

Gatling Exploration Inc.

Condensed Interim Financial Statements

Nine Months Ended December 31, 2020

(Unaudited – Expressed in Canadian Dollars)

Gatling Exploration Inc.

Nine Months Ended December 31, 2020

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Condensed Interim Financial Statements

Notice of No Auditor Review

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

February 26, 2021

Gatling Exploration Inc.
Condensed Interim Statements of Financial Position
(Unaudited – Expressed in Canadian Dollars)

	December 31, 2020	March 31, 2020
Assets		
Current		
Cash and cash equivalents	\$ 3,479,803	\$ 23,813
Receivables (note 12)	173,651	194,714
Prepaid expenses (note 12)	153,881	180,078
	3,807,335	398,605
Non-current		
Property, plant and equipment (note 7)	143,505	159,121
Right-of-use asset (note 9)	256,112	371,363
	\$ 4,206,952	\$ 929,089
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	\$ 697,265	\$ 1,476,896
Lease obligation – current portion (note 10)	163,724	146,468
Other liabilities (note 11)	476,029	-
	1,337,018	1,623,364
Non-current		
Lease obligation (note 10)	125,517	251,567
	1,462,535	1,874,931
Shareholders' Equity (Deficiency)		
Share Capital (note 13)	20,325,637	13,117,320
Share-based Payments Reserve (note 13)	2,216,516	1,200,083
Deficit	(19,797,736)	(15,263,245)
	2,744,417	(945,842)
	\$ 4,206,952	\$ 929,089

Going Concern (note 2)

Commitments (notes 11 and 15)

Subsequent Events (note 16)

Approved on behalf of the Board:

“Richard Boulay”
..... Director
Richard Boulay

“Nav Dhaliwal”
..... Director
Nav Dhaliwal

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

Gatling Exploration Inc.
Condensed Interim Statements of Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Expenses				
Consulting fees (note 12)	\$ 196,500	\$ 199,236	\$ 623,250	\$ 466,052
Depreciation (notes 7 and 9)	42,734	44,287	128,203	128,421
Exploration and evaluation expenditures (notes 7, 8 and 12)	1,274,239	2,444,912	2,492,799	5,849,651
Foreign exchange	3	2,509	3,516	3,458
General exploration	-	-	-	79,110
Lease interest accretion (note 10)	8,970	13,148	30,192	42,263
Management fees (note 12)	55,000	95,000	145,000	185,000
Office and general (note 12)	31,941	66,583	77,937	153,018
Professional fees (note 12)	64,144	38,431	138,557	153,100
Rent (recovery) (note 12)	(22,003)	(3,871)	(50,122)	4,387
Share-based payments (notes 12 and 13)	251,517	-	797,356	176,204
Shareholder communications and investor relations	154,949	232,574	391,743	742,526
Transfer agent and filings fees	19,500	33,598	26,296	42,775
Travel	2,315	96,244	6,945	277,896
Loss Before Other Items	(2,079,809)	(3,262,651)	(4,811,672)	(8,303,861)
Other Items				
Other income	142,164	41,977	276,185	418,533
Part XII.6 tax	-	(25,734)	-	(25,734)
Interest income	173	48,889	996	83,914
Net Loss and Comprehensive Loss for the Period	\$ (1,937,472)	\$ (3,197,519)	\$ (4,534,491)	\$ (7,827,148)
Basic and Diluted Loss Per Share	\$ (0.06)	\$ (0.13)	\$ (0.16)	\$ (0.33)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	32,250,272	23,810,426	28,532,614	23,718,062

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

Gatling Exploration Inc.
Condensed Interim Statements of Changes in Equity (Deficiency)
(Unaudited – Expressed in Canadian Dollars)

