

**Silk Energy Limited**  
**(formerly Inspiration Mining Corporation)**  
**Condensed Interim Consolidated Financial Statements**  
**For the three months ended**  
**March 31, 2021**  
**(Amended and restated)**

**Unaudited – Prepared by Management**  
**(Expressed in Canadian Dollars)**

## **NOTICE TO READER**

Silk Energy Limited (the “Company”) has restated its unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021 which were previously filed on SEDAR (the “Initial Interim Financial Statements”). Subsequent to the original issuance of the Initial Interim Financial Statements, the Company determined that it had not accounted for the acquisition of a company that took place during the period. The error has been corrected in these amended and restated unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021.

Additionally, the Company revised a disclosure error within these financial statements. See Note 16 for additional details in respect of the impact of the restatement.

These unaudited condensed interim consolidated financial statements have been prepared by management and have not been reviewed by the Company’s external auditor.

**Silk Energy Limited**  
**(formerly Inspiration Mining Corporation)**  
**Condensed Interim Consolidated Statements of Financial Position**  
**Unaudited – Prepared by Management**

As at March 31, 2021 and December 31, 2020

		<b>Restated - Note 16</b>	
	Note	<b>March 31, 2021 \$</b>	<b>December 31, 2020 \$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash		22,578	-
Sales tax recoverable		34,083	65,989
Prepaid expenses	10	80,000	-
Marketable securities	4	1,111	1,111
		<b>137,772</b>	<b>67,100</b>
<b>Non-current assets</b>			
Deposit	7	1,350	1,350
Due from UnionField Group	5	-	133,565
Investment in associate	5	17,188,654	-
Due from associate	5	112,546	-
Deferred acquisition costs	5	-	27,742,890
Exploration and evaluation assets - oil and gas	5	28,081,308	-
Deferred financing charges	15	513,888	597,221
Right-of-use asset	7	1,826	3,651
Mineral properties	6	4	4
<b>Total assets</b>		<b>46,037,348</b>	<b>28,545,781</b>
<b>Liabilities and shareholders' equity (deficiency)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8,15	1,000,394	968,407
Bank indebtedness		-	5,253
Due to related parties	11	1,477,341	1,432,386
Deferred acquisition costs payable - current	5	6,287,500	-
Loans payable	11	27,931	51,489
Convertible debentures - derivative component	10	806,491	1,435,081
Convertible debentures - liability component	10	8,307,578	27,878,283
Lease liability	7	2,612	4,539
Promissory notes payable	9	310,297	302,615
		<b>18,220,144</b>	<b>32,078,053</b>
<b>Non-current liabilities</b>			
Convertible debentures - liability component	10	-	215,818
Deferred acquisition costs payable	5	11,066,000	-
<b>Total liabilities</b>		<b>29,286,144</b>	<b>32,293,871</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital - common	10	10,947,755	8,236,475
Share capital - preferred	10	19,170,000	-
Units committed for issuance	10	14,040	15,840
Reserves	10	574,600	574,600
Accumulated other comprehensive loss		(239,842)	(243,657)
Deficit		(13,715,349)	(12,331,348)
<b>Total shareholders' equity (deficiency)</b>		<b>16,751,204</b>	<b>(3,748,090)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>46,037,348</b>	<b>28,545,781</b>
<b>Nature of operations and going concern</b>	1		
<b>Restatement</b>	16		
<b>Events after the reporting period</b>	17		

Approved on behalf of the Board of Directors on December 21, 2021:

“Steve Kappella”

Director

“Yerkin Svanbayev”

Director

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

**Silk Energy Limited**  
**(formerly Inspiration Mining Corporation)**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**  
**Unaudited – Prepared by Management**

**For the three months ended March 31, 2021 and March 31, 2020**

	Common shares		Preferred shares		Shares committed for issuance	Units committed for issuance	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
	Number of shares #	Share capital \$	Number of shares #	Share capital \$						
January 1, 2020	192,275,952	6,647,870	-	-	1,288,500	52,785	565,500	23,936	(9,511,126)	(932,535)
Shares issued pursuant to shares committed for issuance	65,000	9,750	-	-	(9,750)	-	-	-	-	-
Convertible debenture - finders' warrants	-	-	-	-	-	-	9,100	-	-	9,100
Translation adjustment	-	-	-	-	-	-	-	(144,012)	-	(144,012)
Net loss for the period	-	-	-	-	-	-	-	-	(2,895,874)	(2,895,874)
<b>March 31, 2020</b>	<b>192,340,952</b>	<b>6,657,620</b>	<b>-</b>	<b>-</b>	<b>1,278,750</b>	<b>52,785</b>	<b>574,600</b>	<b>(120,076)</b>	<b>(12,407,000)</b>	<b>(3,963,321)</b>
January 1, 2021	201,411,185	8,236,475	-	-	-	15,840	574,600	(243,657)	(12,331,348)	(3,748,090)
Units issued pursuant to units committed for issuance	168,000	25,200	-	-	-	(25,200)	-	-	-	-
Issuance of units pursuant to private placements	2,984,000	447,600	-	-	-	-	-	-	-	447,600
Share issue costs	-	(46,800)	-	-	-	23,400	-	-	-	(23,400)
Shares issued pursuant to consulting agreement	1,000,000	150,000	-	-	-	-	-	-	-	150,000
Shares issued as bonus to key management	3,500,000	525,000	-	-	-	-	-	-	-	525,000
Shares issued on conversion of interest (convertible debenture #3)	4,095,000	1,610,280	-	-	-	-	-	-	-	1,610,280
Preferred shares issued on extinguishment (convertible debenture #3)	-	-	47,625,000	19,170,000	-	-	-	-	-	19,170,000
Translation adjustment (restated - Note 16)	-	-	-	-	-	-	-	3,815	-	3,815
Net loss for the period (restated - Note 16)	-	-	-	-	-	-	-	-	(1,384,001)	(1,384,001)
<b>March 31, 2021</b>	<b>213,158,185</b>	<b>10,947,755</b>	<b>47,625,000</b>	<b>19,170,000</b>	<b>-</b>	<b>14,040</b>	<b>574,600</b>	<b>(239,842)</b>	<b>(13,715,349)</b>	<b>16,751,204</b>

