



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED MAY 31, 2021

(Expressed in Canadian Dollars)

NOTICE TO READER

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

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes	May 31, 2021	As at August 31, 2020
ASSETS			
Current			
Cash		\$ 3,661,103	\$ 3,486
GST receivable and other		81,779	21,326
Prepaid expenses		205,826	20,000
Total Current Assets		3,948,708	44,812
Equipment and mining assets		133,738	-
Exploration and evaluation assets	3	6,191,437	5,297,870
Total Assets		\$ 10,273,883	\$ 5,342,682
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	12	\$ 154,196	\$ 603,800
Promissory note payable	7	-	28,439
Convertible debenture	8	-	385,611
Total Liabilities		154,196	1,017,850
Equity			
Share capital	9	15,141,992	7,692,755
Share subscriptions received	16	-	27,000
Reserves	9	1,521,979	482,440
Other comprehensive income		(155,753)	-
Equity portion of convertible debt	8	-	159,835
Deficit		(6,388,531)	(4,037,198)
Total Equity		10,119,687	4,324,832
Total Liabilities and Equity		\$ 10,273,883	\$ 5,342,682

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN
NOTE 16 – SUBSEQUENT EVENTS

Approved on behalf of the Board of Directors:

/s/ Pierre Leveille
Director

/s/ Jean Luc Roy
Director

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	For the three months ended		For the nine months ended	
	May 31,		May 31,	
	2021	2020	2021	2020
EXPENSES				
Accretion (Note 8)	\$ -	\$ 6,155	\$ 12,310	\$ 18,465
Consulting fees (Note 12)	221,952	63,598	571,125	254,301
Interest expense	576	2,918	7,565	8,755
Investor relations	212,926	15,608	343,796	134,350
Management fees	106,259	-	251,530	-
Office and miscellaneous	39,222	17,639	90,573	64,803
Professional fees	9,246	-	26,761	16,864
Regulatory and transfer agent fees	35,741	4,625	68,117	18,829
Share-based compensation (Notes 9 & 12)	265,976	-	683,680	161,841
Loss before other expenses	(891,898)	(110,543)	(2,055,457)	(678,208)
Net loss and comprehensive loss for the year	\$ (891,898)	\$ (110,543)	\$ (2,055,457)	\$ (678,208)
Loss per common share				
Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding				
Basic and diluted	130,555,685	79,303,335	126,186,504	74,233,636

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Share Capital		Share Subscriptions Received (\$)	Reserves (\$)	Other Comprehensive Income	Equity Portion of Convertible Debt (\$)	Deficit (\$)	Total Equity (\$)
	Number of shares	Amount (\$)						
Balance, August 31, 2019	66,603,357	6,570,504	-	171,100	-	159,835	(2,490,379)	4,411,060
Shares issued in private placement	13,174,000	631,740	-	26,960	-	-	-	658,700
Share issuance costs - cash	-	(28,545)	-	-	-	-	-	(28,545)
Share issuance costs – warrants	-	(3,297)	-	3,297	-	-	-	-
Shares issued - settlement of debt	4,352,941	522,353	-	-	-	-	(152,353)	370,000
Share-based compensation	-	-	-	281,083	-	-	-	281,083
Subscriptions received in advance	-	-	27,000	-	-	-	-	27,000
Convertible debt extinguishment	-	-	-	-	-	-	60,007	60,007
Net loss for the year	-	-	-	-	-	-	(1,454,473)	(1,454,473)
Balance, August 31, 2020	84,130,298	7,692,755	27,000	482,440	-	159,835	(4,037,198)	4,324,832
Shares issued in private placement	54,835,072	7,018,661	(20,700)	-	-	-	-	6,997,961
Share purchase warrant exercises	2,705,600	298,812	(6,300)	-	-	-	-	292,512
Stock option exercises	750,000	60,000	-	-	-	-	-	60,000
Convertible debenture – issuance	3,913,730	861,021	-	-	-	-	-	861,021
Share issuance costs - cash	-	(433,398)	-	-	-	-	-	(433,398)
Share issuance costs – warrants	-	(355,859)	-	355,859	-	-	-	-
Other comprehensive income	-	-	-	-	(155,753)	-	-	(155,753)
Share-based compensation	-	-	-	683,680	-	-	-	683,680
Convertible debt	-	-	-	-	-	(159,835)	(295,876)	(455,711)
Net loss for the year	-	-	-	-	-	-	(2,055,457)	(2,055,457)
Balance, May 31, 2021	146,334,700	15,141,992	-	1,521,979	(155,753)	-	(6,388,531)	10,119,687

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the nine months ended	
	May 31,	
	2021	2020
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	(2,055,457)	(678,208)
Items not affecting cash:		
Accretion	19,699	18,466
Share based compensation	683,680	161,841
Changes in non-cash working capital items:		
Prepaid expense	(185,826)	(18,750)
GST receivable and other	(60,453)	6,084
Other comprehensive income	(155,753)	-
Accounts payable and accrued liabilities	(449,604)	147,127
Net cash used in operating activities	(2,203,714)	(363,440)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Exploration & evaluation assets	(893,567)	(231,014)
Acquisition of equipment	(133,738)	-
Net cash used in investing activities	(1,027,305)	(231,014)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement, net of costs	6,917,075	647,441
Share subscriptions received in advance	-	-
Promissory note payable	-	27,050
Repayment of loan payable	(28,439)	(65,000)
Net cash provided by financing activities	6,888,636	609,491
Change in cash during the period	3,657,617	15,037
Cash, beginning of period	3,486	9,929
Cash, end of period	3,661,103	24,966