	Share Capital		Share-based Payments Reserve	Deficit	Total
	Number of Shares	Share Capital			
Balance, March 31, 2019	22,835,426	\$ 12,378,787	\$ 1,213,212	\$ (5,468,786)	\$ 8,123,213
Shares issued for exploration and evaluation expenditures (note 8)	875,000	595,000	-	-	595,000
Stock options granted	-	-	176,204	-	176,204
Shares issued on exercise of stock options	100,000	60,000	-	-	60,000
Transfer of stock option fair value on exercise	-	54,954	(54,954)	-	-
Transfer of stock option fair value on expiry	-	-	(118,505)	118,505	-
Net loss and comprehensive loss for period	-	-	-	(7,827,148)	(7,827,148)
Balance, December 31, 2019	23,810,426	13,088,741	1,215,957	(13,177,429)	1,127,269
Shares issued on exercise of stock options	30,250	12,705	-	-	12,705
Transfer of stock option fair value on exercise	-	15,874	(15,874)	-	-
Net loss and comprehensive loss for period	-	-	-	(2,085,816)	(2,085,816)
Balance, March 31, 2020	23,840,676	13,117,320	1,200,083	(15,263,245)	(945,842)
Private placements	15,912,140	8,271,427	162,000	-	8,433,427
Share issuance costs	-	(310,896)	57,077	-	(253,819)
Flow-through liability	-	(752,214)	-	-	(752,214)
Stock options granted	-	-	797,356	-	797,356
Net loss and comprehensive loss for period	-	-	-	(4,534,491)	(4,534,491)
Balance, December 31, 2020	39,752,816	\$ 20,325,637	\$ 2,216,516	\$ (19,797,736)	\$ 2,744,417

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

Gatling Exploration Inc.
Condensed Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Operating Activities		
Net loss for the period	\$ (4,534,491)	\$ (7,827,148)
Items not involving cash		
Depreciation	130,867	128,421
Shares issued for exploration and evaluation expenditures	-	595,000
General exploration	-	79,111
Lease interest accretion	30,192	42,263
Share-based payments	797,356	176,204
Other income	(276,185)	(418,533)
Changes in non-cash working capital		
Receivables	21,063	(207,776)
Prepaid expenses	26,197	104,002
Accounts payable and accrued liabilities	(779,631)	425,118
Cash Used in Operating Activities	(4,584,632)	(6,903,338)
Investing Activity		
Purchase of equipment	-	(107,153)
Cash Used in Investing Activity	-	(107,153)
Financing Activities		
Shares issued for cash	8,433,427	60,000
Share issue costs	(253,819)	-
Repayments of lease obligation	(138,986)	(135,591)
Cash Provided by (Used in) Financing Activities	8,040,622	(75,591)
Inflow (Outflow) of Cash and Cash Equivalents	3,455,990	(7,086,082)
Cash and Cash Equivalents, Beginning of Period	23,813	8,003,294
Cash and Cash Equivalents, End of Period	\$ 3,479,803	\$ 917,212
Cash and Cash Equivalents		
Cash	\$ 979,803	\$ 201,352
Term deposits	2,500,000	715,860
	\$ 3,479,803	\$ 917,212
Supplemental Disclosure with Respect to Cash Flows		
Income tax paid	\$ -	\$ -
Interest received	\$ 996	\$ 83,914
Interest paid	\$ 31,269	\$ 37,989
Non-cash financing activities		
Fair value of shares issued for exploration and evaluation	\$ -	\$ 595,000
Fair value of stock options exercised	\$ -	\$ 54,954
Capitalization of right-of-use asset and lease obligation	\$ -	\$ 525,030

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

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2020
(Unaudited – Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Gatling Exploration Inc. (the “Company”) is an exploration stage company incorporated on August 2, 2018, under the laws of the province of British Columbia, Canada. Its principal business activity is the acquisition, exploration and evaluation of mineral properties located in the province of Ontario, Canada. The Company’s common shares are traded on the TSX Venture Exchange under the symbol “GTR”. The Company’s shares also trade on the OTC Exchange in the United States under the symbol “GATGF”. The Company’s head office and principal business address is 1680 – 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6. The Company’s registered and records office is 400 – 725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

On December 14, 2020, the Company consolidated its common shares on the basis of one new share for two old shares. All share and per share amounts have been revised to reflect the consolidation.

2. GOING CONCERN

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

The Company has incurred a loss during the nine months ended December 31, 2020 of \$4,534,491 (2019 - \$7,827,148) and as at December 31, 2020 has a deficit of \$19,797,736 (March 31, 2020 - \$15,263,245), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage, and accordingly, has not yet commenced revenue-producing operations. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company’s ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. There can be no assurance that management will obtain the necessary financing in the future.

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

In March 2020, there was a global outbreak of coronavirus (COVID-19). The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company’s shares and its ability to raise new capital. These factors, among others, could have a significant impact on the Company’s operations.