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

**Silk Energy Limited**  
**(formerly Inspiration Mining Corporation)**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**Unaudited – Prepared by Management**

**For the three months ended March 31, 2021 and March 31, 2020**

		<b>Restated - Note 16</b>	
		<b>March 31,</b>	<b>March 31,</b>
	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Expenses</b>			
Amortization - deferred financing charges	15	83,333	83,334
Consulting and research fees	15	152,062	198,753
Depreciation	7	1,825	1,825
Finance charges	7	98	280
Foreign exchange (gain) loss	9,10	(225,409)	1,632,469
Interest expense, net	5,9,11	5,623	5,645
Office and general		19,139	27,704
Professional fees		90,821	230,293
Salaries and wages	11	818,616	285,399
Transfer agent and filing fees		5,814	3,566
Travel and related		415	10,350
<b>Loss from operating expenses</b>		<b>(952,337)</b>	<b>(2,479,618)</b>
Accretion/interest on convertible debentures	10	(570,162)	(744,080)
Change in fair value of embedded derivatives	10	413,926	337,613
Loss from investment in associate	5	(20,829)	-
Loss on extinguishment of convertible debenture	10	(254,599)	-
Transaction costs		-	(9,789)
<b>Net loss for the period</b>		<b>(1,384,001)</b>	<b>(2,895,874)</b>
Translation adjustment		3,815	(144,012)
<b>Comprehensive loss for the period</b>		<b>(1,380,186)</b>	<b>(3,039,886)</b>
<b>Loss per share</b>			
<b>Weighted average number of common shares outstanding</b>			
- basic #		<b>209,240,687</b>	192,305,238
- diluted #		<b>209,240,687</b>	192,305,238
<b>Basic loss per share \$</b>		<b>(0.01)</b>	(0.02)
<b>Diluted loss per share \$</b>		<b>(0.01)</b>	(0.02)

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

**Silk Energy Limited**  
**(formerly Inspiration Mining Corporation)**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**Unaudited – Prepared by Management**

**For the three months ended March 31, 2021 and March 31, 2020**

		<b>Restated - Note 16</b>	
		<b>March 31,</b>	<b>March 31,</b>
		<b>2021</b>	<b>2020</b>
	Note	\$	\$
<b>Operating activities</b>			
Net loss for the period		(1,384,001)	(2,895,874)
Amortization - deferred financing charges		83,333	83,334
Depreciation		1,825	1,825
Finance charges		98	280
Loss from investment in associate		20,829	-
Accretion/interest on convertible debentures		570,162	744,080
Change in fair value of embedded derivatives		(413,926)	(337,613)
Loss on extinguishment of convertible debenture		254,599	-
Accrued interest expense (other), net		8,124	4,427
Shares issued for consulting fees		75,000	-
Shares issued as bonus to key management		525,000	-
Foreign exchange adjustments		(188,323)	1,739,056
Net change in non-cash working capital items	12	101,244	276,706
		<b>(346,036)</b>	<b>(383,779)</b>
<b>Financing activities</b>			
Bank indebtedness		(5,253)	-
Issuance of units for cash	10	447,600	-
Convertible debenture proceeds	10	-	268,500
Partial repayment of loan	11	(24,000)	-
Lease payments made	7	(2,025)	(2,025)
		<b>416,322</b>	<b>266,475</b>
<b>Investing activities</b>			
Cash acquired on asset acquisition	5	309	-
		<b>309</b>	<b>-</b>
<b>Effect of foreign exchange on cash</b>		<b>(48,017)</b>	<b>(122,737)</b>
<b>Change in cash</b>		<b>22,578</b>	<b>(240,041)</b>
<b>Cash, beginning of period</b>		<b>-</b>	<b>282,427</b>
<b>Cash, end of period</b>		<b>22,578</b>	<b>42,386</b>
<b>Supplemental cash flow information</b>	12		

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

---

## Silk Energy Limited

### (formerly Inspiration Mining Corporation)

#### Notes to the Condensed Interim Consolidated Financial Statements

#### Unaudited – Prepared by Management

---

For the three months ended March 31, 2021 and March 31, 2020

---

#### 1. Nature of operations and going concern

Silk Energy Limited (formerly Inspiration Mining Corporation) ("Silk Limited" or the "Company") was incorporated under the laws of British Columbia on November 15, 1972. In July 2019, the Company changed its name from "Inspiration Mining Corporation" to "Silk Energy Limited". The primary office (head office and records office) of the Company is located at 4100 – 66 Wellington Street West, Toronto, Ontario M5K 1B7.

On September 3, 2019 (and as approved at an annual and special meeting of shareholders of the Company held on April 17, 2019), the Company completed the acquisition of all of the issued and outstanding securities in the capital of Silk Energy AS ("Silk AS"), a private company incorporated under the laws of Norway, in exchange for the issuance of an aggregate of 161,822,500 common shares (post-consolidated) in the capital of the Company to the shareholders of Silk AS pursuant to the terms of a Share Purchase Agreement dated October 24, 2018 among the Company, Silk AS and the shareholders of Silk AS (collectively, the "Transaction"). The Company also issued a total of 4,854,675 compensatory warrants to certain shareholders of Silk AS, exercisable at a price of \$0.08 per share for a term of two years from the date of issuance (Note 3). The Transaction constitutes a reverse acquisition ("RTO") of the Company by Silk AS.

Prior to the closing of the Transaction, in July 2019, the Company consolidated its issued and outstanding common shares on a three (3) old for one (1) new basis (the "Share Consolidation"). All share and per share information within these condensed interim consolidated financial statements reflect the Share Consolidation.

