,354,389)
Net income for the year	-	-	-	5,938,260	5,938,260
Share-based payments	-	-	614,091	-	614,091
<b>Balance at July 31, 2020</b>	104,429,874	47,420,898	2,406,378	(41,385,915)	8,441,361
Dividend distribution	-	-	-	(7,379,091)	(7,379,091)
Net income for the year	-	-	-	6,229,893	6,229,893
Shares issued pursuant to option exercise	1,150,000	486,091	(192,841)	-	293,250
<b>Balance at July 31, 2021</b>	105,579,874	\$ 47,906,989	\$ 2,213,537	\$ (42,535,113)	\$ 7,585,413

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

## **1. NATURE OF OPERATIONS**

Newport Exploration Ltd. (the “Company”) was incorporated on September 19, 1979 under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its exploration and evaluation asset. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation asset contains ore reserves. Recoverability of the carrying amount of the exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The Company also receives royalty payments related to a retained interest in certain petroleum licenses in Australia (note 7). The Company has no ability to determine the quantum or sustainability of future royalty payments, and as a result, there is no assurance the Company will continue to receive payments from its 2.5% gross overriding petroleum royalty. The receipts of royalty payments are not indicative of additional near-term income or any future income as the Company has no information to support or validate the expectation of future receipt. Any future royalty receipts are treated as fortuitous.

The Company’s head office and principal address is 202 – 2168 Marine Drive, West Vancouver, British Columbia, Canada, V7V 1K3. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has financed its operations primarily through issuance of common shares and from the receipt of royalty payments. The Company currently has cash and equivalents and short term investments totalling \$5,284,771 and net working capital of \$7,576,396 which the Company believes is sufficient to fund its current business plans in the foreseeable future. In the longer term, additional equity or debt financing may be necessary to fund exploration and general and administrative activities or mine development or if royalty payments are not sufficient to fund such activities.

### ***Covid-19 impact on the business***

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. The current and expected impacts on global commerce are anticipated to be far reaching. To date there have been significant stock market declines, significant volatility in commodity and foreign exchange markets and the global movement of people and some goods have become restricted.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while there has been no significant financial impact for the Company as at the approval date of these financial statements, other than a restriction for all staff on international travel, it is not practicable to estimate the potential impact, positive or negative, on future periods. The situation is rapidly developing and is dependent on measures imposed by the Canadian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

These financial statements were authorized for issue on October 28, 2021 by the directors of the Company.

### ***Basis of preparation***

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit and loss, which are stated at their fair value. These financial statements are presented in Canadian dollars unless otherwise noted.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)**

***Functional and presentation currency***

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar for the Company. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of net income and comprehensive net income in the year in which they arise.

***Critical accounting estimates, judgments and assumption***

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to the following:

- i) The carrying value and the recoverability of its exploration and evaluation asset, which is included in the statements of financial position. The Company capitalizes exploration and evaluation expenditures. At every reporting period, management assesses the potential impairment of the exploration and evaluation asset which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount. Such assessment requires judgement and estimates with respect to mineral resources, metal prices, capital and operating costs and considers management's plans with respect to an area of interest. Changes in these assumptions and judgements could result in an impairment of the carrying value of the exploration and evaluation asset
- ii) The inputs used in calculating the fair value for share-based payments expense included in net income and stock-based share issuance costs included in shareholders' equity. The share-based payments expense is estimated using the Black-Scholes pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these assumptions affect the fair value of share-based compensation and the amount recognized as an expense in net income or as stock-based share issuance costs included in shareholders' equity

***Cash and equivalents***

Cash and equivalents consist of cash and short-term investments with original maturity dates of less than ninety days or that are fully redeemable without penalty or loss of interest.

***Short-term investments***

Short-term investments include Canadian guaranteed investment certificates with major Canadian Banking Institutions with original maturity dates greater than ninety days. These investments are recognized at fair value on each balance sheet date.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)**

***Royalties***

Royalty income is recognized upon sale by the licensee of royalty-bearing petroleum, when realization is considered probable, and collection is reasonably assured.

***Exploration and evaluation expenditures***

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or asset acquisition. Expenditures incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of net income and comprehensive income.

