



## **HPQ-Silicon Resources Inc.**

### **Consolidated Financial Statements As at December 31, 2020 and 2019**

**(in Canadian dollars)**

#### **Table of contents**

Independent Auditors' Report	2-5
Consolidated Statements of Financial Position	6
Consolidated Statements of Comprehensive Loss	7
Consolidated Statements of Changes in Equity	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-49



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Les Ressources HPQ-Sillicium inc.

### ***Opinion***

We have audited the consolidated financial statements of Les Ressources HPQ-Sillicium, inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of net loss and of other comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated 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 consolidated financial position of the Entity as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year 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.

### ***Material Uncertainty Related to Going Concern***

We draw attention to Note 2 in the financial statements, which indicates that the Entity is still in the exploration stage and, as such, no revenue has been yet generated and it has negative cash flows from its operating activities. Accordingly, the Entity depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of operations.



As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### ***Other Matter - Comparative Information***

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 8, 2020.

### ***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 International Financial Reporting Standards (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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditor's report is Tracy Chehab.

A handwritten signature in black ink that reads 'KPMG LLP' with a long, horizontal, slightly wavy line underneath it.

Montréal, Canada

April 28, 2021

# HPQ-Silicon Resources Inc.

## Consolidated Statements of Financial Position

As at December 31, 2020 and 2019  
(in Canadian dollars)

	Notes	December 31, 2020 \$	December 31, 2019 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		1,888,282	77,618
Marketable securities in a quoted company		722,000	90,000
Goods and services tax receivable		183,366	30,768
Investment tax credits receivable	8, 21	20,000	-
Royalties receivable	6	50,000	46,186
Deposit on contract	25	-	1,950,000
Prepaid expenses		100,000	100,000
		<u>2,963,648</u>	<u>2,294,572</u>
<b>Non-current</b>			
Exploration and evaluation assets	7	1,135,416	938,527
Property and equipment	8	4,658,802	4,240,000
Intangible assets	9	6,598,451	3,047,977
Deposit on contract	25	1,950,000	-
Royalties receivable	6	179,546	152,158
Investment accounted for using the equity method	10	176,973	180,942
		<u>14,699,188</u>	<u>8,559,604</u>
<b>Total assets</b>		<u>17,662,836</u>	<u>10,854,176</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables	11	191,001	447,052
Due to directors	12	116,750	80,000
Royalties payable	9	215,324	129,713
		<u>523,075</u>	<u>656,765</u>
<b>Non-current</b>			
Due to directors, officers and a company owned by a director, without interest (effective rate of 3.1% in 2020 and 2019)	12	1,022,322	996,319
Interests payable on the convertible debenture	13	228,437	129,709
Convertible debenture and derivative financial liabilities	13	1,645,783	1,511,048
Royalties payable	9	1,754,540	1,028,351
		<u>4,651,082</u>	<u>3,665,427</u>
<b>Total liabilities</b>		<u>5,174,157</u>	<u>4,322,192</u>
<b>EQUITY</b>			
Share capital	14	38,888,312	32,296,592
Equity component of convertible debentures	13	115,491	115,491
Contributed surplus		2,144,842	2,174,311
Retained deficit		(28,659,966)	(28,054,410)
<b>Total equity</b>		<u>12,488,679</u>	<u>6,531,984</u>
<b>Total liabilities and equity</b>		<u>17,662,836</u>	<u>10,854,176</u>

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 28, 2021.

### ON BEHALF OF THE BOARD

(s) Patrick Levasseur, Director

(s) Bernard J. Tourillon, Director

# HPQ-Silicon Resources Inc.

## Consolidated Statements of net loss and of comprehensive loss

As at December 31, 2020 and 2019

(in Canadian dollars)

	Notes	2020 \$	2019 \$
<b>Expenses</b>			
Salaries and employee benefits expense	15.1	491,354	479,551
Other operating expenses	17	558,160	596,826
Amortization of property and equipment		-	680
Amortization of intangible assets	9	38,857	-
Devaluation of exploration and evaluation assets		-	262,565
<b>Operating loss</b>		<u>1,088,371</u>	<u>1,339,622</u>
<b>Other income and expenses</b>			
Finance income	18	663,202	30,368
Financial costs	18	(408,021)	(481,227)
Gain on modification of royalties payable	9	-	350,000
Share of loss from equity-accounted investment		(85,945)	(88,672)
Adjustment of ownership in equity-accounted investment		81,976	155,426
Change in fair value of derivative liability	13	<u>45,568</u>	<u>(10,614)</u>
		296,780	(44,719)
<b>Loss before income tax</b>		<u>(791,591)</u>	<u>(1,384,341)</u>
Income taxes	20	-	-
<b>Net loss and total comprehensive loss for the year</b>		<u>(791,591)</u>	<u>(1,384,341)</u>
<b>Loss per share</b>			
Basic and diluted loss per share	19	<u>(0.01)</u>	<u>(0.01)</u>

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

# HPQ-Silicon Resources Inc.

## Consolidated Statements of Changes in Equity

As at December 31, 2020 and 2019  
(in Canadian dollars)

	Notes	Share capital	Equity component of convertible debenture	Contributed surplus	Retained deficit	Total equity
		\$	\$	\$	\$	\$
<b>Balance at January 1, 2019</b>		31,640,592	115,491	2,147,151	(26,662,235)	7,240,999
Units issued pursuant to private placements	14.1	535,750	-	34,250	-	570,000
Issuance for the payment of accounts payable	14.1	120,250	-	11,250	-	131,500
Expiration of brokers' warrants	14.3	-	-	(27,388)	27,388	-
Issuance cost of units	14.1	-	-	9,048	(35,222)	(26,174)
		656,000	-	27,160	(7,834)	675,326
Net loss and total comprehensive loss for the period		-	-	-	(1,384,341)	(1,384,341)
<b>Balance at December 31, 2019</b>		<u>32,296,592</u>	<u>115,491</u>	<u>2,174,311</u>	<u>(28,054,410)</u>	<u>6,531,984</u>
Units issued by private placements	14.1	2,660,000	-	540,000	-	3,200,000
Issuance for the payment of accounts payable	14.1	452,014	-	-	-	452,014
Exercise of warrants	14.2	2,863,692	-	(154,719)	-	2,708,973
Exercise of brokers' warrants	14.3	147,396	-	(36,843)	-	110,553
Exercise of brokers' units	14.4	34,708	-	(17,208)	-	17,500
Exercise of Share-based payments	15.2	433,910	-	(137,910)	-	296,000
Expiration of warrants	14.2	-	-	(231,762)	231,762	-
Issuance cost of units	14.1	-	-	8,973	(45,727)	(36,754)
		6,591,720	-	(29,469)	186,035	6,748,286
Net loss and total comprehensive loss for the year		-	-	-	(791,591)	(791,591)
<b>Balance at December 31, 2020</b>		<u>38,888,312</u>	<u>115,491</u>	<u>2,144,842</u>	<u>(28,659,966)</u>	<u>12,488,679</u>

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



# HPQ-Silicon Resources Inc.

## Consolidated Statements of Cash Flows

As at December 31, 2020 and 2019  
(in Canadian dollars)

	Notes	2020 \$	2019 \$
<b>OPERATING ACTIVITIES</b>			
Net loss		(791,591)	(1,384,341)
Non-cash items			
Amortization of property and equipment		-	680
Amortization of intangible assets		38,857	-
Devaluation of exploration and evaluation assets		-	262,565
Gain on modification of royalties payable		-	(350,000)
Net change in fair value of marketable securities in a quoted company		(632,000)	1,413
Share of loss from equity-accounted investment		85,945	88,672
Adjustment of ownership in equity-accounted investment		(81,976)	(155,426)
Accretion revenues – royalties receivable		(31,202)	(31,781)
Accretion expenses – due to directors, officers and a company owned by a director		31,203	-
Accretion expenses – royalties payable		97,787	235,880
Accretion expenses – convertible debenture		180,303	151,425
Interests cost of the convertible debenture		98,728	93,922
Change in fair value of derivative liability		(45,568)	10,614
Salaries and employee benefits expense		40,924	156,115
Changes in working capital items	21	(36,791)	251,830
Cash flows used for operating activities		<u>(1,045,381)</u>	<u>(668,432)</u>
<b>INVESTING ACTIVITIES</b>			
Addition to exploration and evaluation assets		(14,107)	(14,791)
Addition to property and equipment		(438,802)	-
Addition to intangible assets		(2,987,318)	(376,122)
Disposal of marketable securities in a quoted company		-	272,587
Cash flows used for investing activities		<u>(3,440,227)</u>	<u>(118,326)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of units by private placements		3,200,000	570,000
Exercise of warrants		2,708,973	-
Exercise of brokers' units		17,500	-
Exercise of brokers' warrants		110,553	-
Exercise of share-based payments		296,000	-
Issuance cost of units		(36,754)	(26,174)
Cash flows used for financing activities		<u>6,296,272</u>	<u>543,826</u>
<b>Net change in cash</b>		1,810,664	(242,932)
Cash, beginning of the period		77,618	320,550
Cash, end of the period		<u>1,888,282</u>	<u>77,618</u>

For additional cash flows information refer to Note 21.