The Company's principal business activity is the identification and exploration of oil and gas assets in Kazakhstan. Historically, the Company was engaged in the identification and exploration of mineral properties. During the three months ended March 31, 2021, the Company acquired an exploration and evaluation asset as detailed in Note 5. The Company's continuing operations will be entirely dependent upon identifying the existence of economically recoverable reserves. Further, the Company will depend on obtaining the necessary financing to complete the exploration and development of the exploration and evaluation asset, obtaining the necessary permits to extract, and on future profitable production of the exploration and evaluation asset.

These amended and restated condensed interim consolidated financial statements (the "financial statements") are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations (see Note 16 for restatement details). The Company does not have revenues and has incurred operating losses since incorporation. As at March 31, 2021, the Company had a working capital deficiency of \$18,082,372 (restated) (December 31, 2020 – \$32,010,953) and shareholders' equity of \$16,751,204 (December 31, 2020 – shareholders' deficiency of \$3,748,090).

The Company will continue to seek the funding necessary to enable it to carry on as a going concern, but management cannot provide assurance that the Company will be able to raise additional debt and/or equity capital. If the Company is unable to raise additional funds in the immediate future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures or cease operations. Management is aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. Responses to the spread of COVID-19 have resulted in a sudden decline in economic activity and resulted in a significant increase in economic uncertainty. In addition, oil prices had declined dramatically due to the global oil price war and decline in demand due to COVID-19. These events have resulted in a volatile and challenging economic environment for companies in the oil and gas industry. The continued impact of COVID-19 could adversely affect the Company's ability to engage in future exploration activity and could hinder the Company's ability to raise funds.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**2. Significant accounting policies****Basis of presentation**

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2020, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts in these financial statements are presented in Canadian dollars, which is the functional currency of all of the entities detailed below, with the exception of Silk AS which has a functional currency of the United States Dollar (“USD”), and Silk Energy Kazakhstan Limited Liability Partnership and UnionField Group Ltd., which have a functional currency of the Kazakh Tenge (“KZT”). Prior to January 1, 2020, Management had assessed that the functional currency of Silk AS was the Norwegian Kroner (“NOK”). The change in functional currency has been applied prospectively (with no restatement of previously reported figures), in accordance with the guidance provided under IAS 21 - *The Effects of Changes in Foreign Exchange Rates* (“IAS 21”).

**Principles of consolidation and investment in associate**

These financial statements include the accounts of the Company and its wholly-owned legal subsidiaries, as follows:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Type</b>
Silk Energy Limited	Canada	Legal parent company
Silk Energy AS	Norway	Exploration company
Silk Energy Kazakhstan Limited Liability Partnership	Kazakhstan	Exploration company
UnionField Group Ltd.	British Virgin Islands	Holding company
Metals Mines Inc.	Canada	Exploration company
1691063 Ontario Ltd.	Canada	Exploration company
Inspiration Mining-Utah, Inc.	United States	Exploration company

A subsidiary is an entity controlled by the Company and is included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed where necessary to align them with the policies adopted by the Company.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. When applicable, the financial statements include the Company’s share of the income (loss) and equity movements of equity accounted investees, after adjustments, to align the accounting policies with those of the Company from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to \$nil, and the recognition of further losses is discontinued, except to the extent that the Company has an obligation, or has made payments on behalf of the investee.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**2. Significant accounting policies (continued)****Principles of consolidation and investment in associate (continued)**

These financial statements account for Silk Limited as a controlled entity requiring consolidation since the date of the RTO (Notes 1 and 3), effective September 3, 2019.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing these financial statements.

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its annual consolidated financial statements for the year ending December 31, 2021. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements.

**New accounting standards**

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

**3. Reverse acquisition**

As described in Note 1, on September 3, 2019, the Company (Silk Limited) and Silk AS completed a Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Silk AS obtaining control of the combined entity by obtaining control of the voting rights, governance, and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entities.

The Transaction constituted an RTO of Silk Limited by Silk AS and was accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based Payments* and IFRS 3, *Business Combinations*. As Silk Limited did not qualify as a business according to the definition in IFRS 3, the RTO did not constitute a business combination; rather it was treated as an issuance of common shares by Silk AS for the net liabilities of Silk Limited and Silk Limited's public listing, with Silk AS as the continuing entity. Accordingly, no goodwill or intangible assets were recorded with respect to the Transaction as it did not constitute a business.

For accounting purposes, Silk AS is treated as the accounting parent (legal subsidiary) and Silk Limited as the accounting subsidiary (legal parent) in these financial statements. As Silk AS was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Silk Limited's results of operations have been included from September 3, 2019.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**3. Reverse acquisition (continued)**

	<b>September 3, 2019</b>
	<b>\$</b>
<b>Net assets (liabilities) of Silk Energy Limited acquired:</b>	
Cash	64,865
Receivables	40,750
Deposit	1,350
Marketable securities	5,778
Due from related parties	721,071
Right-of-use asset	13,992
Mineral properties	4
Accounts payable and accrued liabilities	(309,762)
Due to related parties (current and long term portions)	(378,283)
Lease liability (current and long term portions)	(14,047)
Promissory note (includes accrued interest)	(260,880)
Adjustment for share subscriptions received	(756,749)
Adjustment for shares committed for issuance	(333,750)
<b>Net liabilities acquired</b>	<b>(1,205,661)</b>
<b>Consideration paid on RTO:</b>	
	<b>\$</b>
Common shares (fair value of 24,278,469 common shares at \$0.15 per share)	3,641,770
Compensatory warrants	529,200
<b>Total consideration paid</b>	<b>4,170,970</b>
<b>Listing expense</b>	<b>5,376,631</b>

The Transaction was measured at the fair value of the shares that Silk AS would have had to issue to the shareholders of Silk Limited, to give the shareholders of Silk Limited the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Silk AS acquiring Silk Limited. Concurrently with the RTO, the Company had commenced a unit offering (the "Concurrent Private Placement") whereby it endeavoured to issue up to 13,333,333 units at a price of \$0.15 per unit for gross proceeds of \$2,000,000. Each unit was comprised of one common share and one-half warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 for a period of eighteen months from issuance. As at December 31, 2019, share subscriptions totalling \$926,116 had been received in connection with this offering, and the resulting units were issued prior to December 31, 2019.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**4. Marketable securities**

Marketable securities consist of investments in the common shares of public companies with a total cost of \$13,556 (December 31, 2020 - \$13,556) and a fair value of \$1,111 (December 31, 2020 - \$1,111).