3. BASIS OF PREPARATION

a) Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2020
(Unaudited – Expressed in Canadian Dollars)

3. BASIS OF PRESENTATION (Continued)

a) Statement of compliance (continued)

The condensed interim financial statements of the Company should be read in conjunction with the Company's March 31, 2020 audited financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on February 26, 2021.

b) Basis of measurement

These condensed interim financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies (note 4). These condensed interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

4. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in note 4 to the audited financial statements for the year ended March 31, 2020.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next fiscal year are discussed below.

a) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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(Unaudited – Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability, including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

c) Going concern risk assessment

The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation projects when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These condensed interim financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim financial statements.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

a) Decommissioning liabilities

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made that management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time the rehabilitation costs are actually incurred.

The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at December 31, 2020, the Company has no known rehabilitation requirements, and accordingly, no provision has been made.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2020
(Unaudited – Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

b) Fair value of stock options granted

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

c) Leases

Lease obligations that are recognized at December 31, 2020 have been estimated using a 12% discount rate based on the cost of borrowing for debt instruments of comparable terms for companies with a comparable investment grade to the Company. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

6. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash and cash equivalents are classified as fair value through profit or loss; receivables, as amortized cost; and accounts payable and accrued liabilities and lease obligation, as amortized cost. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The following table sets forth the Company’s financial assets measured at fair value by level within the fair value hierarchy:

December 31, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,479,803	\$ -	\$ -	\$ 3,479,803
March 31, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 23,813	\$ -	\$ -	\$ 23,813

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and cash equivalents, by placing at major Canadian financial institutions. The Company has minimal credit risk. Included in the receivables balance is \$164,201 owing from the Canada Revenue Agency (March 31, 2020 - \$178,964 of the balance of \$194,714).

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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6. FINANCIAL INSTRUMENTS (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2020 equal \$986,506 (March 31, 2020 - \$1,874,931); \$710,054 (March 31, 2020 - \$1,623,364) of the liabilities presented as accounts payable and lease obligation – current portion are due within one month of the reporting date.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

i) *Currency risk* – The Company has no funds held in a foreign currency and only a small amount of its accounts payable and accrued liabilities is denominated in US dollars. A fluctuation in the exchanges rates between the Canadian and US dollars of 10% would result in a nominal change to the Company's accounts payable and accrued liabilities and foreign exchange gain or loss. The Company does not use any techniques to mitigate currency risk.

ii) *Interest rate risk* – Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and cash equivalents is at nominal interest rates, and therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

iii) *Other price risk* – Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the nine months ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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(Unaudited – Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Camp and Infrastructure	Computer Equipment	Equipment	Leasehold Improvements	Total
Cost					
Balance, March 31, 2019	\$ -	\$ -	\$ 497	\$ -	\$ 497
Additions	106,604	25,920	23,554	21,923	178,001
Balance, March 31, 2020 and December 31, 2020	\$ 106,604	\$ 25,920	\$ 24,051	\$ 21,923	\$ 178,498
Depreciation					
Balance, March 31, 2019	\$ -	\$ -	\$ 50	\$ -	\$ 50
Depreciation*	6,216	3,888	2,803	6,420	19,327
Balance, March 31, 2020	6,216	3,888	2,853	6,420	19,377
Depreciation*	2,664	4,957	3,180	4,815	15,616
Balance, December 31, 2020	\$ 8,880	\$ 8,845	\$ 6,033	\$ 11,235	\$ 34,993
Net book value, March 31, 2020	\$ 100,388	\$ 22,032	\$ 21,198	\$ 15,503	\$ 159,121
Net book value, December 31, 2020	\$ 97,724	\$ 17,075	\$ 18,018	\$ 10,688	\$ 143,505

* Camp and infrastructure depreciation is included in exploration and evaluation expenditures

8. EXPLORATION AND EVALUATION EXPENDITURES

Larder Lake Project

On September 24, 2018, as part of a plan of arrangement, the Company received a 100% interest in the Larder Lake Project, located in Ontario. A portion of the project includes a 1.5% net smelter return royalty (“NSR”), of which 1% may be repurchased by the Company for \$750,000. The plan of arrangement was deemed to be a purchase of an asset. As such, IFRS 2 *Share-based Payments* was used to determine fair value of the assets acquired. As the fair value of the assets given up to acquire the assets was more readily available, the Company valued the acquisition using the fair value of shares issued of \$0.28 per share. On September 24, 2018, the fair value of the assets acquired and liabilities assumed were as follows:

	Amount
Consideration provided (fair value of 16,713,256 common shares at \$0.56 per share)	\$ 9,359,423
Allocated to net assets acquired:	
Cash transferred to Company	(7,000,000)
Fair value of Larder Lake Project acquired	(2,359,423)
	\$ -

Fair value of \$2,359,423 was allocated to the project and expensed for the period as exploration and evaluation costs.