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

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **1. NATURE OF OPERATIONS**

HPQ-Silicon Resources Inc. (“HPQ” or the “Company”) specializes in exploration and evaluation of quartz properties located in Quebec as well as in the development of technologies of quartz for its transformation into silicon materials.

### **2. GOING CONCERN AND STATEMENT OF COMPLIANCE WITH IFRS**

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has not yet determined whether its properties contain mineral deposits that are economically recoverable. The Company has not yet determined whether the development of the PUREVAP™ technology for the transformation of quartz into high purity silicon metal as well as the PUREVAP™ NSiR technology for the fabrication of nano silicon materials will operate successfully upon completion. The Company has not yet generated income or cash flows from its operations. As at December 31, 2020, the Company has cumulated a retained deficit of \$28,659,966 (\$28,054,410 as at December 31, 2019). The liquidity of the Company is not sufficient to fund its administrative and exploration and evaluation expenses for the next year. These material uncertainties cast a significant doubt on the Company’s ability to continue as a going concern.

The Company’s ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties, completion of the equipment under construction and the successful operation, as well as the continued support of suppliers and creditors. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

In March 2020, the World Health Organization declared the COVID-19 epidemic a pandemic. The situation is constantly evolving, and the measures put in place have numerous economic repercussions at the global, national, provincial and local levels. These measures, which include travel bans, confinement or quarantine, voluntary or not, and social distancing, have caused significant disruption among businesses, globally and in Canada, due to the economic slowdown. Governments and central banks responded by implementing monetary and fiscal measures to stabilize the world economy; however, the current uncertain economic climate may cause adverse changes in cash flow, the level of working capital and / or the search for future financing, which could have a direct impact on the Company’s future financial position.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. Those adjustments could be material.

### **3. GENERAL INFORMATION**

HPQ is incorporated under the *Canada Business Corporations Act*. The address of the registered office and its principal place of business is 3000 Omer-Lavallée Street, office 306, Montreal, Quebec, Canada. HPQ shares are listed on the TSX Venture Exchange.

### **4. SUMMARY OF ACCOUNTING POLICIES**

#### **4.1 Overall considerations**

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 4.2 Principle of consolidation

The Company's consolidated financial statements include the accounts of the parent company and its wholly owned subsidiary HPQ Nano Silicon Powders Inc. (HPQ Nano). HPQ Nano was incorporated under the *Canada Business Corporations Act*, and specializes in the production of nano silicon materials. The parent company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to influence these returns through its power over the subsidiary. All intra-group transactions, balances, revenues and expenses are eliminated upon consolidation.

### 4.3 Investment in associate

The associate is an entity over which the Company is able to exert significant influence, but which is not a subsidiary. Investments in the associate are initially recognized at cost and subsequently accounted for using the equity method.

The carrying amount of interest in an associate is increased or decreased to recognize the Company's share of the profit or loss of the associate adjusted where necessary to ensure consistency with the accounting policies of the Company.

When the Company's share of the associated company's losses is equal to or greater than its interest in the partnership, the Company ceases to recognize its share in subsequent losses. Additional losses are provisioned, and a liability is recognized if the Company has a legal or constructive obligation or made payments on behalf of the associated Company.

### 4.4 Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

### 4.5 Financial instruments

#### Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and liabilities are initially measured at fair value adjusted for transaction costs, if applicable.

Financial assets are derecognized when the contractual rights to cash flows from a financial asset expire, or when a financial asset and substantially all risks and rewards are transferred. A financial liability is derecognized in the event of termination, extinction, cancellation or expiration.

The classification of financial instruments under IFRS 9 is based on the entity's business model and the characteristics of the contractual cash flows of the financial asset or liability.

#### Classification and initial valuation of financial assets

Financial assets are classified into one of the following categories:

- Amortized cost;
- Fair value through profit or loss ("FVTPL");

All income and expenses relating to financial assets recognized in profit or loss are presented in finance costs or financial income.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.5 Financial instruments (continued)**

#### **Subsequent valuation of financial assets**

##### **Financial assets at amortized cost**

Financial assets are measured at amortized cost if they meet the following conditions:

- They are held according to an economic model whose objective is to hold financial assets in order to collect the contractual cash flows;
- The contractual terms of the financial assets give rise to cash flows that correspond solely to repayments of principal and interest payments on the principal outstanding.

After initial recognition, they are measured at amortized cost using the effective interest rate method. The update is omitted if its effect is not significant. Royalties receivable and the contract deposit are included in this category of financial instruments.

Financial assets that are held in a different economic model than “holding for the purpose of collection” or “holding for the purpose of collection and sale” are classified in the FVTPL category.

The class includes the marketable securities of a quoted company as an equity investment. The Company accounts for the investment in FVTPL and has not made an irrevocable election to account for its investment in the marketable securities of a quoted company at fair value through other comprehensive income (“FVTOCI”).

Assets in this category are measured at fair value and gains or losses are recognized in net income. The fair value of financial assets in this category is determined based on transactions in an active market or by applying a valuation technique when there is no active market.

##### **Impairment of financial assets**

The impairment provisions in IFRS 9 use more forward-looking information, the expected credit loss model, which replaces the IAS 39 loss model.

The recognition of credit losses is no longer dependent on the identification of a credit loss event by the Company. Rather, it must take into account an expanded range of information for assessing credit risk and assessing expected credit losses, including past events, current circumstances, and reasonable and justifiable forecasts that affect expected recoverability of future cash flows of the financial instrument.

The estimate of expected credit losses is determined at each reporting date to reflect changes in credit risk since the initial recognition of the related financial asset.

##### **Classification and measurement of financial liabilities**

The Company’s financial liabilities include trade payables and other payables (excluding salaries and personnel expenses), royalties payable, due to directors (current and non-current liabilities), officers and a corporation owned by a director (excluding salaries and personnel expenses), interest payable on the convertible debenture, the convertible debenture and its derivative liability.

Subsequently, financial liabilities, except derivative liability, are measured at amortized cost using the effective interest method. Derivative liability is measured subsequently at fair value with gains and losses recognized in profit or loss.

Interest expenses and, as the case may be, changes in the fair value of an instrument recognized in profit or loss are presented in financial expenses or financial income.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 4.5 Financial instruments (continued)

#### Compound financial instrument

The components of the compound financial instrument (convertible debenture) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument.

At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar non-convertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible debenture will be transferred to share capital. If the conversion option is not exercised at the expiry date of the convertible debenture, the equity component of the convertible debenture will be transferred to Retained deficit.

No profit or gain is recognized for the conversion or expiration of the conversion option.

Transaction costs related to the issuance of the convertible debenture are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs related to the equity component are recognized directly in equity.

Transaction costs related to the liability component are included in the carrying value of the liability component and amortized over the estimated useful life of the debenture using the effective interest rate method.

### 4.6 Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares which include share options, brokers' warrants, brokers' units, warrants and the convertible debenture. Dilutive potential common shares shall be deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares.

### 4.7 Investment tax credits receivable

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred, to a refundable credit on duties for losses under the *Mining Tax Act*, and to a refundable tax credit for scientific research and experimental development tax credits. The tax credits are recognized as a reduction of the exploration costs incurred or cost of assets acquired and on estimates made by management. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Company will comply with the conditions associated to them. Adjustments required, if any, are reflected in the year when such assessments are received.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.8 Exploration and evaluation assets and exploration and evaluation expenditures**

Exploration and evaluation expenditures are costs incurred in the course of the initial search for mineral deposits before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the legal rights to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake exploration and evaluation activities has been obtained, all costs of acquiring mineral rights and expenses related to the exploration and evaluation of mining properties, less refundable tax credits related to these expenses, are recognized as exploration and evaluation assets. Expenses related to exploration and evaluation include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. No depreciation expenses are recognized for these assets during the exploration and evaluation phase. Exploration and evaluation assets include land recorded as a non-amortizable fixed asset and carried at cost less any accumulated impairment losses.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts (see Note 4.11), the difference is then immediately recognized in profit or loss.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment (see Note 4.11), and any impairment loss is recognized in profit or loss before reclassification.

Presently, neither the technical feasibility nor commercial viability of extracting a mineral resource has been demonstrated.

