



# **NEWPORT**

## **EXPLORATION LTD.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**OCTOBER 31, 2021**

These unaudited condensed interim financial statements of Newport Exploration Ltd. for the three months ended October 31, 2021 have been prepared by management and approved by the Board of Directors. These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
AS AT,  
(Unaudited)  
(Expressed in Canadian Dollars)

	October 31, 2021	July 31, 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 2,367,558	\$ 2,860,234
Receivables (Note 3)	2,136,738	2,814,915
Prepaid expenses	-	9,387
Short-term investments	<u>2,427,751</u>	<u>2,424,537</u>
	6,932,047	8,109,073
<b>Equipment</b>	7,946	9,016
<b>Exploration and evaluation asset</b> (Note 4)	<u>1</u>	<u>1</u>
	<u>\$ 6,939,994</u>	<u>\$ 8,118,090</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 58,045	\$ 57,140
Income tax payable (Note 11)	<u>177,156</u>	<u>475,537</u>
	<u>235,201</u>	<u>532,677</u>
<b>Shareholders' equity</b>		
Capital stock (Note 7(a))	47,906,989	47,906,989
Reserves (Note 7(c))	2,213,537	2,213,537
Deficit	<u>(43,415,733)</u>	<u>(42,535,113)</u>
	<u>6,704,793</u>	<u>7,585,413</u>
	<u>\$ 6,939,994</u>	<u>\$ 8,118,090</u>

**Nature of operations** (Note 1)

**Commitments** (Note 9)

**Dividends** (Note 13)

**Subsequent event** (Note 13)

<u>“Ian Rozier”</u> Ian Rozier	Director	<u>“Barbara Dunfield”</u> Barbara Dunfield	Director
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The accompanying notes are an integral part of these condensed interim financial statements.

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME**  
**THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited)  
(Expressed in Canadian Dollars)

	2021	2020
<b>EXPENSES</b>		
Administration fees	\$ 3,600	\$ 3,600
Amortization	1,070	967
Consulting fees	143,175	126,000
Directors' fees	22,500	20,000
Exploration	2,830	5,650
Foreign exchange (gain) loss	(20,868)	33,174
Management fees	97,800	87,000
Office and miscellaneous	23,365	22,171
Professional fees	25,062	19,670
Rent	15,000	15,000
Shareholder communications	7,555	6,410
Transfer agent and filing fees	1,547	4,165
Travel and related costs	<u>11,303</u>	<u>3,743</u>
<b>Loss from operations</b>	<u>(333,939)</u>	<u>(347,550)</u>
<b>OTHER ITEMS</b>		
Interest income	4,878	27,179
Petroleum royalty (Note 5)	<u>2,101,148</u>	<u>2,557,925</u>
	<u>2,106,026</u>	<u>2,585,104</u>
<b>Net income before income taxes</b>	<u>1,772,087</u>	<u>2,237,554</u>
Income tax expense (Note 11)	<u>(541,109)</u>	<u>(688,150)</u>
<b>Net income and comprehensive income for the period</b>	<u>\$ 1,230,978</u>	<u>\$ 1,549,404</u>
<b>Earnings per common share:</b>		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01
<b>Weighted average number of common shares outstanding:</b>		
Basic (Note 7 (a))	105,579,874	104,717,374
Diluted (Note 7 (a))	106,620,381	104,717,374

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

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited)  
(Expressed in Canadian Dollars)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	\$ 1,230,978	\$ 1,549,404
Items not affecting cash:		
Amortization	1,070	967
Interest income	(4,878)	(27,179)
Income tax expense	541,109	688,150
Foreign exchange	3,784	164
Change in non-cash working capital items:		
Decrease (increase) in receivables	676,118	(759,809)
Decrease in prepaid expenses	9,387	7,221
Increase (decrease) in accounts payable and accrued liabilities	905	(23,322)
Interest received	365	757
Income taxes paid	<u>(839,916)</u>	<u>(530,045)</u>
Net cash provided by operating activities	<u>1,618,922</u>	<u>906,308</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(2,111,598)	(1,044,299)
Issuance of common shares	<u>-</u>	<u>293,250</u>
Net cash used in financing activities	<u>(2,111,598)</u>	<u>(751,049)</u>
<b>Change in cash and equivalents during the period</b>	(492,676)	155,259
<b>Cash and equivalents, beginning of period</b>	<u>2,860,234</u>	<u>4,795,013</u>
<b>Cash and equivalents, end of period</b>	<u>\$ 2,367,558</u>	<u>\$ 4,950,272</u>