The fair value of the marketable securities is based on the closing market price of the shares on the TSX Venture Exchange ("TSX-V") at each period end.

**5. UnionField Group transactions and asset acquisition**

Pursuant to a Share Sale-Purchase Agreement dated July 10, 2018, Silk AS had entered into a commitment to purchase all of the issued shares of UnionField Group Ltd. ("UnionField Group"), which owns 50% of KMG-Ustyurt LLP ("KMG LLP"), which holds title to the Mertvyi Kultuk (Ustyurt) concession (the "Concession"), located in the Mangystau Region of the Republic of Kazakhstan (the "Initial UnionField Agreement"). On August 27, 2020, the transaction was approved by the Ministry of Energy in the Republic of Kazakhstan.

Subject to the terms of the Initial UnionField Agreement, the consideration was to comprise the following:

- A contractual payment to National Company KazMunayGaz ("KMG"), the State oil company of Kazakhstan of USD \$5,000,000 by July 31, 2018 (the "First KMG Deferred Payment") (not paid);
- An initial payment of USD \$11,000,000 (the "First Payment") by September 30, 2018 (not paid); and
- A deferred payment of USD \$10,000,000 (the "Second Payment") to be paid by September 30, 2019 (not paid).

On November 26, 2019, and as amended on January 31, 2020, the Company and UnionField Group entered into a new agreement that contemplated new payment terms in respect of the First Payment and Second Payment discussed above (collectively, the "Payments") (the "Second Restated UnionField Agreement"). Pursuant to the Second Restated UnionField Agreement, the responsibility for the Payments was transitioned to the Company (as opposed to Silk AS), and to settle the Payments to acquire UnionField Group through the issuance of a convertible note in the amount of USD \$21,000,000 (the "UnionField Convertible Note"), which was issued on January 31, 2020 (Note 10). In connection with the issuance of the UnionField Convertible Note, the Company originally recognized a deferred acquisition cost of \$27,742,890 as the acquisition had not been completed as at December 31, 2020.

The UnionField Convertible Note bore interest at a rate of 6% per annum and was convertible at the option of the holder into a total of up to 70,000,000 common shares of the Company at a deemed price equal to the greater of:

- \$0.40 per share; and
- The volume-weighted average price of the Company's common shares at the time of conversion, subject to adjustment as provided in the UnionField Convertible Note or any amendments thereto.

Interest was payable semi-annually, and the principal, if not converted, was to be payable on July 31, 2021.

The UnionField Convertible Note was extinguished on January 31, 2021 (Note 10).

On January 14, 2021, the Company completed the acquisition of all of UnionField's issued and outstanding common shares. The consideration had been settled via the issuance of the UnionField Convertible Note during the year ended December 31, 2020. The acquisition was treated as an asset acquisition, as UnionField did not meet the definition of a business under the parameters of IFRS 3 *Business Combinations*.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**5. UnionField Group transactions and asset acquisition (continued)**

	<b>January 14, 2021</b>
	<b>\$</b>
<b>Net assets (liabilities) of UnionField acquired:</b>	
Cash	309
Due from associate (KMG LLP)	113,783
Investment in associate (KMG LLP)	17,209,483
Exploration and evaluation assets	28,081,308
Due to related parties (SILK AS)	(11,305,443)
Deferred acquisition costs payable	(6,356,550)
<b>Net assets acquired</b>	<b>27,742,890</b>
<b>Consideration paid on asset acquisition:</b>	
	<b>\$</b>
UnionField Convertible Note	27,742,890
<b>Total consideration paid</b>	<b>27,742,890</b>

The Second Restated UnionField Agreement requires Silk AS to assume an additional contractual payment that UnionField Group was obligated to make pursuant to the Participatory Interest Agreement (the "PI Agreement") with KMG dated October 27, 2017. Pursuant to the PI Agreement, a deferred payment of USD \$8,800,000 is also owing to KMG on or before January 31, 2022 (the "Second KMG Deferred Payment"), which is now the responsibility of Silk AS. On November 25, 2021, KMG agreed to revise the terms of the Second KMG Deferred Payment, so it is now due on or before June 30, 2023. As such, the Second KMG Deferred Payment (\$11,066,000) has been classified as non-current on the condensed interim consolidated statements of financial position.

As at March 31, 2021, the First KMG Deferred Payment and the Second KMG Deferred Payment (totaling USD \$13,800,000) have been accrued as deferred acquisition costs payable on the condensed interim consolidated statements of financial position.

On November 26, 2019, and as amended on January 31, 2020, the Company entered into a Second Joint Activity Agreement with UnionField Group pursuant to which the Company agreed to undertake certain exploration activities on UnionField Group's interest in the Concession. As at December 31, 2020, the Second Joint Activity Agreement was no longer in effect.

Consistent with the terms of the Initial UnionField Agreement, Silk AS will assume the commitments of UnionField Group under a work program incorporating exploration activities on the Concession. As at March 31, 2021, the work program had not commenced.