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

DEEP-SOUTH RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2021 AND 2020
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Deep-South Resources Inc. (the “Company”) is a development stage company incorporated on April 24, 1987 under the laws of British Columbia. The Company’s head office is located at #888-700 West Georgia Street, Vancouver, British Columbia, V7Y 1G5 and is listed on the TSX Venture Exchange (“TSX-V”) under the symbol “DSM”. The Company is in the business of exploring and evaluating mineral properties located in Africa.

The Company’s interim consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events may cast significant doubt on the validity of this assumption. The Company incurred net loss of \$2,055,457 for the period ended May 31, 2021 (2020 - \$678,208 loss) and had an accumulated deficit \$6,388,531 (2020 - \$3,168,587). These uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

The Company’s ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements. While the Company has been successful in raising equity in the past, there can be no guarantee that it will be able to raise sufficient funds to fund its activities and general and administrative costs in the future. These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Company applies International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited interim financial statements are based on IFRSs issued and outstanding as of July 30, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited interim financial statements as compared with the most recent annual financial statements as at and for the year ended August 31, 2020, except as noted below. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending August 31, 2021, could result in restatement of these unaudited consolidated interim financial statements.

(b) Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss (“FVTPL”), which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and the following entities:

- 1054137 BC Ltd., a wholly owned subsidiary of Deep-South Resources Inc.
- Deep South Mining (PTY) Ltd., wholly owned subsidiary of 1054137 BC Ltd.
- Haib Minerals (Pty) Ltd., a wholly owned subsidiary of Deep-South Mining (PTY) Ltd.

A subsidiary is an entity that the Company controls, either directly or indirectly, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances including unrealized income and expenses arising from intercompany transactions are eliminated in preparing consolidated financial statements.

(d) Investments in Associates

Associates are those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. The Company accounts for its investment in associate using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's proportionate share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates are recognized through profit or loss for the period. Distributions received from an associate are accounted for as a reduction to the carrying amount of the Company's investment in the associate.

Intercompany transactions between the Company and its associates are recognized only to the extent of unrelated investors' interests in the associates.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less cost to sell and value in use (i.e. present value of its future cash flows). If the recoverable amount of an investment in associate is less than its carrying amount then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through profit or loss in the period that the reversal occurs.

(e) Foreign currency transactions

The Company's reporting currency and the functional currency of the Company and its subsidiaries is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalent using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

DEEP-SOUTH RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2021 AND 2020
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability are not based on observable market data.

The Company’s financial instruments are accounted for as follows.

Financial Instrument	IFRS 9 Classification
Cash	FVTPL
Accounts payable and accrued liabilities	Amortized Cost
Consideration payable	Amortized Cost
Promissory note payable	Amortized Cost
Loan payable	Amortized Cost
Convertible debenture	Amortized Cost

Financial assets

The Company classifies its financial assets into the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

Amortized cost - Amortized cost are those assets which are held within a business whose objective is to hold financial assets to collect contractual cash flows; and the terms of the financial assets must provide on specified dates cash flows solely through the collection of principal and interest.

Fair value through profit or loss (“FVTPL”) - A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may however make the irrevocable option to classify particular investments as FVTPL. The Company has classified its cash as FVTPL.

Fair value through other comprehensive income (“FVOCI”) - FVOCI assets are those assets which are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows solely through the collection of principal and interest.

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the consolidated statement of operations for the year.

Financial liabilities

Management determines the classification of its financial liabilities at initial recognition.

Amortized cost - The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities carried at FVTPL and certain other exceptions.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition of financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of operations.

Derecognition of financial liabilities

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

(g) Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible debt in Canadian dollars that can be converted to common shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have a conversion option. The conversion component, an equity instrument, is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and conversion components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

Modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is a least 10 percent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The consideration paid, represented by the fair value of the modified convertible debentures are allocated to the liability and equity components of the original convertible debentures at the date of the extinguishment. The method used in allocating the consideration paid and transaction costs to the separate components of the original convertible debentures is consistent with that used in the original allocation to the separate components of the original convertible debentures of the proceeds received by the Company

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Compound Financial Instruments (continued)

when the original convertible debentures were issued. Once the allocation of the consideration is made, any resulting gain or loss is treated as follows:

- the amount of gain or loss relating to the original liability component is recognized in profit or loss; and
- the amount of consideration relating to the original equity component is recognized in equity in reserves. The amount recognized in convertible debentures equity reserve attributable to the extinguished convertible debentures is also transferred to reserves.