Gatling Exploration Inc.
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(Unaudited – Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Larder Lake Project (continued)

On April 1, 2019, the Company entered into an assignment and assumption agreement to acquire the Kir Vit claim package in Ontario. Under the terms of the agreement, the Company took assignment of a January 2017 underlying agreement between the vendor and certain parties that originally staked the claims comprising Kir Vit (the “stakers”). In consideration of the assignment, the Company issued 875,000 common shares to the vendor valued at \$595,000.

On July 9, 2019, the Company exercised the option in the underlying agreement and made a cash payment of \$250,000 to the stakers. The vendor was granted a 0.5% NSR. The stakers retain a 2% NSR, of which the Company may repurchase one-half (1%) for \$1,000,000. If the Company announces a production decision, a \$4,000,000 payment is due to the vendor and a \$250,000 payment is due to the stakers.

Summaries of exploration and evaluation expenditures for the nine months ended December 31, 2020 and year ended March 31, 2020 are as follows:

Nine Months Ended December 31, 2020	Larder Lake Project
Acquisition Costs	
Claim costs	\$ 21,498
Total Acquisition Costs	21,498
Property Exploration Costs	
Assays and geochemistry	243,365
Camp and other costs	252,382
Depreciation	2,664
Drilling	1,389,226
Geological	555,050
Geophysics	3,394
Travel and transport	25,220
Total Exploration Costs	2,471,301
Total Exploration and Evaluation Expenditures	\$ 2,492,799

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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(Unaudited – Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Year Ended March 31, 2020	Larder Lake Project
Acquisition Costs	
Fair value of Larder Lake Project acquired	\$ 845,000
Claim costs	101,022
Total Acquisition Costs	946,022
Property Exploration Costs	
Assays and geochemistry	812,462
Camp and other costs	430,497
Depreciation	6,216
Drilling	4,302,870
Geochemical	3,205
Geological	703,850
Geophysics	64,208
Travel and transport	79,754
Total Exploration Costs	6,403,062
Total Exploration and Evaluation Expenditures	\$ 7,349,084

9. RIGHT-OF-USE ASSET

	Right-of-Use Asset
Cost	
Balance, April 1, 2019, March 31, 2020 and December 31, 2020	\$ 525,030
Depreciation	
Balance, April 1, 2019	\$ -
Depreciation	153,667
Balance, March 31, 2020	153,667
Depreciation	115,251
Balance, December 31, 2020	\$ 268,918
Net book value, March 31, 2020	\$ 371,363
Net book value, December 31, 2020	\$ 256,112

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2020
(Unaudited – Expressed in Canadian Dollars)

10. LEASE OBLIGATION

	December 31, 2020	March 31, 2020
Balance, beginning of period	\$ 398,035	\$ 525,030
Lease interest accretion	30,192	54,422
Lease payments	(138,986)	(181,417)
Balance, end of period	289,241	398,035
Current portion	(163,724)	(146,468)
Non-current portion	\$ 125,517	\$ 251,567

11. OTHER LIABILITIES

Other liabilities consist of the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

	December 31, 2020	March 31, 2020
Balance, beginning of period	\$ -	\$ 418,533
Liability incurred on flow-through shares issued in July 2020	202,500	-
Liability incurred on flow-through shares issued in December 2020	549,714	-
Settlement of flow-through share liability by incurring expenditures	(276,185)	(418,533)
Balance, end of period	\$ 476,029	\$ -

In November 2018, the Company issued 5,772,164 flow-through shares at a price of \$0.60 per share. The premium paid by investors was calculated as \$0.09 per share. Accordingly, \$519,495 was recorded as other liabilities.

In July 2020, the Company issued 2,025,000 flow-through shares at a price of \$0.60 per share. The premium paid by investors was calculated as \$0.10 per share. Accordingly, \$202,500 was recorded as other liabilities.

In December 2020, the Company issued 5,497,140 flow-through shares at a price of \$0.55 per share. The premium paid by investors was calculated as \$0.10 per share. Accordingly, \$549,714 was recorded as other liabilities.

As at December 31, 2020, the Company had \$2,618,158 (March 31, 2020 - \$nil) of remaining commitment to incur exploration expenditures in relation to its December 2020 flow-through financing and did not have any remaining commitment to incur exploration expenditures in relation to its July 2020 (March 31, 2020 - \$nil) and November 2018 (March 31, 2020 - \$nil) flow-through financings.