Although the Company has taken steps to verify the title to the mining properties in which it holds an interest in accordance with industry practices for the current stage of exploration and development of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

### **Disposal of interest in connection with option agreement**

On the disposal of interest in connection with the option agreement, the Company does not recognize expenses related to the exploration and evaluation performed on the property by the acquirer. In addition, the cash or the shares consideration received directly from the acquirer are credited against the costs previously capitalized to the property, and the surplus is recognized as a gain on the disposal of exploration and evaluation assets in profit or loss.

### **4.9 Property and equipment**

Property and equipment are held at cost less accumulated amortization and accumulated impairment losses. Cost includes all costs incurred initially to acquire or construct an item of property and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part thereof. Recognition of costs in the carrying amount of an item of property and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.9 Property and equipment (continued)**

Upon the transfer of exploration and evaluation assets to property and equipment under Mining assets under construction, all subsequent expenditures on the construction, installation or completion of equipment and infrastructure facilities are capitalized within Mining assets under construction. When the development stage is completed, all assets included in the Mining assets under construction category are then transferred to Mining assets.

Amortization is recognized on a straight-line basis to reduce the cost to its estimated residual value, with a constant charge over the useful life of the asset.

Equipment under construction as well as leasehold improvements will be amortized using the straight-line basis over a period of 10 years when it will be ready for use.

The amortization expense for each period is recognized in profit or loss except for certain items of property and equipment related to exploration and evaluation activities where the amortization expense is included in the carrying amount of an exploration and evaluation asset when it relates to a specific exploration and evaluation project.

The residual value, amortization method and useful life of each asset are reviewed at least at each financial year-end.

The carrying amount of an item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

### **4.10 Intangible assets**

Patents and intellectual property are intangible assets measured at historical cost less accumulated amortization and accumulated impairment losses, if any. The cost of patents consists of the cost of patent applications. The cost of intellectual property is initially comprised of the acquisition cost. Amortization is calculated on a straight-line basis over the estimated useful life of the patent and intellectual property, which is valued at 16 and 21 years, respectively. The amortization period and amortization method are reviewed annually and adjusted prospectively as required.

### **4.11 Impairment of exploration and evaluation assets, property and equipment and intangible assets**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment, with the exception of exploration and evaluation assets, equipment under construction and intangible assets that are not yet ready for use.

Intangible assets that are not yet ready for use must be tested for impairment annually.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.11 Impairment of exploration and evaluation assets, property and equipment and intangible assets** (continued)

In the case of exploration and evaluation assets, an impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances apply:

- The right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- No further exploration or evaluation expenditures in the area are planned or budgeted;
- No commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- Sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Impairment reviews for exploration and evaluation assets are carried out on a project-by-project basis, with each project representing a potential single cash generating unit.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

### **4.12 Provisions and contingent liabilities**

Provisions are recognized when present legal or constructive obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Provisions are discounted when the time value of money is significant. The Company's operations are governed by government environmental protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.



# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.12 Provisions and contingent liabilities (continued)**

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. No provision was recognized in the consolidated statements of financial position at December 31, 2020 and December 31, 2019.

### **4.13 Income taxes**

Tax expenses recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax liabilities are generally recognized in full, although IAS 12 "Income Taxes" specifies limited exemptions. As a result of these exemptions, the Company does not recognize deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries.

### **Tax related to flow-through placements**

According to the provisions of tax legislation relating to flow-through placements, the Company must transfer its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Company has fulfilled its obligation to transfer its right, which happens when the Company has incurred eligible expenditures and has renounced or has the intention to renounce its right to tax deductions, a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized in the statement of financial position and its tax basis.

### **4.14 Equity**

Share capital represents the amount received on the issue of shares. If shares are issued when share options, brokers' warrants, brokers' units or warrants are exercised, the share capital account also comprises the compensation costs or the value of the stock options, brokers' options, warrants or brokers' warrants previously recorded as contributed surplus. In addition, if the shares are issued as consideration for the acquisition of a mineral property and other non-monetary assets, the shares were measured at fair value according to the quoted price on the day of the agreement.

### **Unit placements**

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to the shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **4.14 Equity (continued)**

#### **Flow-through placements**

Issuance of flow-through units represents in substance an issue of common shares, warrants and the sale of the right to tax deductions to the investors. When the flow-through units are issued, the sale of the right to tax deductions is deferred and presented as liability related to flow-through shares in the statement of financial position. The proceeds received from flow-through units are allocated between share capital, warrants and the liability related to flow-through shares using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance, then to warrants according to the fair value at the date of issuance, and the residual proceeds are allocated to the liability related to flow-through shares. The fair value of the warrants is determined using the Black-Scholes valuation model. The liability related to flow-through shares recorded initially on the issuance of units is reversed on renouncement of the right to tax deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in reduction of deferred income tax expense.

#### **Other elements of equity**

Contributed surplus includes charges related to share options, brokers' units, warrants and brokers' warrants until such options and warrants are exercised. When they are cancelled or expired, the related compensation cost is transferred in decrease of retained deficit. When options and warrants are exercised, the related compensation cost is transferred to share capital.

Retained deficit includes all current and prior period retained profits or losses, plus issuance costs, net of any underlying income tax benefit from these issuance costs and compensation related to options and warrants cancelled or expired, transferred from Contributed surplus.

### **4.15 Equity-settled share-based payments**

The Company operates an equity-settled share-based payment plan for its eligible directors, officers, employees and consultants. The Company's plan does not feature any option for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services rendered by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except brokers' warrants, brokers' units and brokers' options) are ultimately recognized as an expense in profit or loss or capitalized as exploration and evaluation assets, depending on the nature of the payment with a corresponding credit to Contributed surplus, in equity. Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance costs of the equity instruments with a corresponding credit to contributed surplus, in equity.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment was made to any expense recognized in the prior period if share options ultimately exercised are different to that estimated on vesting.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 4.16 Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision maker, i.e. the Chairman and the Board of Directors. The Company has determined that there was only one operating segment, being the sector of exploration and evaluation of mineral resources.

### 4.17 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

In December 2017, the IASB published Annual improvements to IFRS Standards 2015-17 Cycle, which includes amendments to the following:

- Income tax consequences under IAS 12, *Income Taxes*, of payments on financial instruments classified as equity.
- Borrowing costs eligible for capitalization under IAS 23, *Borrowing Costs*.

The Company adopted these amendments in its financial statements beginning on January 1, 2019. The adoption of these amendments did not have a material impact on the Company's consolidated financial statement.

## 5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

### 5.1 Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the consolidated financial statements.

#### Investment accounted for using the equity method

The Company holds 8.25% (13.84% as at December 31, 2019) of the common shares and voting rights in Beauce Gold Fields Inc. ("BGF"). Management has concluded that it has significant influence over BGF. In making its judgement, management considered that three directors of the Company are common for both companies and two of them are also members of the Board of Directors.

#### Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period (see Note 4.13).

#### Derivative financial liability

To estimate the fair value of the derivative financial liability, an appropriate valuation model must be selected according to the terms and conditions of the instrument. This estimate also involves a number of assumptions about the most appropriate data for the valuation model, including the expected life and volatility of the conversion option.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **5.1 Significant management judgments (continued)**

#### **Going concern**

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

#### **5.2 Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below. Actual results may be substantially different.

#### **Investment tax credits receivable**

The calculation of the Company's refundable tax credit on qualified exploration expenditures incurred, refundable tax credit and refundable tax credit of scientific research and experimental development tax credits involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Differences arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit, refundable tax credit of exploration and evaluation assets, refundable tax credit of scientific research and experimental development, exploration and evaluation assets, property and equipment and income tax expense in future periods. See Note 4.7 for more information.

#### **Royalties receivable**

Management uses its judgment to estimate the amount of royalties receivable under the Beauce Placer property disposition agreement (see Note 6). Uncertainty in estimates is related to net revenue assumptions and the determination of a suitable discount rate.

#### **Impairment of exploration and evaluation assets**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and assumptions in any cases (see Note 4.11).

When an indication of an impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

In assessing impairment, the Company must make some estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expenses will be recovered from either future exploitation or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits.

Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

See Note 7 for the exploration and evaluation assets impairment analysis.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **5.2 Estimation uncertainty (continued)**

#### **Impairment of exploration and evaluation assets (continued)**

During the period, the Company did not recognize a devaluation of exploration and evaluation assets (\$262,565 as at December 31, 2019). No reversal of impairment losses has been recognized for the reporting periods.

The properties have not been tested for impairment as the Company has the ability to retain properties as it has sufficient financial resources to meet its short-term obligations and expenditures are programmed over future exercises. The rights to prospect for these properties will not expire in the near future and work has been carried out on these properties over the past three years.

#### **Impairment of property and equipment and intangible assets**

An assessment of the facts and circumstances demonstrating the existence of any indication that an asset may have depreciated or recovered is a subjective process that involves judgment and often a number of estimates and assumptions.