**Supplemental Disclosure with Respect to Cash Flows:**

During the three months ended October 31, 2021, the Company reclassified \$Nil (2020 - \$192,841) from Reserves to Capital Stock as a result of the exercise of stock options.

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

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

	<u>Capital Stock</u>				
	Number	Amount	Reserves	Deficit	Total
<b>Balance at July 31, 2020</b>	104,429,874	\$ 47,420,898	\$ 2,406,378	\$ (41,385,915)	\$ 8,441,361
Dividend distribution	-	-	-	(1,044,299)	(1,044,299)
Net income for the period	-	-	-	1,549,404	1,549,404
Shares issued pursuant to option exercise	<u>1,150,000</u>	<u>486,091</u>	<u>(192,841)</u>	<u>-</u>	<u>293,250</u>
<b>Balance at October 31, 2020</b>	105,579,874	\$ 47,906,989	\$ 2,213,537	\$ (40,880,810)	\$ 9,239,716
<b>Balance at July 31, 2021</b>	105,579,874	\$ 47,906,989	\$ 2,213,537	\$ (42,535,113)	\$ 7,585,413
Dividend distribution	-	-	-	(2,111,598)	(2,111,598)
Net income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,230,978</u>	<u>1,230,978</u>
<b>Balance at October 31, 2021</b>	105,579,874	\$ 47,906,989	\$ 2,213,537	\$ (43,415,733)	\$ 6,704,793

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

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
(Unaudited)  
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OCTOBER 31, 2021

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**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 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, receives royalty payments related to a retained interest in certain petroleum licenses in Australia (note 5). 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 receipt 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 receipt is treated as fortuitous.

These unaudited condensed interim 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 short term investments totalling \$4,795,309 and net working capital of \$6,696,846 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.

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.

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

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

The impact of the Coronavirus (COVID-19) pandemic is ongoing, it is not practicable to estimate the potential impact, positive or negative, on future periods. The situation is continually changing and is dependent on measures imposed by the Canadian Government and other countries.

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**2. STATEMENT OF COMPLIANCE**

These unaudited condensed interim financial statements were authorized for issue on December 22, 2021 by the directors of the Company.

*Statement of compliance*

These unaudited condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

These unaudited condensed interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited annual financial statements of the Company for the year ended July 31, 2021.

**3. RECEIVABLES**

Trade and other receivables are comprised of the following:

	October 31, 2021	July 31, 2021
GST receivable	\$ 14,839	\$ 16,459
Petroleum royalty (Note 5)	2,119,134	2,796,362
Other	2,765	2,094
<b>Total</b>	<b>\$ 2,136,738</b>	<b>\$ 2,814,915</b>

Information about the Company’s exposure to credit risk and market risk for the Petroleum Royalty is included in Note 12.

**4. EXPLORATION AND EVALUATION ASSET**

In 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 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. During the three months ended October 31, 2021, the Company incurred additional expenses of \$2,830 on the NI43-101 Report, which can be found on the Company’s website.



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**5. 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 three months ended October 31, 2021, the Company earned \$2,101,148 (2020 - \$2,557,925) of petroleum royalty income, of which \$2,119,134 (July 31, 2021 - \$2,769,362) is included in receivables as at October 31, 2021. Subsequent to October 31, 2021, the Company received AUD\$1,593,676 which represents the royalty receivable net of a 30% withholding tax of AUD\$683,004. 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.