Subsequent to the acquisition of the legal rights to explore and until the mineral property reaches its development stage, exploration and evaluation expenditures are recognized in the statement of net income. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

***Equipment***

Equipment is carried at cost less accumulated amortization. Amortization is recorded at the following annual rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

***Share-based payments***

The Company has a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods based on the number of options that are expected to vest. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding credit amount is recorded as a reserve in shareholders' equity. The fair value of options is determined using a Black-Scholes pricing model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts included in reserves are transferred to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)**

***Earnings per share***

Basic earnings per share is calculated by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding in the year. For all periods presented, the income attributable to common shareholders equals the reported income attributable to owners of the Company. In calculating the diluted earnings per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

***Financial instruments***

Financial assets and liabilities are initially recognized at fair value on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Subsequently, financial assets and liabilities are recognized based on the classification of these financial assets. The Company has classified financial assets into one of the following categories: (1) financial assets at fair value through profit or loss ("FVTPL"), (2) financial assets at fair value through other comprehensive income ("FVTOCI"), (3) financial assets at amortized cost. Financial liabilities are classified as either (1) financial liabilities at FVTPL or (2) financial liabilities at amortized cost.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in profit or loss. Financial assets at FVTOCI are subsequently measured at fair value with changes in those fair values recognized in other comprehensive income (loss), net of tax. Financial assets and liabilities at amortized cost are measured at amortized cost using the effective interest rate method.

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost and accounts payable and accrued liabilities are classified as liabilities at amortized cost. Accounts receivable, where applicable are net of a provision for expected credit losses.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Due to the nature of its receivables and that expected credit loss is nominal, no provision for credit loss was recognized by the Company (Note 14).

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)**

***Impairment of non-financial assets***

The carrying amount of the Company's non-financial assets (which include exploration and evaluation assets and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of net income and comprehensive net income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

***Income taxes***

Current income tax:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**JULY 31, 2021**

**4. RECEIVABLES**

Trade and other receivables are comprised of the following:

	July 31, 2021	July 31, 2020
GST receivable	\$ 16,459	\$ 13,428
Petroleum royalty (Note 7)	2,796,362	1,766,080
Interest	2,094	41,065
<b>Total</b>	<b>\$ 2,814,915</b>	<b>\$ 1,820,573</b>

Information about the Company's exposure to credit risk and market risk for the Petroleum Royalty is included in Note 14.

**5. EQUIPMENT**

	Furniture and fixtures	Computer equipment	Total
<b>Cost</b>			
Balance, July 31, 2019	\$ 23,758	\$ 51,925	\$ 75,683
Additions	11,042	4,371	11,042
Balance, July 31, 2020 and 2021	\$ 34,800	\$ 51,925	\$ 86,725
<b>Accumulated amortization</b>			
Balance, July 31, 2019	\$ 21,758	\$ 48,428	\$ 70,186
Amortization	2,608	1,049	3,657
Balance, July 31, 2020	24,366	49,477	73,843
Amortization	3,131	735	3,866
Balance, July 31, 2021	\$ 27,497	\$ 50,212	\$ 77,709
<b>Carrying amounts</b>			
As at July 31, 2020	\$ 10,434	\$ 2,448	\$ 12,882
As at July 31, 2021	\$ 7,303	\$ 1,713	\$ 9,016

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**JULY 31, 2021**

---

**6. EXPLORATION AND EVALUATION ASSET**

During the year ended July 31, 2014, the Company acquired a 100% interest in Chu Chua, a sulphide deposit located north of Kamloops, British Columbia. In consideration, the Company paid Grosvenor Resource Corporation (“Grosvenor”) \$1,500,000 and issued 5,436,000 common shares of the Company having a fair value of \$217,440. The acquisition agreement supersedes and replaces an earlier 50% earn-in agreement wherein the Company incurred a total of \$335,012 in expenditures. There are two separate 1% net smelter returns on Chu Chua to underlying parties. A significant shareholder of Grosvenor is a director of Newport. During the year ended July 31, 2018, the Company determined it had no current plans for exploration on the property, and that Chu Chua should be impaired to its recoverable amount of \$1. Accordingly, an impairment charge of \$2,082,080 to operations was recorded during the year ended July 31, 2018. During the year ended July 31, 2021, the Company commenced the updating of Chu Chua’s 43-101 report and incurred exploration expenses of \$24,634.

**7. PETROLEUM ROYALTY**

Under the terms of an agreement for the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company) in 2002, the Company retained a 2.5% gross overriding royalty interest on any hydrocarbons discovered on certain petroleum exploration licences in Australia. During the year ended July 31, 2021, the Company earned \$10,575,708 (2020 - \$10,751,923) of petroleum royalty income, of which \$2,769,362 (2019 - \$1,766,080) is included in receivables as at July 31, 2021. Subsequent to July 31, 2021, the Company received AUD\$2,136,958 which represents the royalty receivable net of a 30% withholding tax of AUD\$915,839. The receipt of royalty payments is considered to be highly variable, and as such these payments are not indicative of additional near-term income or any future income.