(h) Exploration and Evaluation Assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. When shares are issued as consideration for exploration and evaluation asset costs, they are valued at the closing share price on the date of issuance if the fair value of the goods and services cannot be determined. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

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

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and the balance is reclassified as a development asset in property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. It is management's judgment that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

(i) Impairment of Long-Lived Assets

Management is required to assess impairment in respect of capitalized exploration and evaluation assets. Note 3 discloses the carrying value of these assets at each reporting period. The triggering events for the impairment of exploration and evaluation assets are defined in IFRS 6 Exploration for and Evaluation of Mineral Resources and are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of Long-Lived Assets (continued)

- such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and
- Impairment of exploration and evaluation assets is assessed at the cash generating unit (“CGU”) level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used each of its mineral properties to establish its CGUs.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods. All impairment losses are recognized in profit or loss.

(j) Share Capital

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are issued, with any excess value allocated to the warrants. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(k) Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercises would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(l) Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provisions (continued)

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at May 31, 2021 and August 31, 2020.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(m) Income Taxes

Current tax is the expected tax payable or receivable on taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred taxes are recorded using the statement of financial position liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position reporting date. Deferred tax is not recognized for temporary differences, which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting or taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Share-based Compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in the reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the statement of operations and comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

Each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Share-based Compensation (continued)

All equity-settled share-based payments are reflected in reserve until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserve is credited to share capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. On expiration of options, the previously recognized amount is left in the reserves.

(o) Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements require management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statement of financial position and the reported amounts of expenses during the reporting period. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities included in the preparation of these consolidated financial statements are discussed below:

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, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgement based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Impairment of Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company. If, after exploration and evaluation expenditures are capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, the Company carries out an impairment test at the cash-generating unit or group of cash-generating unit's level in the year the new information becomes available. Such impairment tests and recoverable value models have a degree of estimation and judgment which may differ in the future.

Impairment of Investment in Associates

At the end of each financial reporting period, the Company's management evaluates whether there is impairment of its investments in associates based on objective evidence, which includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operation. When such objective evidence is discovered, the Company writes down the value of its investment to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Such impairment tests and recoverable value models have a degree of estimation and judgment which may differ in the future.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Significant Accounting Judgments and Estimates

Convertible debt

The convertible debt is separated into their liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated at the present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue.

- *The determination of the Company and its subsidiaries' functional currency*

The functional currency of the Company and its subsidiary is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment.

- *Modification versus extinguishment of financial liability*

Judgement is required in applying IFRS 9 *Financial Instruments* to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

Valuation of Share-based Compensation

The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Recovery of Deferred Tax Assets

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement. The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

Determination of Control

The Company exercises judgment in determining if it has control over its investee, which requires the Company to assess if it has: a) power over the investee, b) exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of its returns.

(p) New Accounting Standards Adopted

IFRS 16 "Leases"

The Company adopted IFRS 16 - Leases ("IFRS 16") on September 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values.

Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New Accounting Standards Adopted (continued)

IFRS 16 “Leases” (continued)

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. As at the date of transition, management has assessed that it does not have any leases to which IFRS 16 applies. The adoption of the new IFRS pronouncement has therefore not resulted to adjustments in previously reported figures and there has been no change to the opening deficit balance as at September 1, 2019.

3. EXPLORATION AND EVALUATION ASSETS

	Haib Property, Namibia	Kapile Tepe Property, Turkey	Total
	\$	\$	\$
Balance, August 31, 2019	5,043,922	121,978	5,165,900
Geological	253,948	-	253,948
Write-down of exploration and evaluation assets	-	(121,978)	(121,978)
Balance, August 31, 2020	5,297,870	-	5,297,870
Geological	893,567	-	893,567
Balance, May 31, 2021	6,191,437	-	6,191,437

Haib Property, Namibia

The Company, through its wholly owned subsidiary, Haib Minerals (PTY) Ltd. (“Haib”), holds an exclusive prospecting license for the Company’s Haib copper project in the south of Namibia. On May 5, 2017, the Company entered into a Share Purchase Agreement with Teck Namibia (Pty) Ltd. (“Teck”), to acquire the remaining 70% interest in Haib (the Company previously owned 30% of the interest) for a total consideration of \$3.212 million. Teck will retain a 1.5% Net Smelter on the property, one-third of which can be purchased by the Company for a cash payment of \$2 million.

Disclaimer: The renewal of the Exclusive Prospecting License 3140 covering the Haib Copper project has been refused by the Minister of Mines and Energy of Namibia. The Company intends to vigorously contest this decision by all means necessary and available, including under the Minerals (Prospecting and Mining) Act and other applicable laws of Namibia and other international laws and will provide regular updates in this regard. For more information, please see the press release dated June 24, 2021 in visiting: deepsouthresources.com.

Kapile Tepe Property, Turkey

Concurrent with the closing of the transaction relating to the Company’s investment in associate (Note 4), the Company also issued 700,000 shares at a price of \$0.09 per share for all previous exploration and metallurgical data on the Kapile Tepe Property. The fair value of the shares was estimated to be \$63,000.

On July 7, 2019, the Company issued 500,000 shares at a price of \$0.09 per share to acquire certain leaching technologies to be used at the Kapile Tepe Property valued at \$45,000.