In 2016, the Australian Tax Office (“ATO”) ruled the Company’s petroleum royalty income taxable in Australia. The Company has 30% of its royalty payment withheld at source by Beach and Santos, who are required to remit this tax to the ATO. The Company files annual tax returns in Australia.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	October 31, 2021	July 31, 2021
Trade payables	\$ 17,045	\$ 16,140
Due to related parties (Note 8)	15,000	15,000
Accrued liabilities	26,000	26,000
<b>Total</b>	<b>\$ 58,045</b>	<b>\$ 57,140</b>

The Company’s exposure to liquidity risk is included in Note 12.

**7. CAPITAL STOCK AND RESERVES**

a) Authorized share capital

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

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

	October 31, 2021	October 31, 2020
Weighted average number of common shares - basic	105,579,874	104,717,374
Effect of outstanding stock options	1,040,507	-
<b>Weighted average number of common shares - diluted</b>	<b>106,620,381</b>	<b>104,717,374</b>

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

During the three months ended October 31, 2020, the Company received proceeds of \$293,250 from the exercise of 1,150,000 stock options. In conjunction with the exercise of stock options, the Company reclassified \$192,841 to capital stock from reserves.

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

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 and employees 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 October 31, 2021 are as follows:

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

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

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2020	10,375,000	\$ 0.38
Exercised	(1,150,000)	0.25
Expired	(400,000)	0.40
<b>Balance, July 31, 2021 &amp; October 31, 2021</b>	<b>8,675,000</b>	<b>\$ 0.40</b>
<b>Number of options exercisable</b>	<b>8,675,000</b>	<b>\$ 0.40</b>

c) Warrants

There are no warrant transactions during the year ended July 31, 2021 and the three months ended October 31, 2021. There are no warrants outstanding at July 31, 2020, July 31, 2021 and October 31, 2021.

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**8. 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:

	October 31, 2021	October 31, 2020
Management fees	\$ 97,800	\$ 87,000
Consulting fees	143,175	126,000
Directors fees	22,500	20,000

In addition, during the three months ended October 31, 2021, the Company reimbursed rent expense (at cost) of \$15,000 (2020 - \$15,000) to a company controlled by a director of the Company.

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

**9. 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.

**10. 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.

**11. INCOME TAXES**

The Company's 2.5% gross overriding petroleum royalty received from Beach, (net of applicable expenses) is subject to withholding tax in Australia, and Australian income taxes are filed annually. Newport’s Australian income tax receivable is a result of the Company incurring eligible deductible expenses for Australian income tax purposes, which offsets the payable. The Company had a net Australian income tax liability at October 31, 2021 of \$177,156 which consists of accrued withholding taxes on its Royalty receivable at October 31, 2021 of \$635,740 (July 31, 2021 - \$838,909) and accrued Australian income tax receivable of \$458,584 (Jul 31, 2021 - \$363,372). Subsequent to October 31, 2021, the Company received its July 31, 2021 Australian income tax receivable.

## **12. 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 \$2,427,751 at October 31, 2021 (July 31, 2021 - \$2,424,537), a level 1 fair value measurement.

### **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 \$6,932,047, 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 October 31, 2021, the Company had a cash and equivalents balance of \$2,367,558 (July 31, 2021 - \$2,860,234), receivables of \$2,136,738 (July 31, 2021 - \$2,814,915) and short-term investments of \$2,427,751 (July 31, 2021 - \$2,424,537) to settle current liabilities of \$235,201 (July 31, 2021 - \$532,677). All of the Company's financial liabilities are subject to normal payment terms.

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

**Financial risk factors (cont'd)**

*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 \$17,700.

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 \$14,500. The Company does not currently hedge exchange risk.

**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.

**13. DIVIDENDS**

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.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
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**13. DIVIDENDS (cont'd)**

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 \$2,111,598 on June 10, 2021.

On August 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 August 26, 2021, resulting in a distribution of \$2,111,598 on September 10, 2021.

Subsequent to October 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 November 24, 2021, resulting in a distribution of \$2,111,598 on December 9, 2021.