On September 28, 2018, Silk AS entered into a draw down loan agreement (the "Loan Agreement") with UnionField Group whereby Silk AS agreed to provide loans to UnionField Group to a maximum amount of USD \$5,350,000. Pursuant to the Loan Agreement, the loans bear interest at 9.0% per annum, are repayable on or before the fourth anniversary of the first draw down of a loan and are secured against UnionField Group's 50% interest in KMG LLP. The loans will be provided solely for the purposes of making the First KMG Deferred Payment, paying the social contributions and existing debts of UnionField Group on wages and taxes, and paying for geological information in relation to the Concession. As at the date of acquisition of UnionField Group, on January 14, 2021, advances and interest charges owing from UnionField Group to Silk AS totaled \$117,783 (USD \$104,331).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**5. UnionField Group transactions and asset acquisition (continued)**

As at December 31, 2020, the Company had made loans totaling USD \$90,000 to UnionField Group and accrued interest on the loans totaled USD \$14,331. Accordingly, as at December 31, 2020, the balance outstanding (adjusted for foreign exchange) was \$133,565. During the three months ended March 31, 2021, the Company completed the acquisition of UnionField and accordingly, the loans have been eliminated on consolidation.

As at March 31, 2021, an amount of \$112,546 is owing from KMG LLP, representing loans made by UnionField to KMG LLP pursuant to a financing agreement entered into on October 27, 2017.

A summary of the Company's investment in KMG LLP is as follows:

	Ownership %	Carrying value \$
January 14, 2021 (date of acquisition)	50.0%	17,209,483
Share of KMG LLP loss		(20,829)
<b>March 31, 2021</b>	<b>50.0%</b>	<b>17,188,654</b>

A summary of the financial information of KMG LLP is as follows:

	Assets \$	Liabilities \$	Revenues \$	Expenses \$
<b>Three months ended March 31, 2021</b>				
Current	65	1,542,552	-	-
Non-current	2,710,585	415,655	-	-
Loss from operating expenses	-	-	-	(41,658)
	<b>2,710,650</b>	<b>1,958,207</b>	-	<b>(41,658)</b>

During the three months ended March 31, 2021, the Company advanced \$nil to KMG LLP (2020 - \$nil), and as at March 31, 2021, \$112,546 is owing from KMG LLP (December 31, 2020 - \$nil).

**6. Mineral properties****Langmuir Property, Ontario, Canada**

The Company had previously acquired a 100% interest in certain mineral claims located in the Langmuir Township, Porcupine Mining Division of Ontario. The Company also owns two patented land claims located adjacent to the existing Langmuir claims. The claims are subject to a 3% net smelter return ("NSR") royalty. As at March 31, 2021, the property is carried at a nominal value of \$1 (December 31, 2020 - \$1).

**Cleaver Property, Ontario, Canada**

The Company had previously acquired a 100% interest in certain mineral claims located in the Porcupine Mining Division in the Province of Ontario. The property is subject to a 3% NSR in favor of the vendor. As at March 31, 2021, the property is carried at a nominal value of \$1 (December 31, 2020 - \$1).

**Desrosiers Property, Ontario, Canada**

The Company had previously acquired a 100% interest in the Desrosiers Property. The Company is responsible for an NSR on certain quantities of ore mined and milled from the property. As at March 31, 2021, the property is carried at a nominal value of \$1 (December 31, 2020 - \$1).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**6. Mineral properties (continued)****Carscallen Property, Ontario, Canada**

On September 14, 2015, the Company entered into an option agreement to acquire an undivided 100% interest in certain mineral claims, located in Timmins, Ontario.

Pursuant to the terms of the agreement, the Company paid \$40,000 on the execution of the agreement and issued an aggregate of 3,000,000 common shares. The Company is required to make additional payments of \$60,000 on September 1, 2016 (paid \$40,000) and \$100,000 on September 1, 2017. The Company shall have the right to set-off its exploration expenditures on the Property against these options payments.

In the event that the Company is able to establish a commercial mine of with at least a 250,000 ton ore body having a minimum grade of 2 grams of gold per ton, the Company will be required to issue an additional 3,000,000 common shares.

In October 2016, Hanna Capital Corp. ("Hanna"), a company with common Directors, signed an assignment agreement (the "Agreement") with the Company to acquire a 100% interest in the property. Pursuant to the terms and conditions of the Agreement, Hanna will earn the 100% interest by:

- Making a cash payment of \$40,000 on execution of this agreement (paid to the underlying vendor);
- Issuing 2,200,000 common shares (received 2,100,000 common shares in 2017 and 100,000 common shares in 2018);
- Making an additional cash payment of \$20,000 on October 19, 2017 (paid to the underlying vendor); and
- Making an additional cash payment of \$40,000 on October 19, 2018 (paid to the underlying vendor).

The acquisition of the property is subject to underlying conditions:

- In the event that Hanna is able to obtain an intersection of at least 3 grams of gold per ton over one meter, Hanna will be required to issue an additional 2,400,000 common shares to the Company;
- In the event that Hanna is able to establish a commercial mine of at least a 250,000 ton ore body having a minimum grade of 2 grams of gold per ton, Hanna will be required to issue an additional 2,400,000 common shares to the Company; and
- Upon the payment of the option payments of October 19, 2017 and 2018, Hanna will have an undivided 100% interest in the Property subject to a 2% NSR in favor of the original optionors. Hanna shall have the right to purchase 1% of the 2% NSR for an aggregate cash payment of \$1,000,000. In addition, Hanna also assumes the obligation from the Company whereby Hanna will grant a 1% NSR in favor of the individual who assigned the original option agreement to the Company. Under the assignment agreement between the Company and this individual, this 1% NSR can be purchased for \$2,000,000.

**Llamara Project, Salar de Llamara, Chile**

In June 2012, the Company entered into an agreement to purchase an interest in an exploration and evaluation asset in Chile (the "Llamara Project") through the acquisition of 20% of the issued and outstanding shares (1,250,000 common shares) of Potash Dragon Inc. ("Potash Dragon") for cash consideration of \$2,000,000.