During the year ended August 31, 2020, the Company concluded that it has no intention to pursue this project, an indicator of impairment leading to a test of recoverable amount of the project, which resulted in an impairment loss of \$121,978. A value in use calculation is not applicable as the Company does not have any expected cash flows from using the exploration and evaluation asset at this stage of operations. In estimating the fair value less costs of disposal,

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3. EXPLORATION AND EVALUATION ASSETS (continued)

management did not have observable or unobservable inputs to estimate the recoverable amount greater than \$nil. As this valuation technique requires management’s judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

4. INVESTMENT IN ASSOCIATE

RCR Quantum

On May 7, 2019, the Company acquired a 75% interest in RCR Quantum, a Turkish company which holds the Kapile Tepe Project in the Sivas Province in Turkey. As consideration, the Company issued 3,500,000 common shares at a price of \$0.09 per share with a fair value of \$315,000. The shares issued to the seller are restricted of trading for a period of 3 years. 1/6 of the shares (583,333 shares) become unrestricted every six months starting on May 1, 2019.

Management has determined that they do not have control over RCR Quantum as the Company lacks the practical ability to exercise control over RCR Quantum, therefore the acquisition has been treated as an investment in associate under IAS 28 *Investment in Associates and Joint Ventures*. Consequently, the investment in associate is accounted for using the equity method, with an acquisition value of \$315,000. During the year ended August 31, 2020, the Company concluded that certain indicators of impairment existed leading to a test of recoverable amount for this investment. A value in use calculation is not applicable as the Company does not have any expected cash flows from using this investment at this stage of operations. In estimating the fair value less costs of disposal, management did not have observable or unobservable inputs to estimate the recoverable amount greater than \$nil. As this valuation technique requires management’s judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy. As such, the Company has recognized impairment loss of \$315,000 bringing the carrying amount of the investment to \$nil.

The acquisition agreement carries the following commitments:

Upon closing of a first financing in excess of \$1,000,000, the Company will pay a further \$110,000 to the previous holder of the Project. Subsequent to year end the Company closed a financing in excess of \$1,000,000 (see Note 16).

Upon completion of a NI 43-101 resources report estimating an inferred resource totalling a minimum of 20 million tonnes at a minimum grade of 1% copper (“Cu”) equivalent, the Company is required to issue common shares valued at CAD \$2,000,000 to the previous holder of the project. Further, the Company is obligated to buy back Turkish Lyra (“TRY”) 2,400,000 of a TRY 3,800,000 loan from Quantum, in cash or shares, at the election of the original loanee. The Company has no obligation to buy back the loan until a NI 43-101 compliant resource estimates a minimum inferred resource of 20 million tonnes at a minimum of 1% Cu equivalent.

If the NI 43-101 resource estimation states an inferred resource totalling a minimum of 100 million tonnes at a minimum grade of 1% Cu equivalent, the Company is required to issue additional common shares valued at CAD \$2,000,000. Further, the Company is obligated to buy back the remaining TRY 1,400,000 of a TRY 3,800,000 loan from Quantum, in cash or shares, at the election of the Company. The Company has no obligation to buy back the balance of the loan until a NI 43-101 compliant resource estimates a minimum inferred resource of 100 million tonnes at a minimum of 1% Cu equivalent.

The summary financial information of RCR Quantum as at the acquisition date is as follows:

Cash	\$	-
Current assets, other than cash	\$	235,137
Non-current assets	\$	465,682
Current liabilities	\$	1,189,365
Comprehensive loss	\$	(203)

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5. CONSIDERATION PAYABLE

Haib Minerals (Pty) Ltd.

On May 5, 2017, the Company acquired the remaining 70% interest in Haib Minerals (PTY) Ltd. through a share Purchase Agreement for total consideration of \$3.212 million. The consideration was comprised of 14,060,000 common shares of the Company (each share valued at \$0.20 on the date of issue) and \$400,000 as consideration payable in two transfers (\$200,000 due on the first anniversary and \$200,000 due on the second anniversary). During the year ended August 31, 2020, the Company repaid \$30,000 of the consideration payable. On June 30, 2020, the Company settled the remaining balance owing by issuing 4,352,941 shares to Teck Namibia Ltd. (issued August 10, 2020 and fair valued at \$522,353) and recognized loss on settlement of debt for \$152,353, which was recorded under equity pursuant to IAS 1 *Presentation of Financial Statements* as the transaction is with a shareholder.

6. LOAN PAYABLE

On January 30, 2017, the Company entered into a bridge loan agreement for working capital purposes and received \$50,000. The loan is unsecured, bears interest at 10% per annum, and was due on January 31, 2019. The Company repaid \$15,000 of the principal balance on January 16, 2018. As at August 31, 2020, the balance was repaid in full comprising principal of \$35,000 and accrued interest of \$13,800.

7. PROMISSORY NOTE PAYABLE

On February 25, 2020, the Company signed a promissory note with a former director, which converts monies previously owing to a note payable on demand in the amount of \$27,050. The note is unsecured, bears interest at 10% per annum. As at August 31, 2020, the Company has accrued \$1,389 in interest payable. As at November 30, 2020, the Company has repaid the balance in full.

On December 23, 2020, the Company signed a promissory note with a director, which converts monies previously owing to a note payable in the amount of \$19,845. The note is unsecured and bears no interest. As at January 29, 2021, the balance has been paid in full.