In assessing impairment, management estimates the recoverable amount of each cash-generating asset or unit based on future cash flows and uses an interest rate to discount them. The uncertainty in the estimates is related to assumptions about future operating results and the determination of an appropriate discount rate. As at December 31, 2020 and December 31, 2019, no impairment was recorded on property and equipment and intangible assets.

#### **Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options, brokers' options, brokers' units, brokers' warrants and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model (see Notes 14.2, 14.3, 14.4 and 15.2).

#### **Provisions and contingent liabilities**

Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability and provisions involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty (see Note 23).

#### **Royalties payable**

Management uses its judgment to estimate the amount of royalties payable under the PUREVAP™ and PUREVAP™ NSiR technology acquisition agreement (see Note 9). Uncertainty in estimates is related to net revenue assumptions and the determination of a suitable discount rate.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 6. ROYALTIES RECEIVABLE

The Company will receive from BGF a Net Smelter return royalty (“NSR”) in the amount of \$35,000 between the fifteenth and the twenty-fourth month after the date of transfer of the Beauce Placer properties and \$25,000 each subsequent year. This NSR can be redeemed at the option of BGF for \$250,000. The corresponding asset, royalties’ receivable, was recognized when the property was disposed of for a total amount of \$176,563, calculated on estimated cash flows under the agreement over a four-year period at a rate of 18%. Cash outflows before discounting of \$310,000 reflect management’s estimate of how long it will take to repay royalties. During 2019, an amount of \$10,000 was collected and as at December 31, 2020, an amount of \$31,202 (\$31,781 as at December 31, 2019) was recognized in profit or loss as an accretion of revenues and corresponding royalties receivable.

### 7. EXPLORATION AND EVALUATION ASSETS

	Balance at January 1, 2020 \$	Additions \$	Devaluation \$	Balance at December 31, 2020 \$
<b>Quebec</b>				
<i>Roncevaux Property</i>				
Mining rights	5,881	-	-	5,881
Exploration and evaluation expenses	932,645	196,889	-	1,129,534
	<u>938,526</u>	<u>196,889</u>	<u>-</u>	<u>1,135,415</u>
<i>Martinville Property</i>				
Mining rights	1	-	-	1
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
<i>Summary</i>				
Mining rights	5,882	-	-	5,882
Exploration and evaluation expenses	932,645	196,889	-	1,129,534
	<u>938,527</u>	<u>196,889</u>	<u>-</u>	<u>1,135,416</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 7. EXPLORATION AND EVALUATION ASSETS (continued)

	Balance at January 1, 2019	Additions	Devaluation	Balance at December 31, 2019
	\$	\$	\$	\$
<b>Quebec</b>				
<i>Roncevaux Property</i>				
Mining rights	4,185	1,696	-	5,881
Exploration and evaluation expenses	929,741	2,904	-	932,645
	<u>933,926</u>	<u>4,600</u>	<u>-</u>	<u>938,526</u>
<i>Martinville Property</i>				
Mining rights	1,209	522	(1,730)	1
Exploration and evaluation expenses	260,835	-	(260,835)	-
	<u>262,044</u>	<u>522</u>	<u>(262,565)</u>	<u>1</u>
<i>Summary</i>				
Mining rights	5,394	2,218	(1,730)	5,882
Exploration and evaluation expenses	1,190,576	2,904	(260,835)	932,645
	<u>1,195,970</u>	<u>5,122</u>	<u>(262,565)</u>	<u>938,527</u>

All devaluation and write-off expenses are presented in profit or loss under the item Devaluation of exploration and evaluation assets or Write-off of exploration and evaluation assets.

In 2019, management devaluated mining rights for the Martinville Property for the reason that no expenditure is planned for the coming years.

#### Quebec

##### *Roncevaux Property*

The Company holds a 100% interest in 27 claims (27 claims as at December 31, 2019) acquired by staking.

##### *Martinville Property*

In 2019, the Company devaluated this property and holds a 100% interest in 4 claims (4 claims as at December 31, 2019) acquired by staking.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 8. PROPERTY AND EQUIPMENT

Property and equipment of the Company are composed of leasehold improvements and equipment under construction. The carrying amount is set out as follows:

	Leasehold improvements	Equipment under construction	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at January 1, 2020	-	4,240,000	4,240,000
Additions	344,000	94,802	438,802
Investment tax credits		(20,000)	(20,000)
Balance at December 31, 2020	344,000	4,314,802	4,658,802
<b>Accumulated depreciation</b>			
Balance at January 1, 2020 and December 31, 2020	-	-	-
<b>Carrying amount at December 31, 2020</b>	344,000	4,314,802	4,658,802

	Computer equipment	Property and equipment Equipment under construction	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at January 1, 2019 and December 31, 2019	3,058	4,240,000	4,243,058
<b>Accumulated depreciation</b>			
Balance at January 1, 2019	2,378	-	2,378
Depreciation	680	-	680
Balance at December 31, 2019	3,058	-	3,058
<b>Carrying amount at December 31, 2019</b>	-	4,240,000	4,240,000

All depreciation and amortization expenses are presented in Amortization of property and equipment.



# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 9. INTANGIBLE ASSETS

During the year, the Company acquired the PUREVAP™ NSiR technology for the fabrication of nano silicon materials. Pursuant to the purchase agreement, the Company is committed to pay to the seller the greater of an annual royalty equal to 10% of net revenues (as defined in the agreement) generated from the exploitation of the acquired technology or the minimum amounts per the agreement. Also, the seller is being granted the right to convert, at any time and at its sole discretion, its royalties into a 50% equity stake of HPQ Nano. The minimum annual amounts when there is income under this new agreement are as follows:

	\$
2021	50,000
2022	100,000
2023	150,000
2024 and after	200,000

The intellectual property, was recognized upon acquisition for a total amount of \$2,400,000, paid in cash. The related liability, royalties payable, of \$864,013 calculated based on estimated cash flows under the agreement over a period of 25 years at a discounted rate of 18%, was also recorded to intellectual property.

The Company acquired the technology for the transformation of quartz into silicon metal of high purity. Pursuant to the purchase agreement, the Company is committed to pay to the seller the greater of an annual royalty equal to 10% of net revenues (as defined in the agreement) generated from the exploitation of the acquired technology or the minimum annual amounts per the agreement. An addendum was signed on December 8, 2019 for the cancellation of the amounts payable for the years 2019 and 2020 and the modification of the minimum amounts for 2020 and 2021. A gain of \$350,000 on the modification of the initial agreement was recognized during the year. The minimum annual amounts under this new agreement are as follows:

	\$
2021	200,000
2022 and after	250,000

The intellectual property and its related liability, royalties payable, were recognized upon acquisition for a total amount of \$815,427 and were calculated based on estimated cash flows under the agreement over a period of 20 years at a rate of 22%. The amount of \$50,000 recorded as a deposit in 2015 was reversed at the cost of the intellectual property. In 2016, an amount of \$1,000,000 paid in cash was recorded at the cost of the intellectual property.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 9. INTANGIBLE ASSETS (continued)

The following table shows the distribution of royalty payments to be paid according to PUREVAP™ technology as of December 31, 2020:

	QRR	NSiR	Total
	\$	\$	\$
Current	172 951	42 373	215 324
Non-current	932 900	821 640	1 754 540
	<u>1 105 851</u>	<u>864 013</u>	<u>1 969 864</u>

The following table shows the distribution of royalty payments to be paid according to PUREVAP™ technology as of December 31, 2019:

	QRR
	\$
Current	129 713
Non-current	1 028 351
	<u>1 158 064</u>

The Company's intangible assets include patents and intellectual property. The carrying amount is as follows:

	Patents	Intangible assets Intellectual property	Total
	\$	\$	\$
<b>Gross carrying amount</b>			
Balance at January 1, 2020	191,900	2,856,077	3,047,977
Additions	150,802	3,635,418	3,786,220
Balance as at December 31, 2020	<u>342,702</u>	<u>6,491,495</u>	<u>6,834,197</u>
<b>Accumulated depreciation</b>			
Balance at January 1, 2019	-	-	-
Depreciation	15,385	220,361	235,746
Balance as at December 31, 2020	<u>15,385</u>	<u>220,361</u>	<u>235,746</u>
<b>Carrying amount at December 31, 2020</b>	<u>327,317</u>	<u>6,271,134</u>	<u>6,598,451</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 9. INTANGIBLE ASSETS (continued)

	Intangible assets	
	Patents	Intellectual property
	\$	\$
<b>Gross carrying amount</b>		
Balance at January 1, 2019	122,022	2,519,527
Additions	69,878	336,550
<b>Carrying amount at December 31, 2019</b>	<b>191,900</b>	<b>2,856,077</b>

An amount of \$38,857 (\$ nil as of December 31, 2019) is presented in Amortization of intangible assets and an amount of \$196,889 (\$ nil as of December 31, 2019) is presented as an increase in exploration and evaluation assets.