Included in the acquisition were 3,750,000 common share purchase warrants which entitled the Company to purchase one common share for a purchase price of \$0.80 per share until May 15, 2013.

On March 2013, the Company exercised 2,187,500 of the common share purchase warrants at an exercise price of \$0.80 per share. As a result, the Company has increased its interest in the Llamara Project to 41%. The remaining 1,562,500 common share purchase warrants expired, unexercised.

In January 2014, due to the failure of Potash Dragon to complete a going public transaction (initial public offering, reverse take-over transaction or other similar transaction) within the prescribed time frame of the purchase agreement, the Company was issued an additional 1,265,625 shares of Potash Dragon, which has increased its interest in the Llamara Project to 48%.

As at March 31, 2021, the property has been impaired and carries a nominal value of \$1 (December 31, 2020 - \$1).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**7. Right-of-use asset and lease liability**

Under IFRS 16 *Leases*, the Company is required to assess whether a contract is, or contains, a lease. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and lease liability at the commencement date.

The Company had identified one contract that was a lease as defined under IFRS 16. In analyzing the agreement, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract. A lease liability was calculated with a discount rate of 10%. Based on all the facts and circumstances at the inception of the contract, the Company had determined that the identified office lease in Toronto, Ontario contained a lease as defined by IFRS 16.

A continuity of the carrying amount of the right-of-use asset for the year ended December 31, 2020 and the three months ended March 31, 2021 is as follows:

---

	<b>Right-of-use asset</b>
	<b>\$</b>
January 1, 2020	10,951
Depreciation	(7,300)
December 31, 2020	3,651
January 1, 2021	3,651
Depreciation	(1,825)
<b>March 31, 2021</b>	<b>1,826</b>

A reconciliation of the carrying amount of the lease liability for the year ended December 31, 2020 and the three months ended March 31, 2021 is as follows:

---

	<b>Lease liability</b>
	<b>\$</b>
January 1, 2020	11,787
Lease payments	(8,100)
Lease interest (finance charges)	852
December 31, 2020	4,539
January 1, 2021	4,539
Lease payments	(2,025)
Lease interest (finance charges)	98
<b>March 31, 2021</b>	<b>2,612</b>
<b>Lease liability - current portion</b>	<b>2,612</b>
<b>Lease liability - long term portion</b>	<b>-</b>

As at March 31, 2021, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liability over the remaining lease term is \$2,700 (December 31, 2020 - \$4,725). As at March 31, 2021 and December 31, 2020, the deposit of \$1,350 represents a security deposit on the office premises.

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2021, and December 31, 2020, the Company did not have any short-term leases.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**8. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities consists of the following:

	<b>March 31, 2021</b>	December 31, 2020
	\$	\$
Trade payables	947,322	872,018
Accrued liabilities	53,072	96,389
	<b>1,000,394</b>	968,407

**9. Promissory notes payable**

In November 2018, the Company received subscription proceeds in the amount of \$259,600 from an arm's length investor. No shares/units were ever issued by the Company, and on October 10, 2019, the investor and the Company executed a Promissory Note Agreement (the "First Note"). Pursuant to the terms of the agreement (as amended), the First Note bears interest at a rate of 12% per annum (interest to start accruing as though the First Note had been issued on August 15, 2019), and the principal and interest was payable on or before August 15, 2021 (not paid).

In May 2019, the Company (through Silk AS) received proceeds in the amount of \$12,705 (USD \$10,000) from an arm's length party through the execution of a Promissory Note Agreement (the "Second Note"). Pursuant to the terms of the agreement, the Second Note bore interest at a rate of 12% per annum, and the principal and interest was payable on or before December 31, 2019. During the year ended December 31, 2020, the Second Note was settled through the issuance of 100,000 common shares of the Company with an aggregate fair value of \$15,000. No gain or loss was recognized in connection with the settlement of the Second Note.

A continuity of promissory notes payable is as follows:

	<b>March 31, 2021</b>	December 31, 2020
	\$	\$
Opening balance	302,615	285,205
Interest accrued - First Note	7,682	31,237
Interest accrued - Second Note	-	736
Settled through issuance of common shares - Second Note	-	(13,603)
Foreign exchange adjustment	-	(960)
	<b>310,297</b>	302,615

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital**

The authorized share capital of the Company consists of an unlimited number of voting common shares without par value and an unlimited number of Class A preferred shares, without par value. The Class A preferred shares are non-voting, are convertible into common shares at the option of the holder until January 31, 2024 and are given preference over the common shares on any form of liquidation or restructuring event. All issued shares are fully paid.

**Transactions for the issue of share capital during the three months ended March 31, 2021:**

On January 13, 2021, the Company issued an aggregate of 105,600 units with a fair value of \$15,840 (\$0.15 per unit) to settle an obligation in respect of finders' units committed for issuance as at December 31, 2020. Each unit is comprised of one common share and one-half warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 for a period of eighteen months from issuance. No value was attributed to the warrant component of the units issued.

On January 13, 2021, the Company completed a financing for 2,600,000 units at a price of \$0.15 per unit for total proceeds of \$390,000. Each unit consists of one common share and one-half share purchase warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 until July 13, 2022. No value was attributed to the warrant component of the units issued.

The Company incurred cash share issue costs totaling \$23,400 in connection with the unit offering and is committed to issue a total of 156,000 units to certain finders (the "JAN 2021 Finders' Units"). The JAN 2021 Finders' Units are identical to the units sold in the financing and were fair valued at \$0.15 per unit for total consideration of \$23,400. Of the JAN 2021 Finders' Units, 62,400 were issued on February 26, 2021, while the remaining 93,600 are committed for issuance at a fair value of \$14,040 as at March 31, 2021.