8. CONVERTIBLE DEBENTURE

On August 30, 2016, as part of the remaining debt settlement of the loan agreement between Deep South Minerals (PTY) Ltd. and Teck Namibia (a related party through share holdings), the Company issued a convertible debenture ("debenture") to Teck Resources. The debenture bears interest on the outstanding principal amount at a rate of LIBOR plus 2% per annum with the principal due at maturity (48 months from the date of issuance.). The debenture is payable in cash or at the option of the Company, the principal and accrued interest is convertible into shares in the Company at a price of \$0.14 per share. The debenture holder may also redeem the principal and any accrued but unpaid interest up to the maturity date.

The Convertible Debenture bears interest on the outstanding principal amount at a rate of LIBOR plus 2% per annum payable with the principal at maturity.

In the event that the Company receives "Net Cash Proceeds," defined as either an asset sale, issuance of equity securities, or incurrence of debt, a mandatory redemption will occur resulting in the debenture being converted into common shares in the Company as follows:

- for the portion of Net Cash Proceeds of up to but not including \$100,000, the Company shall redeem a principal amount of this debenture equal to 30% of such net proceeds;
- for the portion of Net Cash Proceeds between \$100,000 up to but not including \$200,000, the Company shall redeem a principal amount of this debenture equal to 40% of such net proceeds;
- for the portion of Net Cash Proceeds between \$200,000 up to but not including \$300,000, the Company shall redeem a principal amount of this debenture equal to 50% of such net proceeds; and

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8. CONVERTIBLE DEBTENTURE (continued)

- for the portion of Net Cash Proceeds over \$300,000, the Company shall redeem a principal amount of this debenture equal to 50% of such net proceeds.

On August 14, 2020, the parties amended the convertible debenture and extended the maturity to August 30, 2021 at a new conversion price of \$0.115 Pursuant to IFRS 9 *Financial Instruments*, the modification was considered to be substantial and was therefore accounted for as an extinguishment of the debenture and recognition of a new debenture. The present value of the new liability component was calculated as the present value of the principal and interest discounted at 18%. The extinguishment of debt gave rise to a gain on extinguishment for \$60,007, which was recorded under equity pursuant to IAS 1 *Presentation of Financial Statements* as the transaction is with a shareholder.

On April 15, 2021, the Company announced that Teck Resources Limited has signed agreements to sell the convertible debenture it holds with the Company to third party investors. The convertible debenture has a principal value of \$389,117 and is convertible into common shares of Deep-South at a conversion price of \$0.115 per common share and has a maturity date of August 30, 2021. The convertible debenture shall continue to bear interest on the outstanding principal amount at a rate of LIBOR plus 2% per annum payable with the principal at maturity. On March 31, 2021, the accrued interest is valued at \$60,962. Upon closing of the transaction, the purchaser of the convertible debenture will convert the debenture into 3,913,730 common shares of the Company.

A reconciliation of the convertible debenture is as follows:

Balance at August 31, 2019	\$ 345,984
Non-cash items	
Accreted interest to extinguishment date	43,133
Extinguishment of debenture:	
Principal	(389,117)
Issuance of debenture	382,823
Accreted interest on new debenture	2,788
Balance at August 31, 2020	\$ 385,611
Accretion	19,699
Accreted interest to conversion date	44,769
Issuance of shares	(450,079)
Balance at May 31, 2021	\$ -

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9. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

For the nine months ended May 31, 2021

On September 16, 2020, the Company closed the first tranche of a non-brokered private placement comprising 13,732,000 units at a price of \$0.10 per unit for gross proceeds of \$1,373,200. Each unit comprises one common share and one-half share purchase warrant; each whole warrant is exercisable at \$0.15 per share expiring September 16, 2023.

On October 14, 2020, the Company closed the final tranche of a non-brokered private placement comprising 10,400,000 units at a price of \$0.10 per unit for gross proceeds of \$1,040,000. Each unit comprises one common share and one-half share purchase warrant; each whole warrant is exercisable at \$0.15 per share expiring October 14, 2023.

For the non-brokered private placements, the Company paid a total of \$132,960 in aggregate cash finder's fees and issued 1,329,600 finder warrants. These warrants entitle the holder to purchase one share for \$0.15 for a period of three years from the date of closing. Each security has a four-month hold period from the date of closing the placement. These warrants issued had a fair value of \$82,102 using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.095-\$0.10; iii) term: 3 years; iv) volatility: 122%; v) discount rate: 0.20-0.24%. The value of these compensation warrants is included in reserves and share capital. The Company also incurred other share issuance cost for \$128,644.

On January 20, 2021, the Company closed a non-brokered private placement comprising of 30,703,072 Units at a price of \$0.15 per Unit for gross proceeds of \$4,605,461. Each Unit comprises one common share and one-half share purchase warrant; each whole warrant is exercisable at \$0.22 per share expiring two years from the date of closing.