### 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

On December 31, 2020, the Company holds an 8.25% (13.84% as at December 31, 2019) voting and equity interest in BGF. The investment is accounted for using the equity method since December 2018. BGF has a reporting date of July 31. This date was chosen to allow the personnel to adequately meet filing deadlines, in order not to conflict with other administrative tasks at the same time of year. The shares of BGF were listed on the TSX Venture Exchange as at February 4, 2019. As at December 31, 2020, the fair value of the participation amounts to \$344,416 (\$301,364 as at December 31, 2019).

The aggregate amount of the associate can be summarized as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Current assets	913,000	339,108
Non-current assets	1,854,237	1,635,953
Current liabilities	229,481	282,146
Non-current liabilities	174,981	168,047
Net and total loss of comprehensive income	709,566	586,466

A reconciliation of the summarized financial information with the carrying value of the investment is as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Total net assets	2,362,775	1,525,868
Contributed surplus not attached to ordinary shareholders	(218,720)	(218,720)
	2,144,055	1,307,148
Portion of the interest held by the Company	8.25%	13.84%
	176,973	180,942

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (continued)

The Company has not incurred any contingent liabilities or other commitments relating to its investment in this associate.

During the period ended December 31, 2020, BGF issued shares for the closing of a private placement. Those issuances decreased the Company's ownership from 13.84% to 8.25%.

### 11. TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
	\$	\$
Trade accounts	32,605	279,284
Management fees payable	75,000	87,500
Salaries payable	31,972	28,846
Other	51,424	51,424
	<u>191,001</u>	<u>447,054</u>

### 12. DUE TO DIRECTORS, OFFICERS AND A COMPANY OWNED BY A DIRECTOR

The Company owes to directors, officers and a company owned by a director some salaries and remuneration for a nominal value of \$1,204,891 (\$1,168,141 as at December 31, 2019). The Company has obtained confirmation for said nominal value of \$1,088,141 in debts (effective rate of 3.1%) (\$1,088,141 as at December 31, 2019, effective rate of 3.1%), that they will not request payment thereof prior to 12 months plus one day following December 31, 2020. These amounts are classified as non-current liabilities. The remaining amount of \$116,750 (\$80,000 as at December 31, 2019) has been classified as current liabilities and presented as due to the directors.

### 13. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITY

In August 2018, the Company completed the offering of an unsecured convertible debenture in the amount of \$1,800,000 bearing interest at an annual rate of 5%, compounded monthly and payable on the debenture maturity date of August 20, 2023. Concurrently, the Company issued 15,000,000 warrants. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.17 per share, until August 20, 2021 (see Note 14.2). The principal of that debenture is convertible, at any time, at the option of the holder, into common shares of the Company at a price of \$0.11 per share. At the date of conversion or of maturity, the unpaid interests will be converted into common shares of the Company at a price equal to the lowest discounted market price permitted by the policies of the TSX Venture Exchange, conditionally upon the exchange approval. Failing to obtain such approval, the interests will be payable in cash. Effective August 21, 2021, the Company may refund the convertible debenture in cash as well as all unpaid interests by paying a 20% annual compounded return on the debenture capital.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 13. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITY (continued)

	Convertible debenture	Derivative liability	Total
	\$	\$	\$
<b>Carrying amount at December 31, 2018</b>	930,249	418,760	1,349,009
Accretion of convertible debenture	151,425	-	151,425
Change in fair value of derivative liability	-	10,614	10,614
<b>Carrying amount at December 31, 2019</b>	1,081,674	429,374	1,511,048
Accretion of convertible debenture	180,303	-	180,303
Change in fair value of derivative liability	-	(45,568)	(45,568)
<b>Carrying amount at December 31, 2020</b>	1,261,977	383,806	1,645,783

In accordance with IFRS, because of the discounted rate for payment of interest, the conversion option is a derivative financial liability measured at fair value and changes in fair value are recognized in the Consolidated Statement of Comprehensive Income each year.

The initial fair value of the derivative financial liability of \$494,738 was estimated using the Black-Scholes valuation model, based on the following assumptions:

Average share price at date of grant	\$0.085
Expected dividend yield	0%
Expected weighted volatility	86%
Average risk-free interest rate	2.18%
Expected average life	5 years
Average exercise price at date of grant	\$0.06

The fair value of the equity component of the convertible debenture of \$177,120 and warrants issued of \$117,900 was estimated using the Black-Scholes valuation model, based on the following assumptions, and allocated on a prorated basis of the relative fair value.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 13. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITY (continued)

	Equity component of convertible debenture	Warrants
Average share price at date of grant	\$0.085	\$0.085
Expected dividend yield	0%	0%
Expected weighted volatility	86%	88%
Average risk-free interest rate	2.18%	2.12%
Expected average life	5 years	3 years
Average exercise price at date of grant	\$0.12	\$0.17

The value assigned to the liability component of the convertible debenture represents the residual value of the issue proceeds less the derivative financial liability, the fair value of the option to convert the principal and the fair value of the warrants issued.

Issuance costs of the convertible debenture totalling \$147,315 were engaged.

As at December 31, 2020, the fair value of the derivative financial liability of \$383,806 (\$429,374 as at December 31, 2019) was estimated using the Black-Scholes valuation model, based on the following assumptions:

	December 31, 2020	December 31, 2019
Average share price at date of grant	\$1.10	\$0.08
Expected dividend yield	0%	0%
Expected weighted volatility	93%	80%
Average risk-free interest rate	0.2%	1.65%
Expected average life	2.64 years	3.64 years
Average exercise price at date of grant	\$0.88	\$0.06

During the period, the Company recorded interest expenses in the amount of \$98,728 (\$93,922 as at December 31, 2019) and \$180,303 (\$151,425 as at December 31, 2019) related to the accretion of the convertible debenture.

Interest payable on the debenture is \$ 228,437 as at December 31, 2020 (\$ 129,709 as at December 31, 2019).

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 14. EQUITY

#### 14.1 Share capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. They are voting, participating and eligible to receive the dividends.

	December 31, 2020	December 31, 2019
	Number of shares	Number of shares
Shares issued at the beginning	230,537,866	222,472,386
Private placements (e) (f) (h) (k) (n)	14,500,000	6,600,000
Issuance for the payment of accounts payable (a)(b)(c)(g)(i)(j)(l)(m)(o)	4,824,955	1,465,480
Exercise of warrants	19,041,588	-
Exercise of brokers' units	175,000	-
Exercise of brokers' warrants	890,150	-
Exercise of share-based payments	3,800,000	-
Total shares at the end	<u>273,769,559</u>	<u>230,537,866</u>

- (a) On January 15, 2019, the Company settled a trade account payable of \$14,125 by the issuance of 235,416 common shares. No profit or loss was recorded on this transaction.
- (b) On April 15, 2019, the Company settled a trade account payable of \$14,125 by the issuance of 156,944 common shares. No profit or loss was recorded on this transaction.
- (c) On June 3, 2019, the Company settled a trade account payable of \$75,000 by the issuance of 750,000 units consisting of one common share and one warrant. Each warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.15 per share, during a period of 24 months following the closing of the financing. An amount of \$11,250 related to the warrants was recorded as an increase in contributed surplus.
- (d) On July 15, 2019, the Company settled a trade account payable of \$14,125 by the issuance of 156,944 common shares. No profit or loss was recorded on this transaction.
- (e) On July 25, 2019, the Company completed a private financing for an amount of \$325,000. The Company issued 3,250,000 units consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.15 per share, during a period of 36 months following the closing of the financing. An amount of \$32,500 related to the warrants was recorded as an increase in contributed surplus.
- (f) On August 16, 2019, the Company completed a private financing for an amount of \$35,000. The Company issued 350,000 units consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.15 per share, during a period of 36 months following the closing of the financing. An amount of \$1,750 related to the warrants was recorded as an increase in contributed surplus.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### 14.1 Share capital (continued)

In addition, the Company paid an amount of \$1,600 in commission fees. The Company issued 16,000 warrants (for a value of \$816) to the agent. Each warrant entitles the holder to subscribe one common share of the Company at a price of \$0.15 per share for a period of 36 months from the date of closing of the financing.

- (g) On October 15, 2019, the Company settled a trade account payable of \$14,125 by the issuance of 166,176 common shares. No profit or loss was recorded on this transaction.
- (h) On December 23, 2019, the Company completed a private financing for an amount of \$210,000. The Company issued 3,000,000 units consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.10 per share, during a period of 36 months following the closing of the financing. No amount related to warrants was recorded.