On January 13, 2021, the Company issued 1,000,000 shares to an arm's length consultant pursuant to a six-month consulting agreement dated January 1, 2021. The fair value of the common shares was \$150,000 (\$0.15 per share) and as at March 31, 2021, \$75,000 has been recorded within prepaid expenses and will be amortized to profit or loss during the Company's next fiscal quarter.

On January 13, 2021, the Company issued 3,500,000 common shares to key management of the Company as bonus consideration (Note 11). The aggregate fair value of the common shares was \$525,000 (\$0.15 per share) and the bonus has been included within salaries and wages on the consolidated statements of loss and comprehensive.

On February 26, 2021, the Company issued 4,095,000 common shares in connection with conversion of USD \$1,260,000 (\$1,610,280) accrued interest on convertible debenture #3 (see below).

On February 26, 2021, the Company issued a total of 47,625,000 preferred shares with a fair value of USD \$15,000,000 (\$19,170,000) in connection with the extinguishment of convertible debenture #3 (see below).

On February 26, 2021, the Company completed a financing for 384,000 units at a price of \$0.15 per unit for total proceeds of \$57,600. Each unit consists of one common share and one-half share purchase warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 until August 26, 2022. No value was attributed to the warrant component of the units issued.

**Transactions for the issue of share capital during the three months ended March 31, 2020:**

On February 19, 2020, the Company issued 65,000 common shares at a fair value of \$9,750 (\$0.15 per share) to settle an amount previously accrued within shares committed for issuance as at December 31, 2019.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital (continued)****Shares committed for issuance**

As at December 31, 2019, the Company was committed to issue a total of 1,923,333 common shares in connection with consulting, research and professional services provided. The share commitment had been valued at \$288,500 (\$0.15 per share), consistent with the offering price of the Concurrent Private Placement (Note 3). All of the shares were issued during the year ended December 31, 2020.

Further, as at December 31, 2019, the Company was committed to issue a total of 5,000,000 common shares in connection with a credit facility arrangement (Note 15) entered into during the year ended December 31, 2019. The share commitment had been valued at \$1,000,000 (\$0.20 per share), which had been approximated based on the fair value of the services to be provided and is being amortized over the term of the facility. These shares were issued during the year ended December 31, 2020.

**Units committed for issuance**

In connection with the Concurrent Private Placement (Note 3), the Company was committed to issue a total of 351,900 finders' units to certain finders (the "2020 Finders' Units"). The 2020 Finders' Units were identical to the units sold in the financing and were fair valued at \$0.15 per unit for total consideration of \$52,785. The 2020 Finders' Units were issued during the year ended December 31, 2020.

In connection with a unit offering that completed on October 26, 2020, the Company is committed to issue a total of 105,600 finders' units to certain finders (the "OCT 2020 Finders' Units"). The OCT 2020 Finders' Units were identical to the units sold in the financing and were fair valued at \$0.15 per unit for total consideration of \$15,840. The OCT 2020 Finders' Units were issued during the three months ended March 31, 2021.

As at March 31, 2021, the Company is committed to issue the remaining 93,600 of the JAN 2021 Finders' Units with a fair value of \$14,040 (\$0.15 per unit).

**Stock options**

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to executive Officers, Directors, employees, and consultants. The Company has implemented a rolling 10% plan, whereby it may not have stock options outstanding in excess of 10% of the number of issued and outstanding common shares (post-consolidation). Options granted under the Plan will have a term not to exceed 10 years and are granted at an option price which shall not be less than the closing market price one trading day prior to the grant date. The options vest as determined by the Board of Directors.

A summary of the status of the Company's stock options as at March 31, 2021, and December 31, 2020 and changes during the period/year then ended is as follows:

	Three months ended March 31, 2021		Year ended December 31, 2020	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	-	-	-	-
Granted	18,822,580	0.15	-	-
<b>Options outstanding, end of period/year</b>	<b>18,822,580</b>	<b>0.15</b>	-	-

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital** (continued)**Stock options** (continued)

As at March 31, 2021, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Weighted average remaining life (years)	Expiry date
15,922,580	-	0.15	9.81	January 19, 2031
2,900,000	-	0.15	9.81	January 19, 2031
<b>18,822,580</b>	<b>-</b>			

On January 19, 2021, the Company granted two tranches of stock options as follows:

- 15,922,580 options granted to Directors and Officers with an exercise price of \$0.15, an expiration of 10 years from grant (January 19, 2031) and vesting provisions as follows: (a) 65.0% on the Company obtaining a public listing (the "Listing Date"); (b) 17.5% one year from the Listing Date; and (c) 17.5% two years from the Listing Date; and
- 2,900,000 options granted to Directors and Officers with an exercise price of \$0.15, an expiration of 10 years from grant (January 19, 2031) and vesting provisions as follows: (a) 50.0% on the Listing Date; (b) 25.0% one year from the Listing Date; and (c) 25.0% two years from the Listing Date.

As at March 31, 2021, none of the stock options have vested and accordingly, no share-based payment expense has been recognized.

**Warrants**

As an incentive to complete private placements, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to the warrants attached to the units sold in completed private placements. The Company also issues standalone compensatory warrants, which are valued using the Black-Scholes option pricing model.

On March 23, 2021, the Company extended the expiration date of 1,249,167 warrants exercisable at \$0.21 by one year, to March 23, 2022.