For the non-brokered private placement, the Company paid a total of \$266,900 in aggregate cash finder's fees and issued 1,830,501 finder warrants. These warrants entitle the holder to purchase one share for \$0.22 for a period of two years from the date of closing. Each security has a four-month hold period from the date of closing the placement. These warrants issued had a fair value of \$273,757 using the Black Scholes model with the following inputs: i) exercise price: \$0.22; ii) share price: \$0.21; iii) term: 2 years; iv) volatility: 152%; v) discount rate: 0.16%. The value of these compensation warrants is included in reserves and share capital.

For the year ended August 31, 2020

On December 23, 2019, the Company closed the first tranche of a non-brokered private placement comprising 5,346,000 units at a price of \$0.05 per unit for gross proceeds of \$267,300. Each unit comprises one common share and one share purchase warrant exercisable at \$0.09 per share expiring December 23, 2024.

On January 22, 2020, the Company closed the second tranche of a non-brokered private placement comprising 6,380,000 units at a price of \$0.05 per unit for gross proceeds of \$319,000. Each unit comprises one common share and one share purchase warrant exercisable at \$0.09 per share expiring January 22, 2025.

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9. SHARE CAPITAL (continued)

(b) Issued and outstanding

On January 29, 2020, the Company closed the final tranche of a non-brokered private placement comprising 100,000 units at a price of \$0.05 per unit for gross proceeds of \$5,000. Each unit comprises one common share and one share purchase warrant exercisable at \$0.09 per share expiring January 29, 2025.

On April 2, 2020, the Company closed a non-brokered private placement comprising of 1,348,000 units at a price of \$0.05 per unit for gross proceeds of \$67,400. Each unit comprises one common share and one share purchase warrant exercisable at \$0.09 per share expiring April 2, 2025. \$26,960 of the proceeds was allocated to warrants using residual method.

For the non-brokered private placements, the Company paid a total of \$4,724 in aggregate cash finder's fees and issued 92,800 broker warrants. These warrants entitle the holder to purchase one share for \$0.09 for a period of five years from the date of closing. These warrants issued had a fair value of \$3,297 using the Black Scholes model with the following inputs: i) exercise price: \$0.09; ii) share price: \$0.05; iii) term: 5 years; iv) volatility: 122%; v) discount rate: 1.60%. The value of these compensation warrants is included in reserves and share capital. The Company also incurred other share issuance cost for \$23,821.

On August 10, 2020, the Company issued 4,352,941 common shares to Teck Namibia Ltd., to settle total consideration payable of \$370,000 (Note 5).

(c) Stock options

The Company has a rolling stock option plan whereby a maximum of 10% of the issued common shares will be reserved for issuance under the plan. Options granted under the plan vest immediately or over a period at the discretion of the Board of Directors

Under the Plan, the number of shares reserved for issuance to any optionee will not exceed 5% of the then issued and outstanding shares unless the Company has obtained Disinterested Shareholder Approval. The options are non-assignable and non-transferable and will be exercisable up to 10 year from the date of grant. The exercise price of an option will be set by the Board and cannot be less than the discounted market price, as such term is defined in policies of the TSX Venture and other applicable regulatory authorities.

The following table summarizes the Company's stock option activities for the following periods:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Options outstanding and exercisable, August 31, 2019	575,000	\$0.25	
Granted	7,400,000	\$0.10	
Expired	(575,000)	\$0.25	
Options outstanding, August 31, 2020	7,400,000	\$0.10	4.01
Granted	4,365,000	\$0.19	
Exercised	(750,000)	\$0.08	
Cancelled	(400,000)	\$0.09	
Options outstanding, May 31, 2021	10,615,000	\$0.13	3.16
Options exercisable, May 31, 2021	8,900,500	\$0.13	3.16

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9. SHARE CAPITAL (continued)

(b) Stock options (continued)

As at May 31, 2021, the Company had options outstanding as follows:

Number of Options	Exercise Price	Expiry Date	Vesting Term
2,550,000	\$0.09	February 24, 2025	1/4 th every 6 months
700,000	\$0.08	June 10, 2025	1/4 th every 6 months
500,000	\$0.08	June 10, 2025	Fully vested on grant
750,000	\$0.08	June 10, 2025	1/4 th every 6 months
1,000,000	\$0.15	December 31, 2021	Fully vested on grant
750,000	\$0.135	July 10, 2023	1/4 th every 6 months
250,000	\$0.10	September 11, 2025	1/4 th every 6 months
200,000	\$0.10	October 20, 2023	1/4 th every 6 months
350,000	\$0.11	October 26, 2025	1/4 th every 6 months
2,150,000	\$0.17	December 14, 2025	Fully vested on grant
350,000	\$0.17	January 20, 2024	1/4 th every 6 months
150,000	\$0.17	February 1, 2024	1/4 th every 6 months
65,000	\$0.22	April 9, 2024	1/4 th every 6 months
450,000	\$0.245	May 5, 2024	1/4 th every 6 months
400,000	\$0.25	May 10, 2024	1/4 th every 6 months
10,615,000			

When the Company issues stock options, it records a share-based compensation in the year or period in which the options are granted and/or vested. The expense is estimated using the following assumptions:

- The stock price volatility is based on the Company's historical prices.
- The risk-free interest rate is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the expected life of the stock options.
- The Company used historical data to estimate option exercise, forfeiture and employee termination within the valuation model.
- The Company has not paid and does not anticipate paying dividends on its common shares. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period.
- Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the share-based compensation recorded in the accompanying consolidated statements of operations and comprehensive loss.