In addition, the Company paid an amount of \$15,378 in commission fees. The Company issued 219,400 warrants (for a value of \$8,232) to the agent. Each warrant entitles the holder to subscribe one common share of the Company at a price of \$0.10 per share for a period of 36 months from the date of closing of the financing.

- (i) On January 15, 2020, the Company settled a trade account payable of \$14,125 by the issuance of 166,176 common shares. No profit or loss was recorded on this transaction.
- (j) On April 15, 2020, the Company settled a trade account payable of \$14,125 by the issuance of 201,785 common shares. No profit or loss was recorded on this transaction.
- (k) April 23, 2020, the Company completed a private financing for an amount of \$500,000. The Company issued 10,000,000 units consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.10 per share, during a period of 36 months following the closing of the financing. No amount related to warrants was recorded.

In addition, the Company recorded an amount of \$12,000 in commission fees. The Company issued 240,000 warrants (for a value of \$8,973) to the agent. Each warrant entitles the holder to subscribe one common share of the Company at a price of \$0.10 per share for a period of 36 months from the date of closing of the financing.

- (l) On May 26, 2020, the Company settled a trade account payable of \$395,514 by the issuance of 4,394,600 units consisting of one common share and one warrant. Each warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.10 per share, during a period of 36 months following the closing of the financing.
- (m) On July 15, 2020, the Company settled a trade account payable of \$14,125 by the issuance of 37,171 common shares. No profit or loss was recorded on this transaction.
- (n) On September 1, 2020, the Company completed a private financing for an amount of \$2,700,000. The Company issued 4,500,000 units consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.61 per share, during a period of 36 months following the closing of the financing. An amount of \$540,000 related to the warrants was recorded as an increase in contributed surplus.



# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 14.1 Share capital (continued)

- (o) On October 15, 2020, the Company settled a trade account payable of \$14,125 by the issuance of 25,223 common shares. No profit or loss was recorded on this transaction.

During the year ended December 31, 2020, 19,041,588 common shares were issued following the exercise of warrants. The weighted average share price at the exercise was \$0.142 per share.

During the year ended December 31, 2020, 175,000 common shares were issued following the exercise of brokers' units. The weighted average share price at the exercise was \$0.10 per share.

During the year ended December 31, 2020, 890,150 common shares were issued following the exercise of brokers' warrants. The weighted average share price at the exercise was \$0.124 per share.

During the year ended December 31, 2020, 3,800,000 common shares were issued following the exercise of share-based payments. The weighted average share price at the exercise was \$0.078 per share.

### 14.2 Warrants

Outstanding warrants entitle their holders to subscribe an equivalent number of common shares, as follows:

	December 31, 2020		December 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, beginning of reporting year	70,628,000	0.17	75,178,000	-
Granted	19,069,600	0.22	7,350,000	0.13
Exercised	(19,041,588)	0.14	-	-
Expired	(8,000,000)	0.36	(11,900,000)	0.25
Balance, end of reporting period	62,656,012	0.17	70,628,000	0.17

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 14.2 Warrants (continued)

Outlined below are the outstanding warrants which could be exercised for an equivalent number of common shares:

Expiration date	December 31, 2020		December 31, 2019	
	Number	Exercise price \$	Number	Exercise price \$
January 2020 (ii)	-	-	8,000,000	0.36
October 2020 (iii)	-	-	3,000,000	0.18
December 2020 (iv)	-	-	12,501,000	0.135
March 2021 (vi)	4,375,000	0.11	4,375,000	0.11
June 2021	-	-	750,000	0.15
August 2021 (i)	31,250,000	0.155	31,250,000	0.155
January 2022 (i) (vii)	4,152,000	0.155	4,152,000	0.155
July 2022	1,779,412	0.15	3,250,000	0.15
August 2022	200,000	0.15	350,000	0.15
December 2022	2,325,000	0.10	3,000,000	0.10
April 2023	9,680,000	0.10	-	-
May 2023	4,394,600	0.10	-	-
September 2023	4,500,000	0.61	-	-
	<u>62,656,012</u>	<u>0.17</u>	<u>70,628,000</u>	<u>0.17</u>

- (i) Under the plan of arrangement, on February 6, 2019, the Company reduced the exercise price of warrants from \$0.17 to \$0.155.
- (ii) Under the plan of arrangement, on February 6, 2019, the Company reduced the exercise price of warrants from \$0.40 to \$0.36.
- (iii) Under the plan of arrangement, on February 6, 2019, the Company reduced the exercise price of warrants from \$0.20 to \$0.18.
- (iv) Under the plan of arrangement, on February 6, 2019, the Company reduced the exercise price of warrants from \$0.15 to \$0.135.
- (v) Under the plan of arrangement, on February 6, 2019, the Company reduced the exercise price of warrants from \$0.12 to \$0.11.
- (vi) On February 14, 2019, the Company extended 4,375,000 warrants until March 2021.
- (vii) On December 9, 2019, the Company extended 4,152,000 warrants until January 2022.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 14.3 Brokers' warrants

For this period, the Company recorded an amount of \$8,973 (\$9,048 as at December 31, 2019) in equity issue costs when the brokers' warrants were issued, and was recorded as an increase to contributed surplus and a decrease to retained deficit.

The weighted average fair value \$0.038 (\$0.038 as at December 31, 2019) of the brokers' warrants granted was estimated on the grant date using the Black-Scholes option pricing model, based on the following weighted average assumptions:

	2020	2019
Average share price at date of grant	\$0.08	\$0.08
Expected dividend yield	0%	0%
Expected weighted volatility	81%	81%
Average risk-free interest rate	0.62%	1.64%
Expected average life	3.00 years	3.00 years
Average exercise price at date of grant	\$0.10	\$0.10

The underlying expected volatility was determined by reference to historical data the Company shares over the expected average life of the brokers' warrants.

Outstanding brokers' warrants entitle their holder to subscribe an equivalent number of common shares, as follows:

	December 31, 2020		December 31, 2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of reporting year	650,150	0.13	717,250	0.19
Granted	240,000	0.10	235,400	0.10
Exercised	(890,150)	0.13	-	-
Expired	-	-	(302,500)	0.24
Balance, end of reporting year	-	-	650,150	0.13

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 14.3 Brokers' warrants (continued)

Outlined below are the outstanding brokers' warrants which could be exercised for an equivalent number of common shares:

Expiration date	December 31, 2020		December 31, 2019	
	Number	Exercise price	Number	Exercise price
		\$		\$
December 2020	-	-	414,750	0.15
August 2022	-	-	16,000	0.15
December 2022	-	-	219,400	0.10
	-	-	650,150	0.13

### 14.4 Brokers' units

Brokers' units granted in 2017 entitle the holder to subscribe at a price of \$0.10 an equivalent number of units composed of one common share and one warrant. Each warrant entitles the holder to subscribe one common share of the Company at a price of \$0.15 per share, for 36 months following the closing of the financing.

Brokers' units are detailed as follows:

	December 31, 2020		December 31, 2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of reporting year	175,000	0.10	175,000	0.10
Exercised	(175,000)	0.10	-	-
Balance, end of reporting year	-	-	175,000	0.10

Brokers' units are detailed as follows:

Expiration date	December 31, 2020		December 31, 2019	
	Number	Exercise price	Number	Exercise price
		\$		\$
December 2020	-	-	175,000	0.10
	-	-	175,000	0.10

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 15. EMPLOYEE REMUNERATION

#### 15.1 Salaries and employee benefits expense

Salaries and employee benefits expense are analyzed below:

	As at December 31,	
	2020	2019
	\$	\$
Salaries and benefits	243,354	249,551
Management fees	150,000	150,000
Remuneration of directors	98,000	80,000
	<u>491,354</u>	<u>479,551</u>

#### 15.2 Share-based payments

On September 13, 2016, the Company adopted a new share-based payment plan under which the Board of Directors may award to directors, officers, employees and consultants, share options entitling the holder to purchase common shares of the Company. The maximum number of shares to be granted under the plan is 14,000,000. A total of 12,400,000 options have been granted and 3,800,000 have been exercised. As of December 31, 2020, 8,600,000 remained exercisable (12,400,000 as at December 31, 2019).

The exercise price of each share option is determined by the Board of Directors and cannot be less than the market price of common shares as defined by TSX Venture Exchange policies on the day prior to the award, and the term of the options cannot exceed ten years.

The maximum number of common shares that can be issued to a beneficiary, during any 12-month period is limited to 5% of issued and outstanding shares.

The maximum number of shares that can be issued to a consultant during any 12-month period is limited to 2% of issued and outstanding shares; moreover, the share options granted to consultants performing investor relations activities may be exercised by stages over a 12-month period after the grant, at a rate of 25% per quarter.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the share options in cash.