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12. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the condensed interim statements of comprehensive loss:

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Short-term compensation (consulting fees, exploration and evaluation expenditures, management fees and professional fees)	\$ 625,000	\$ 576,500
Share-based compensation	399,849	66,352
	\$ 1,024,849	\$ 642,852

During the nine months ended December 31, 2020, short-term compensation to related parties consisted of \$187,500 (2019 - \$82,500) in consulting fees, \$225,000 (2019 - \$226,500) in exploration and evaluation expenditures, \$145,000 (2019 - \$185,000) in management fees and \$67,500 (2019 - \$82,500) in professional fees.

Transactions with related parties are included in the amounts shown on the condensed interim statements of comprehensive loss as follows:

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Related company controlled by officer and director (consulting fees and office and general)	\$ 70,000	\$ 90,000
Related companies with common officers and directors (rent recovery)	\$ 133,000	\$ 80,000
Related company in which an officer is a director (exploration and evaluation expenditures)	\$ 115,000	\$ -

As at December 31, 2020, the Company had receivables of \$9,450 (March 31, 2020 - \$15,750) related to office rent recovery from companies with common officers and directors.

As at December 31, 2020, the Company had prepaid expenses of \$7,000 (March 31, 2020 - \$7,500) related to expenses with a company controlled by a member of key management.

As at December 31, 2020, the Company had accounts payable of \$20,000 (March 31, 2020 - \$62,500) with companies controlled by officers and directors, \$120,750 (March 31, 2020 - \$nil) to a company in which an officer is a director, \$12,698 (March 31, 2020 - \$10,575) related to shared office and general expenses with a company controlled by an officer and director and \$16,800 (March 31, 2020 - \$nil) related to prepaid office rent recovery from companies with common officers and directors. The balances owing are unsecured, non-interest-bearing and have no specific terms of repayment.

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13. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares without par value

b) Issued and outstanding

During the nine months ended December 31, 2020

On July 20, 2020, the Company closed a private placement for total gross proceeds of \$3,790,000. The Company issued 2,025,000 flow-through common shares of the Company at a price of \$0.60 per flow-through common share for gross proceeds of \$1,215,000 and 5,150,000 common shares of the Company at a price of \$0.50 per common share for gross proceeds of \$2,575,000. The premium paid by investors on the flow-through shares was calculated as \$0.10 per share. Accordingly, \$202,500 was recorded as other liabilities. Share issue costs of \$28,837 were incurred.

On December 18, 2020, the Company closed a private placement for gross proceeds of \$4,643,427. The Company issued 3,240,000 units at a price of \$0.50 per unit for gross proceeds of \$1,620,000. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.70 for a period of two years from the date of issuance. The Company also issued 5,497,140 flow-through common shares at a price of \$0.55 per share for gross proceeds of \$3,023,427. The premium paid by investors on the flow-through shares was calculated as \$0.10 per share. Accordingly, \$549,741 was recorded as other liabilities. The Company paid finders' fees of \$63,600 and issued 397,512 agent warrants with an exercise price of \$0.70 and a term to expiry of two years (note 13(d)). The Company also incurred other share issue costs of \$161,381.

During the year ended March 31, 2020

On April 12, 2019, the Company issued 875,000 common shares valued at \$595,000 for the Kir Vit claims (note 8).

During the year ended March 31, 2020, the Company issued 130,250 common shares for proceeds of \$72,705 on the exercise of 130,250 stock options. The value of the stock options of \$70,828 was transferred to share capital from share-based payments reserve upon exercise.

c) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of common shares that may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date, including options granted prior to the adoption of the plan. Options granted may not exceed a term of ten years, and the term will be reduced to one year following the date of death of the optionee. All options vest when granted unless they are otherwise specified by the Board of Directors or if they are granted for investor relations activities.

Options granted for investor relations activities vest over a twelve-month period with no more than 25% of the options vesting in any three-month period.

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13. SHARE CAPITAL (Continued)

c) Stock options (continued)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Nine Months Ended December 31, 2020		Year Ended March 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,107,250	\$ 0.52	2,262,500	\$ 0.50
Granted	1,600,000	\$ 0.38	200,000	\$ 0.98
Exercised	-	-	(130,250)	\$ 0.56
Expired	-	-	(225,000)	\$ 0.48
Outstanding, end of period	3,707,250	\$ 0.32	2,107,250	\$ 0.52

The weighted average share price on the date of exercise for the year ended March 31, 2020 was \$1.04.