During the nine months ending May 31, 2021, the Company recognized \$683,680 in share-based compensation relating to the grant of stock options. The fair value of the options was determined utilizing Black Scholes Option Pricing Model with the following weighted average inputs. Risk-free rate: 0.16-0.24%, Expected Life: 2-5 years, Volatility: 122-152%, and Fair Value \$0.10-0.15.

During fiscal year end 2020, the Company recognized \$281,083 in share-based compensation relating to the grant of stock options. The fair value of the options was determined utilizing Black Scholes Option Pricing Model with the following weighted average inputs. Risk-free rate: 0.71%, Expected Life: 3.52 years, Volatility: 136%, and Fair Value \$0.07.

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9. SHARE CAPITAL (continued)

(d) Warrants

The following table summarizes the Company's warrant activities:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Warrants outstanding and exercisable, August 31, 2019	5,387,100	\$0.23	
Granted	13,174,000	\$0.09	
Warrants outstanding and exercisable, August 31, 2020	18,561,100	\$0.13	3.43
Granted	27,417,536	\$0.17	
Exercised	(2,705,600)	\$0.10	
Expired	(1,811,800)	\$0.30	
Warrants outstanding and exercisable, May 31, 2021	41,461,236	\$0.16	2.54

As at May 31, 2021, the Company has warrants outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
812,800	\$0.20	November 22, 2021
2,732,500	\$0.20	March 5, 2022
4,126,000	\$0.09	December 23, 2024
5,780,000	\$0.09	January 22, 2025
100,000	\$0.09	January 29, 2025
1,348,000	\$0.09	April 2, 2025
6,240,000	\$0.15	September 16, 2023
4,980,000	\$0.15	October 14, 2023
15,341,936	\$0.22	January 20, 2023
41,461,236		

(e) Compensation Warrants

For the nine months ended May 31, 2021:

On September 16, 2020 and October 14, 2020, in connection with the private placements, the Company issued 1,329,600 finder warrants. These warrants entitle the holder to purchase one share for \$0.15 for a period of three years from the date of closing. These warrants issued had a fair value of \$82,102 using the Black Scholes model with the following inputs: i) exercise price: \$0.15; ii) share price: \$0.095-\$0.10; iii) term: 3-5 years; iv) volatility: 122%; v) discount rate: 0.20-0.24%. The value of these compensation warrants is included in reserves and share capital.

On January 20, 2021, in connection with the private placements, the Company issued 1,830,501 finder warrants. These warrants entitle the holder to purchase one share for \$0.22 for a period of two years from the date of closing. These warrants issued had a fair value of \$273,757 using the Black Scholes model with the following inputs: i) exercise price: \$0.22; ii) share price: \$0.21; iii) term: 2 years; iv) volatility: 152%; v) discount rate: 0.16%. The value of these compensation warrants is included in reserves and share capital.

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9. SHARE CAPITAL (continued)

(e) Compensation Warrants (continued)

For the year ended August 31, 2020:

On December 23, 2019 and January 22, 2020, in connection with the private placements, the Company issued 92,800 finder warrants. These warrants entitle the holder to purchase one share for \$0.09 for a period of three years from the date of closing. These warrants issued had a fair value of \$3,297 using the Black Scholes model with the following inputs: i) exercise price: \$0.09; ii) share price: \$0.05; iii) term: 3 years; iv) volatility: 122%; v) discount rate: 1.65%. The value of these compensation warrants is included in reserves and share capital.

The following table summarizes the Company's finder warrant activities:

	Number of Finder Warrants	Weighted Average Exercise Price
Warrants outstanding and exercisable, August 31, 2019	67,600	\$0.28
Granted	92,800	\$0.09
Warrants outstanding and exercisable, August 31, 2020	160,400	\$0.17
Granted	3,160,101	\$0.15
Expired	(67,600)	\$0.30
Warrants outstanding and exercisable, May 31, 2021	3,252,901	\$0.13

As at May 31, 2021, the Company has warrants outstanding as follows:

Number of Finder Warrants	Exercise Price	Expiry Date
68,800	\$0.09	December 23, 2022
24,000	\$0.09	January 22, 2023
362,800	\$0.15	September 16, 2023
966,800	\$0.15	October 14, 2023
1,830,501	\$0.22	January 20, 2023
3,252,901		

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

	Level	Ref.	May 31, 2021	August 31, 2020
			\$	\$
Other financial assets	1	a	3,661,103	3,486
Other financial liabilities	2	b	154,196	1,017,850

a. Comprises cash

b. Comprises accounts payable and accrued liabilities, loan payable, consideration payable, promissory note payable, and convertible debenture.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not significantly different from their carrying values.

Management of Industry and Financial Risk

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company's financial instruments are exposed to certain financial risks, which include the following:

Credit risk

Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. The Company's exposure to credit risk is on its cash. Risk associated with cash is managed through the use of major banks which are high credit quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At May 31, 2021, the Company had working capital of \$4,102,903 (2020 – deficiency of \$1,169,782) this included cash of \$3,661,103 (2020 - \$24,966) available to meet short-term business requirements and current liabilities of \$154,196 (2020 - \$1,231,610). The Company will require additional financing in the future to meet its obligations. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

Currency Risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk relating to its related party balances.