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 15.2 Share-based payments (continued)

The Company's share options are as follows for the reporting periods presented:

	December 31, 2020		December 31, 2019	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of reporting year	12,400,000	0.19	12,400,000	0.19
Exercised	(3,800,000)	0.08	-	-
Outstanding and exercisable, end of reporting year	8,600,000	0.23	12,400,000	0.19

The table below summarizes the information related to outstanding share options as at December 31, 2020:

Outstanding options		
Number of options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
2,900,000	0.12	2.00
100,000	0.15	0.48
400,000	0.19	0.75
5,200,000	0.30	0.76
8,600,000	0.19	1.17

The table below summarizes the information related to outstanding share options as at December 31, 2019:

Outstanding options		
Number of options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
3,200,000	0.07	0.70
3,500,000	0.12	3.00
100,000	0.15	1.48
400,000	0.19	1.75
5,200,000	0.30	1.76
12,400,000	0.19	1.83

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 16. FAIR VALUE MEASUREMENT

#### 16.1 Financial instruments measured at fair value

The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the assets or liabilities that are not based on observable market data.

The fair value of the marketable securities in a quoted company was estimated based on the market price at the closing date. Marketable securities in a quoted company measured at fair value in the consolidated statement of financial position as at December 31, 2020 and December 31, 2019 are classified as Level 1.

The fair value of the derivative liability has been estimated based on the volatility of the Company and has been classified in Level 3 of the fair value hierarchy.

#### 16.2 Financial instruments measured at amortized cost for which a fair value is disclosed

The fair value of royalties' receivable, due to directors, officers and a company owned by a director, royalties payable and the convertible debenture was estimated using an analysis of discounted cash flows with an interest rate for similar financial instruments.

The fair value royalties' receivable in the current term as well as the royalties payable in the current term approximate the book value at the end of the period.

The fair value of royalties receivable in the non-current term, due to directors, officers and a company owned by a director and royalties payable in the non-current term is \$179,546, \$1,022,322 and \$1,712,167 respectively (\$152,158, \$996,319 and \$1,028,351 respectively as at December 31, 2019) and that of the convertible debenture is \$1,261,977 (excluding the derivative financial liability) (\$1,081,674 as at December 31, 2019). See notes 6, 12 and 13 for methods of assessing fair values.

Financial instruments are classified in Level 2 of the fair value hierarchy except for royalties receivable and royalties payable which are classified in Level 3 of the fair value hierarchy.

### 17. OTHER OPERATING EXPENSES

Other operating expenses are detailed as follows:

	December 31,	
	2020	2019
	\$	\$
Professional and consultation fees	448,729	492,717
Travelling expenses	5,472	13,252
Office expenses	60,243	51,446
Information to shareholders and registration fees	65,887	56,118
Bank charges	4,434	2,394
Administrative expenses recovered	(26,605)	(19,101)
	<u>558,160</u>	<u>596,826</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 18. FINANCE INCOME AND FINANCIAL COSTS

Finance income may be analyzed as follows for the reporting periods presented:

	December 31,	
	2020	2019
	\$	\$
Net change in fair value of marketable securities in a quoted company	632,000	(1,413)
Accretion revenues - royalties receivable	31,202	31,781
	<u>663,202</u>	<u>30,368</u>

Financial costs may be analyzed as follows for the reporting periods presented:

	December 31,	
	2020	2019
	\$	\$
Interest charges on convertible debenture	(98,728)	(93,922)
Accretion expenses- royalties payable	(97,787)	(235,880)
Accretion expenses- due to directors, officers and companies owned by a director	(31,203)	-
Accretion expenses -Component of the convertible debenture	(180,303)	(151,425)
	<u>(408,021)</u>	<u>(481,227)</u>

### 19. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of outstanding shares during the period. In calculating the diluted loss per share, dilutive potential common shares such as warrants, brokers' warrants, brokers' units, share options and the convertible debenture have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 13, 14.2 to 14.4 and 15.2.

Both the basic and diluted loss per share have been calculated using the loss as the numerator, i.e. no adjustment to the loss was necessary in 2020 and 2019.

	December 31,	
	2020	2019
Net loss	\$ (791,591)	\$ (1,384,341)
Weighted average number of outstanding shares	249,983,489	224,660,837
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)

See note 26 for share capital transactions after December 31, 2020.



# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 20. INCOME TAXES

#### Major components of tax expense (income)

The major components of tax expense (income) are outlined below:

	2020	2019
	\$	\$
Origination and reversal of temporary differences	(292,986)	(362,772)
Change in tax rate	-	1,366
Prior year adjustments	-	(748)
Temporary differences not recorded	292,986	362,154
	<u>-</u>	<u>-</u>

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#### Relationship between expected tax expense and accounting profit or loss

The relationship between the expected tax expense based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the consolidated statement of comprehensive loss can be reconciled as follows:

	2020	2019
	\$	\$
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.5% (26.6% in 2019)	(209,772)	(368,235)
Adjustments for the following items:		
Change in tax rate	-	1,366
Fiscal impact of temporary difference not recorded	292,986	362,154
Non-taxable portion of the variation of fair value	(83,214)	188
Non-taxable portion of the capital gain	-	3,529
Prior year adjustments	-	(748)
Other non-deductible expenses	-	1,746
Deferred income tax income	<u>-</u>	<u>-</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 20. INCOME TAXES (continued)

#### Deferred tax assets and liabilities and variation of recognized amounts during the year

The following differences between the carrying amounts and tax bases from temporary differences, unused tax losses and unused tax credits give rise to the following recognized deferred income tax assets and liabilities, and the following unrecognized temporary differences, unused tax losses and unused tax credits:

	Balance, January 1, 2020 \$	Recognized in profit or loss \$	Recognized in equity \$	Balance, December 31, 2020 \$
Recognized				
Marketable securities	-	(82,625)	-	(82,625)
Intangible assets	(234,453)	(273,295)	-	(507,748)
Investment tax credits				
Receivable	-	(5,300)	-	(5,300)
Royalties receivable	(52,562)	(8,268)	-	(60,830)
Convertible debenture	(76,572)	35,704	-	(40,868)
Due to directors, officers and a company owned by a director	(34,668)	8,269	-	(26,399)
Royalties payable	-	223,978	-	223,978
Non-capital losses	398,255	101,537	-	499,792
Recognized deferred tax assets and liabilities	-	-	-	-

	Balance, January 1, 2019 \$	Recognized in profit or loss \$	Recognized in equity \$	Balance, December 31, 2019 \$
Recognized				
Marketable securities	(3,083)	3,083	-	-
Intangible assets	(234,453)	-	-	(234,453)
Royalties receivable	-	(52,562)	-	(52,562)
Convertible debenture	(158,551)	81,979	-	(76,572)
Due to directors, officers and a company owned by a director	(34,668)	-	-	(34,668)
Non-capital losses	430,755	(32,500)	-	398,255
Recognized deferred tax assets and liabilities	-	-	-	-

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019

(in Canadian dollars)

### 20. INCOME TAXES (continued)

	December 31, 2020	
	Federal	Provincial
	\$	\$
Deductible temporary differences and tax losses not recognized		
Property and equipment	288,059	1,248,181
Intangible assets	35,985	30,201
Issuance costs of equity instruments	142,127	142,127
Exploration and evaluation assets	4,140,844	6,686,096
Provisions and reserves	2,155,293	2,155,293
Marketable securities	55,020	55,020
Unused loss carry-forwards	12,488,091	11,341,757
	<u>19,305,419</u>	<u>21,658,675</u>

	December 31, 2019	
	Federal	Provincial
	\$	\$
Deductible temporary differences and tax losses not recognized		
Property and equipment	268,059	299,546
Intangible assets	35,985	30,201
Issuance costs of equity instruments	225,424	225,424
Exploration and evaluation assets	4,337,733	6,882,985
Provisions and reserves	2,222,742	2,222,742
Marketable securities	57,246	57,246
Unused loss carry-forwards	10,995,870	10,778,171
	<u>18,143,059</u>	<u>20,496,315</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 20. INCOME TAXES (continued)

The Company has non-capital losses which are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded in the consolidated statement of financial position that can be carried over the following years:

	Federal	Provincial
	\$	\$
2029	372,276	-
2030	627,620	-
2031	759,417	669,674
2032	649,448	647,675
2033	803,620	798,209
2034	723,985	720,353
2035	1,082,684	1,077,205
2036	1,766,123	1,756,689
2037	1,602,371	1,593,219
2038	1,527,744	1,507,765
2039	1,100,417	1,098,582
2040	1,472,386	1,472,386
	<u>12,488,091</u>	<u>11,341,757</u>

The Company has tax credits for investments which are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded. These tax credits can be carried over the following years:

	Federal	Provincial
	\$	\$
2027	3,363	-
2028	70,404	-
2029	8,810	-
2030	6,540	-
2031	310	-
2032	4,501	-
2033	1,200	-
	<u>95,128</u>	<u>-</u>

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 21. ADDITIONAL INFORMATION – CASH FLOWS

The changes in working capital items are detailed as follows:

	As at December 31,	
	2020	2019
	\$	\$
Goods and services tax receivable	(152,598)	247,213
Royalties receivable	-	10,000
Prepaid expenses	-	10,152
Trade and other payables	265,807	(15,535)
Royalties payable	(150,000)	-
	<u>(36,791)</u>	<u>251,830</u>

Non-cash balance sheet transactions are detailed as follows:

	2020	2019
	\$	\$
Issuance of shares for payment of an account payable	452,014	131,500
Issuance of equity instruments for issuance cost of units	8,973	9,048
Royalties receivable included in investment accounted for using the equity method	-	176,563
Trade and other payables included in exploration and evaluation assets	-	2,219
Trade and other payables included in intangible assets	16,084	81,195
Royalties payables included in intangible assets	864,013	-
Amortization of intangible assets included in exploration and evaluation assets	196,889	-
Tax credits receivable included in property and equipment	20,000	-

### 22. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and companies held by a director or an officer, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

#### 22.1 Transactions with key management personnel

Key management personnel of the Company are members of the Board of Directors and officers. Key management personnel remuneration includes the following expenses:

	As at December 31,	
	2020	2019
	\$	\$
Short-term employee benefits		
Salaries and employee benefits expense	243,354	249,551
Management fees <sup>(1)</sup>	150,000	150,000
Directors' remuneration	98,000	80,000
Total remuneration	<u>491,354</u>	<u>479,551</u>

<sup>(1)</sup> Paid to a company owned by a director

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **22.1 Transactions with key management personnel (continued)**

Trade and other payables include an amount of 106,972 due to directors and to a company owned by a director (\$223,209 as at December 31, 2019).

On December 31, 2020, due to directors, officers and a company owned by a director totalled \$1,139,072 (1,076,319 as at December 31, 2019).

### **23. CAPITAL MANAGEMENT POLICIES AND PROCEDURES**

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern, to increase the value of the assets of the business, and to provide an adequate return to owners of the Company.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flows, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally imposed capital requirements except when the Company issues a flow-through placement for which an amount should be used for exploration work. See all the details in Note 25.

The Company finances its exploration and evaluation activities mainly by seeking additional capital either through private placements or public placements. When funding conditions are not optimal, the Company can sign option agreements or other agreements to be able to continue its exploration and evaluation activities or can slow down its activities until funding conditions improve.

### **24. FINANCIAL INSTRUMENT RISKS**

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company risk management is coordinated in close cooperation with the Board of Directors. The Company's risk management focuses on actively securing the Company's short-term to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes.

The most significant financial risks to which the Company is exposed are described below.

#### **24.1 Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to other price risk.

Other price risk sensitivity

The Company was exposed to fluctuations in the market prices of its marketable securities in a quoted company and derivative financial liability. The maximum risk to which the shares and derivative financial liability were exposed is equal to their fair value.

If the quoted share price for the shares had changed by  $\pm 10\%$  as at December 31, 2020 ( $\pm 10\%$  as at December 31, 2019), the profit or loss and equity would have changed by \$72,200 (\$9,000 as at December 31, 2019).

# HPQ-Silicon Resources Inc.

## Notes to Consolidated Financial Statements

As at December 31, 2020 and 2019  
(in Canadian dollars)

### 24.1 Market risk (continued)

The fair value of the derivative financial liability is estimated using the Black-Scholes valuation model, with the most volatile data being the value of the shares at the measurement date. As at December 31, 2020, a  $\pm 10\%$  increase in the value of the shares would have no impact on the derivative financial liability (\$ nil as at December 31, 2019).

### 24.2 Credit risk

Credit risk is the risk that another party to a financial instrument fails to meet its obligations and, therefore, leads the Company to incur a financial loss.

The Company's maximum exposure to credit risk is limited to the carrying amount of cash, deposit on a contract and the royalties receivable for an amount of \$4,067,828 as at December 31, 2020 (\$2,225,962 as at December 31, 2019).

The credit risk for the deposit on a contract and the royalties receivable is considered limited. The Company continuously monitors default of counterparts. No impairment loss has been recognized in the periods presented.

The credit risk for cash is considered negligible, since the counterpart is a reputable bank with high quality external credit ratings.

### 24.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations with financial liabilities that are settled by cash or another financial asset.

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

Over the period, the Company has financed its exploration programs, its working capital requirements and acquisitions of mining properties, plant and equipment and intangible assets through private placements.

The following table sets out the contractual maturities (including interest payments, if any) of the Company's financial liabilities:

	December 31, 2020	December 31, 2019
	\$	\$
Less than a year		
Trade and other payables	84,028	375,435
Royalties payable	250,000	150,000
Total	334,028	525,435
Between one and five years		
Royalties payable	2,100,000	1,200,000
Debenture	2,310,355	2,310,355
	4,410,355	3,510,355
Plus 5 years		
Royalties payable	4,500,000	2,750,000

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash.

# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019  
(in Canadian dollars)

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### **25. CONTINGENCIES AND COMMITMENTS**

The Company is partially financed through the issuance of flow-through shares and, and is engaged in realizing mining exploration work, under the terms of the tax rules regarding this type of financing.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the first of the following dates:

- Two years following the flow-through financings;
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

In 2011, the Company entered into agreements with subscribers whereby the Company had to incur \$245,000 of Canadian Exploration Expenses ("CEE") before December 31, 2012. The Company had incurred \$163,875 in CEE before December 31, 2012 and an approximate balance of \$77,000 of CEE renounced to the investors had not been incurred as at December 31, 2012 and was used for other purposes than exploration expenses. The maximal contingency for the Company, in relation to non-compliance with its obligations with subscribers, is approximately \$55,000. As at February 28, 2014, the Company had produced the reduction forms related to the amount of \$77,000 in CEE renounced to the investors and that had not been incurred as at December 31, 2012. As at December 31, 2020, an amount of \$8,131 pertaining to part XII.6 taxes is included in trade payable accounts.

In 2016, the Company entered into agreements with subscribers whereby the Company had to incur \$1,245,000 of Canadian Exploration Expenses ("CEE") before December 31, 2017. The Company had incurred \$919,296 in CEE before December 31, 2017 and an approximate balance of \$293,000 of CEE renounced to the investors had not been incurred as at December 31, 2017 and was used for other purposes than exploration expenses. The maximal contingency for the Company, in relation to non-compliance with its obligations with subscribers, is approximately \$220,000. As at February 28, 2018, the Company had produced the reduction forms related to the amount of \$293,000 in CEE renounced to the investors and that had not been incurred as at December 31, 2017. As at December 31, 2020, an amount of \$34,642 pertaining to part XII.6 taxes is included in trade payable accounts.

The Company entered into a new agreement with AGORACOM. The Company will issue shares for services rendered by AGORACOM in exchange for the online advertising, marketing and branding services. The number of shares to be issued at the end of each period will be determined by using the closing price of the shares of the Company on the TSX Venture Exchange at the date of the issued invoice.

The term of the agreement is 12 months starting on July 15, 2020 and the services totalizing \$50,000 must be paid by the Company at the end of each quarter for \$12,500 plus HST.

As at December 31, 2020, in addition to the royalties payable mentioned in Note 9, the Company is committed to the purchase of test equipment for approximately \$2,992,000. Of this amount, a deposit of \$1,950,000 was made .



# **HPQ-Silicon Resources Inc.**

## **Notes to Consolidated Financial Statements**

As at December 31, 2020 and 2019

(in Canadian dollars)

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### **25. CONTINGENCIES AND COMMITMENTS (continued)**

On November 17, 2017, the Company entered into a service agreement with Apollon Solar in the development of its Silicon SoG production project. Under this agreement, the Company undertook to pay fees of €188,000 over a period of 10 months from January 2018. On October 5, 2018 and September 6, 2019, an amendment was approved by both parties extending the contract for an additional period of 5 months and 4 months respectively. On August 28, 2020, an addendum was signed with Apollon Solar in the development of its project to produce porous silicon wafers that can be used in solid Li-ion batteries. On December 30, 2020, an addendum was signed with Apollon Solar in the development of its project to produce porous silicon wafers that can be used in solid Li-ion batteries. Under this amendment, the Company undertakes to pay fees of € 120,000 over a period of 6 months from January 2021.

### **26. SUBSEQUENT EVENT**

Subsequent to period end, 6,965,000 warrants were issued for a total amount of \$995,250 in cash and 2,750,000 options were issued for a total amount of \$766,000 in cash.