The following stock options were outstanding and exercisable at December 31, 2020:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
October 15, 2021	0.79	\$ 0.42	1,332,250	1,332,250
February 13, 2022	1.12	\$ 0.66	500,000	500,000
February 27, 2022	1.16	\$ 0.62	125,000	125,000
August 1, 2022	1.58	\$ 0.78	50,000	50,000
September 16, 2022	1.71	\$ 0.58	100,000	100,000
July 22, 2023	2.56	\$ 0.68	950,000	950,000
December 21, 2023	2.97	\$ 0.45	650,000	650,000
	1.72		3,707,250	3,707,250

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of \$797,356 (year ended March 31, 2020 - \$176,204) were recognized during the nine months ended December 31, 2020.

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13. SHARE CAPITAL (Continued)

c) Stock options (continued)

The fair value of each stock option granted was calculated using the following weighted average assumptions:

	Nine Months Ended December 31, 2020	Year Ended March 31, 2020
Expected life (years)	3.00	3.00
Risk-free interest rate	0.28%	1.50%
Annualized volatility	170%	167%
Dividend yield	N/A	N/A
Stock price at grant date	\$ 0.61	\$ 0.51
Exercise price	\$ 0.62	\$ 0.49
Weighted average grant date fair value	\$ 0.53	\$ 0.44

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility and the volatility of a comparable company to estimate the volatility of the share price.

During the nine months ended December 31, 2020, the Company did not transfer any amounts (year ended March 31, 2020 - \$70,828) from the share-based payments reserve to share capital as no stock options were exercised (year ended March 31, 2020 - 260,500).

During the nine months ended December 31, 2020, the Company did not transfer any amounts (year ended March 31, 2020 - \$118,505) from the share-based payments reserve to deficit as no stock options expired (year ended March 31, 2020 - 450,000).

d) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Nine Months Ended December 31, 2020		Year Ended March 31, 2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	-	-	-	-
Granted	2,017,512	\$ 0.70	-	-
Outstanding, end of period	2,017,512	\$ 0.70	-	-

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13. SHARE CAPITAL (Continued)

d) Warrants (continued)

The following warrants were outstanding and exercisable at December 31, 2020:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Exercisable
December 18, 2022	1.96	\$ 0.70	2,017,512

The Company applies the residual method in accounting for its warrants issued through private placements. Accordingly, \$162,000 was recorded for the 1,620,000 warrants issued on December 18, 2020.

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its broker warrants granted. Accordingly, share issue costs of \$57,077 (year ended March 31, 2020 - \$nil) were recognized for the 397,512 broker warrants issued during the nine months ended December 31, 2020.

The fair value of each stock option granted was calculated using the following weighted average assumptions:

	Nine Months Ended December 31, 2020	Year Ended March 31, 2020
Expected life (years)	2.00	N/A
Risk-free interest rate	0.29%	N/A
Annualized volatility	82%	N/A
Dividend yield	N/A	N/A
Stock price at grant date	\$ 0.45	N/A
Exercise price	\$ 0.70	N/A
Weighted average grant date fair value	\$ 0.14	N/A

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility and the volatility of a comparable company to estimate the volatility of the share price.

14. SEGMENTED DISCLOSURE

The Company has one operating segment, being mineral exploration and development. All of the Company's assets are located in Canada.

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15. COMMITMENTS

- a) The Company has entered into agreements with officers and directors that include termination and change of control clauses. In the case of termination without cause, the officers and directors are entitled to an amount equal to a multiple (ranging from one to two times) the annual base fee payable. In the case of a change of control, the officers and directors are entitled to an amount equal to a multiple (ranging from one to three times) the sum of the annual base fee and minimum incentive fee payable. As at December 31, 2020, the total annual base fee of the officers and directors under the agreements is \$780,000 and the total annual minimum incentive fee is \$110,000.
- b) The Company has entered into an office sublease agreement that commenced March 1, 2019 and expires August 30, 2022 with remaining basic rent per fiscal year approximately as follows:

Fiscal 2021	\$	47,000
Fiscal 2022		190,000
Fiscal 2023		80,000
	\$	317,000

16. SUBSEQUENT EVENTS

- a) On January 20, 2021, the Company granted 250,000 stock options to advisory board members with an exercise price of \$0.44 and a term to expiry of three years. The Company recognized share-based payments of \$94,544 in relation to the grant.
- b) Subsequent to December 31, 2020, 100,000 stock options expired unexercised following the resignation of a director.