During the year ended July 31, 2016, the Australian Tax Office (“ATO”) ruled that the Company’s petroleum royalty income is taxable in Australia and, as such, the Company has 30% of its royalty payment withheld at source by Beach Energy Ltd (“Beach”) and Santos Ltd (“Santos”), which Beach and Santos are required to remit to the ATO. The Company files annual tax returns in Australia.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	July 31, 2021	July 31, 2020
Trade payables	\$ 16,140	\$ 5,016
Due to related parties (Note 10)	15,000	13,332
Accrued liabilities	26,000	25,350
<b>Total</b>	<b>\$ 57,140</b>	<b>\$ 43,698</b>

The Company’s exposure to liquidity risk is included in Note 14.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**JULY 31, 2021**

**9. CAPITAL STOCK AND RESERVES**

a) Authorized share capital

As at July 31, 2021, the authorized share capital of the Company is an unlimited number of common shares without par value.

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the Company's Annual General Meeting.

Basic and diluted per share amounts have been calculated based on the following:

	July 31, 2021	July 31, 2020
Weighted average number of common shares - basic	105,362,477	104,429,874
Effect of outstanding stock options	1,121,670	338,356
<b>Weighted average number of common shares - diluted</b>	<b>106,484,147</b>	<b>104,768,230</b>

Only the "in-the-money" dilutive instruments impact the calculation of dilutive income per common share.

b) Stock options

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to directors, employees and consultants to acquire up to 10% (10,557,987) of the issued and outstanding common shares of the Company to be issued from the treasury upon exercise of the stock options. Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of Grant less any applicable discount permitted by the securities regulatory authorities. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

Details of options outstanding as at July 31, 2021 are as follows:

Number of Options	Exercise Price	Expiry Date
<u>8,675,000</u>	\$0.40	December 26, 2024*
8,675,000		

\*these options vested 100% on the date of grant.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**JULY 31, 2021**

**9. CAPITAL STOCK AND RESERVES (cont'd)**

b) Stock options (cont'd)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2019	2,950,000	\$ 0.30
Granted	9,075,000	0.40
Expired	<u>(1,650,000)</u>	0.34
Balance, July 31, 2020	10,375,000	0.38
Exercised	(1,150,000)	0.25
Forfeited	<u>(400,000)</u>	0.40
Balance, July 31, 2021	<u>8,675,000</u>	<u>\$ 0.40</u>
Number of options exercisable	<u>8,675,000</u>	<u>\$ 0.40</u>

c) Share-based payments

During the year ended July 31, 2021, the Company granted Nil (2020 – 9,075,000) stock options to directors, officers and consultants of the Company, with a grant date fair value of \$Nil (2020 - \$0.39) per option resulting in share-based payments expense of \$Nil (2020 - \$614,091), using the Black-Scholes option pricing model.

The Company applies the fair value method using the Black-Scholes option pricing model to account for stock options granted to directors, officers and consultants. The following assumptions were used to calculate the fair value of the stock options granted during the year:

	2021	2020
Risk-free interest rate	-	1.62%
Expected life of options	-	5 years
Annualized volatility	-	67.16%
Dividend rate	-	16%
Forfeiture rate	-	0%

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
JULY 31, 2021

---

---

**9. CAPITAL STOCK AND RESERVES (cont'd)**

d) Warrants

There are no warrant transactions during the years ended July 31, 2020 and 2021. There are no warrants outstanding at July 31, 2021.

**10. RELATED PARTY TRANSACTIONS**

The aggregate value of transactions with key management personnel, consisting of the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and members of the board of directors, for compensation are as follows:

	July 31, 2021	July 31, 2020
Management fees	\$ 407,200	\$ 348,000
Consulting fees	594,075	504,000
Share-based payments	-	536,272
Directors fees	85,836	80,000

In addition, during the year ended July 31, 2021, the Company reimbursed rent expense (at cost) of \$70,516 (2020 - \$90,939) to a company controlled by a director of the Company.

As at July 31, 2021, accounts payable and accrued liabilities included \$15,000 (2020 - \$13,332) owing to directors of the Company.

**11. COMMITMENTS**

The Company has management and consulting contracts with a company controlled by Ian Rozier, a director and CEO of the Company, and a company controlled by Barbara Dunfield, a director and CFO of the Company. The Company pays the companies a combined total of \$80,325 per month. These contracts remain in force on a continuous basis and can be terminated by the Company with 90 days written notice. If termination of services of either or both companies is without cause, the Company will be obligated to pay 36 months of service fees to either or both companies.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
JULY 31, 2021

**12. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of resource properties. The Company's mineral property is in Canada and the Company's royalty income is derived from Australia.