Price Risk

The Company is exposed to price risk with respect to equity prices. Price risk as it relates to the Company is defined as the potential adverse impact on the Company's ability to raise financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Operating Hazards and Risks

Mining operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of metals, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage.

Title and License Risks

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned.

11. CAPITAL MANAGEMENT

The Company defines capital that it manages as cash and equity, comprising issued common shares and reserves.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage. As such, the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions. There was no change to the Company's capital management approach during the year.

12. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements related party transactions are as follows. The key management personnel of the Company are the directors and officers of the Company. Compensation and expenses paid to key management for the following periods:

	May 31, 2021		May 31, 2020
Consulting fees	\$ 244,500	\$	96,889
	\$ 244,500	\$	96,889

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12. RELATED PARTY TRANSACTIONS (continued)

Included in accounts payable and accrued liabilities is \$Nil (2020 - \$159,773) owed to companies controlled by directors or officers as at May 31, 2021. All balances are unsecured, non-interest bearing, have no fixed repayment terms and are due on demand. These amounts do not include the promissory note payable to a previous officer (refer to Note 7).

13. SEGMENTED INFORMATION

a) Operating Segments

The Company's operations are primarily dedicated towards the acquisition, exploration, and development of its properties in British Columbia and Namibia.

b) Geographic Segments

		May 31, 2021		May 31, 2020
Net loss from operations:				
Canada	\$	1,957,120	\$	678,208
Turkey		-		-
Namibia		98,337		-
	\$	2,055,457	\$	678,209
Identifiable assets				
Canada	\$	4,850,613	\$	34,126
Turkey		-		436,978
Namibia		5,423,269		5,043,921
	\$	10,273,882	\$	5,515,025
Liabilities				
Canada	\$	143,597	\$	1,226,471
Turkey		-		-
Namibia		10,599		5,139
	\$	154,196	\$	1,231,610

The Company's geographic information:

14. TAX LOSSES

The Company has non-capital losses carried forward for income tax purposes of approximately \$5,977,589 (2020 - \$5,563,908) which can be applied against future years' taxable income. These losses will expire between 2026 and 2039. Deferred tax benefits which may arise as a result of the utilization of non-capital losses and cumulative exploration and development expenses have been offset by deferred tax assets not recognized in these financial statements

15. COMMITMENTS

On February 25, 2019, the Company signed an off-take agreement with a third party (“the Buyer”). The buyer agreed to purchase 5,320,000 units in the Company’s March 5, 2019 private placement (see Note 8) for gross proceeds of \$532,000. The buyer and the Company plan to construct and operate a copper mine and a solvent-extraction and electro winning plant (“the Plant”) on the Company’s Haib property. In consideration of the buyer making the investment, the Company has guaranteed to sell, or make available to the buyer, 20% of the output produced by the Company’s proposed plant, and in any event, a minimum of 20,000 metric tonnes from commencement of the plant and thereafter throughout the lifetime of the plant. During fiscal year end 2020, an additional off-take portion was granted whereby the Buyer will have the right to buy 2% (2,000 metric tonnes) more of the copper produce.

16. SUBSEQUENT EVENTS

- On June 25, 2021, the Company has received a notice from the Ministry of Mines and Energy “Ministry” confirming that the Company’s application for the renewal of its Exclusive Prospecting License 3140 (the “License”) has been refused. The Company intends to vigorously contest this decision by all means necessary and available under the Minerals (Prospecting and Mining) Act (the “Act”) and other applicable laws of Namibia as well as other international laws. In its application for renewal and subsequent representations made to the Ministry, the Company maintains that it clearly demonstrated having met all criteria under the Act to justify the renewal of its License.

On June 16, 2021, the Company had received notice from the Ministry informing the Company that its application for the renewal of its License had been denied citing the Company’s inability to advance the License to Pre-Feasibility and complete the proposed drilling program as planned. The Company maintains that the Ministry was kept well apprised, with no objection on their part, of a proposed change from the Pre-Feasibility (PFS) study to an **upgraded Preliminary Economic Assessment (PEA) and the commencement of a full Feasibility Study (FS)**. **The FS was already commenced with at the time of the refusal.** Moreover, the Ministry issued all permits required for the drilling program and officials were well aware that Haib had completed the drilling program at the time of the refusal to renew.

As a result of the Minister’s refusal to renew the License, the Company has terminated all work on site and has proceeded with the retrenchment of its employees on site.

On July 21, 2021, Deep-South and its subsidiary Haib Minerals (Pty) Ltd (“Haib”) announced that they have filed an application on behalf of Haib with the High Court of Namibia for an order reviewing the decision of the Minister of Mines and Energy (“Minister”) refusing the renewal of Haib’s licence EPL 3140 (“Licence”) covering the Haib Copper project in Namibia. The application also seeks an urgent interdict aimed at preventing the Ministry of Mines and Energy of Namibia (“Ministry”) from granting a licence over the same licence area to anyone else. Information will be disclosed during the proceeding advancement.