**13. INCOME TAXES**

A reconciliation of income tax expense calculated at statutory rates of 27% (2020 – 27%) with the reported income tax expense is as follows:

	2021	2020
Net income before income taxes	\$ 9,025,682	\$ 8,830,295
Expected tax expense	\$ 2,436,934	\$ 2,384,180
Non-deductible expenditures	1,497	167,892
Change in unrecognized deductible temporary differences	86,421	56,400
Foreign taxation differences	<u>270,937</u>	<u>283,564</u>
Total income tax expense	<u>\$ 2,795,789</u>	<u>\$ 2,892,035</u>

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2021	2020	Expiry date range
Temporary differences:			
Investment tax credits	\$ 6,000	\$ 6,000	2038
Exploration and evaluation asset	\$ 3,747,000	\$ 2,781,000	No expiry
Equipment	\$ 268,000	\$ 268,000	No expiry
Allowable capital losses	\$ 12,286,000	\$ 12,286,000	No expiry
Non-capital losses	\$ 2,834,000	\$ 2,834,000	2026-2032

During 2016, the Company received a tax ruling from the Australian Tax Office (the "ATO") indicating that the Company's annual 2.5% gross overriding petroleum royalty received from Beach, current and past, (net of applicable expenses) is subject to withholding tax in Australia. The Company files Australian tax returns annually. The Company had a net Australian income tax liability at July 31, 2021 of \$475,537 which consists of accrued withholding taxes on its Royalty receivable at July 31, 2021 of \$838,909 (2020 - \$529,824) and accrued Australian income tax receivable of \$363,372 (2020 - \$361,655).

**14. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of short term investments was \$2,424,537 at July 31, 2021 (2020 - \$2,017,538), a level 1 fair value measurement.

#### **14. FINANCIAL AND CAPITAL RISK MANAGEMENT**

##### **Financial risk factors**

The Company's Board of Directors has the overall responsibility for the established method and oversight of the Company's risk management framework.

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

##### *Credit risk*

Credit risk is the risk of financial loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables, the carrying value totalling \$8,099,686, represents the Company's maximum exposure to credit risk. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of the Company's royalty income. The royalty income comes from one company, and is typically received within 30 days after the quarter of production. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is remote due to the historical success of collecting receivables.

##### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at July 31, 2021, the Company had a cash and equivalents balance of \$2,860,234 (2020 - \$4,795,013), receivables of \$2,814,915 (2020 - \$1,820,573) and short-term investments of \$2,424,537 (2020 - \$2,017,538) to settle current liabilities of \$532,677 (2020 - \$211,867). All of the Company's financial liabilities are subject to normal payment terms.

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

##### a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect on net income and comprehensive income of a 1% change in interest rates is approximately \$18,000.

##### b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment, and its net income tax payable which are denominated in Australian dollars. The net effect on net income and comprehensive income of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$17,000. The Company does not currently hedge exchange risk.

**14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd)**

**Capital management**

Newport's objectives when managing capital is to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

Newport manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company monitors its expenditures against its available capital.

The Company is currently not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**15. DIVIDENDS**

On September 16, 2019, the Company announced the payment of a one-time special dividend of \$0.06 per common share. The special dividend of \$6,265,791 was paid to shareholders of record at the close of business on September 25, 2019.

On February 10, 2020, the Company announced a quarterly dividend of \$0.01 per common share. The quarterly dividend was paid to shareholders of record at the close of business on February 24, 2020, resulting in a distribution of \$1,044,299 on March 6, 2020.

On May 13, 2020, the Company announced a quarterly dividend of \$0.01 per common share. The quarterly dividend was paid to shareholders of record at the close of business on May 28, 2020, resulting in a distribution of \$1,044,299 on June 10, 2020.

On August 12, 2020, the Company announced a quarterly dividend of \$0.01 per common share. The quarterly dividend was paid to shareholders of record at the close of business on August 26, 2020, resulting in a distribution of \$1,044,299 on September 10, 2020.

On November 12, 2020, the Company announced a quarterly dividend of \$0.03 per common share. The quarterly dividend was paid to shareholders of record at the close of business on November 26, 2020, resulting in a distribution of \$3,165,896 on December 11, 2020.

On February 10, 2021, the Company announced a quarterly dividend of \$0.01 per common share. The quarterly dividend was paid to shareholders of record at the close of business on February 25, 2021, resulting in a distribution of \$1,055,799 on March 12, 2021.

On May 10, 2021, the Company announced a quarterly dividend of \$0.02 per common share. The quarterly dividend was paid to shareholders of record at the close of business on May 26, 2021, resulting in a distribution of \$2,111,597 on June 10, 2021.

Subsequent to July 31, 2021, the Company announced a quarterly dividend of \$0.02 per common share. The quarterly dividend was paid to shareholders of record at the close of business on August 26, 2021, resulting in a distribution of \$2,111,597 on September 10, 2021.