A summary of the status of the Company's warrants as at March 31, 2021, and December 31, 2020, and changes during the period/year then ended is as follows:

	Three months ended March 31, 2021		Year ended December 31, 2020	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	9,554,117	0.14	7,942,167	0.13
Private placement warrants issued	1,492,000	0.21	880,000	0.21
Finders' warrants issued	84,000	0.21	731,950	0.16
<b>Warrants outstanding, end of period/year</b>	<b>11,130,117</b>	<b>0.15</b>	<b>9,554,117</b>	<b>0.14</b>

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital (continued)****Warrants (continued)**

As at March 31, 2021, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding #	Exercise price \$	Weighted average remaining life (years)	Expiry date
238,325	0.21	0.02	April 7, 2021
1,600,000	0.21	0.08	April 28, 2021
4,854,675	0.08	0.43	September 3, 2021
444,800	0.15	0.58	October 29, 2021
111,200	0.15	0.58	October 29, 2021
175,950	0.21	0.58	October 29, 2021
1,249,167	0.21	0.98	March 23, 2022
880,000	0.21	1.07	April 26, 2022
1,300,000	0.21	1.28	July 13, 2022
31,200	0.21	1.28	July 13, 2022
21,120	0.21	1.28	July 13, 2022
31,680	0.21	1.41	August 26, 2022
192,000	0.21	1.41	August 26, 2022
<b>11,130,117</b>	<b>0.15</b>	<b>0.61</b>	

**Reserves**

Reserves, when applicable, include the accumulated fair value of stock options recognized as share-based payments, the fair value of warrants issued on private placements, and the fair value of other standalone compensatory warrants issued or issuable. Reserves is increased by the fair value of these items on vesting and is reduced by corresponding amounts when the options or warrants are exercised.

**Convertible debentures***Convertible debenture #1*

On December 17, 2019, the Company executed a Convertible Debenture Agreement (the "First CD Agreement") whereby the Company received proceeds of USD \$800,000 (\$1,080,000). Pursuant to the terms of the First CD Agreement, the debenture is convertible (at the option of the holder) into units of the Company at a price of \$0.15 per unit until 60 days following recommencement of trading of the Company's common shares, bears interest at a rate of 8.0% per annum, and has a maturity date of December 17, 2021. Each unit is comprised of one common share and one-half warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 for a period of 18 months from the date of conversion.

In connection with the First CD Agreement, the Company issued a total of 444,800 finder's warrants (the "First CD Finder's Warrants"), exercisable at a price of \$0.15 with an expiration of October 29, 2021. The First CD Finder's Warrants were issued during the year ended December 31, 2020. The Company is also committed to a cash finder's fee of \$66,720 in connection with the debenture. The cash finder's fee is included in due to related parties (Note 11) as at March 31, 2021.

The First CD Finder's Warrants were fair valued at \$36,300 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 2.00%, expected volatility of 120%, expected life of 1.5 years and no dividend yield.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital (continued)****Convertible debentures (continued)**

As the First CD Agreement is denominated in United States dollars and the functional currency of the Company is the Canadian dollar, the conversion feature is considered an embedded derivative and, collectively, the convertible debenture and conversion feature is considered a hybrid instrument. The embedded derivative is recorded at fair value and re-measured each period with movements being recorded as a gain or loss on the consolidated statements of loss and comprehensive loss. The difference between the fair value of the derivative and the face value of the debt is allocated to the convertible debenture. As a result, the recorded liability to repay the convertible debenture is lower than its face value. Using the effective interest rate method, the convertible debenture is accreted up to its face value over the term. The Company recorded accretion and interest expense totalling \$76,220 for the three months ended March 31, 2021 (2020 - \$81,696).

Upon initial recognition and prior to the allocation of transaction costs, the fair value of the derivative was determined to be \$422,716 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 1.72%, expected volatility of 120%, expected life of 0.75 years and no dividend yield.

As at March 31, 2021, the adjusted fair value of the derivative was determined to be \$268,427 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 1.72%, expected volatility of 120%, expected life of 0.32 years and no dividend yield. Accordingly, the change in the fair value of the derivative liability was recognized as a gain in an amount of \$54,606 (2020 - \$5,835) on the consolidated statements of loss and comprehensive loss.

**Convertible debenture #2**

On January 17, 2020, the Company executed a Convertible Debenture Agreement (the "Second CD Agreement") whereby the Company received proceeds of USD \$200,000 (\$268,500). Pursuant to the terms of the Second CD Agreement, the debenture is convertible (at the option of the holder) into units of the Company at a price of \$0.15 per unit until 60 days following recommencement of trading of the Company's common shares, bears interest at a rate of 8.0% per annum, and has a maturity date of January 17, 2022. Each unit is comprised of one common share and one-half warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 for a period of 18 months from the date of conversion.

In connection with the Second CD Agreement, the Company issued a total of 111,200 finder's warrants (the "Second CD Finder's Warrants"), exercisable at a price of \$0.15 with an expiration of October 29, 2021. The Second CD Finder's Warrants were issued during the year ended December 31, 2020. The Company was also committed to a cash finder's fee of \$16,680 in connection with the debenture, \$11,986 of which was paid during the year ended December 31, 2020. The remaining cash finder's fee (\$4,694) is included in due to related parties (Note 11) as at March 31, 2021.

The Second CD Finder's Warrants were fair valued at \$9,100 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 2.00%, expected volatility of 120%, expected life of 1.5 years and no dividend yield.

As the Second CD Agreement is denominated in United States dollars and the functional currency of the Company is the Canadian dollar, the conversion feature is considered an embedded derivative and, collectively, the convertible debenture and conversion feature is considered a hybrid instrument. The embedded derivative is recorded at fair value and re-measured each period with movements being recorded as a gain or loss on the consolidated statements of loss and comprehensive loss. The difference between the fair value of the derivative and the face value of the debt is allocated to the convertible debenture. As a result, the recorded liability to repay the convertible debenture is lower than its face value. Using the effective interest rate method, the convertible debenture is accreted up to its face value over the term. The Company recorded accretion and interest expense totalling \$18,690 for the three months ended March 31, 2021 (2020 - \$16,291).

Upon initial recognition and prior to the allocation of transaction costs, the fair value of the derivative was determined to be \$101,949 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 1.65%, expected volatility of 120%, expected life of 0.67 years and no dividend yield.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital (continued)****Convertible debentures (continued)**Convertible debenture #2 (continued)

As at March 31, 2021, the adjusted fair value of the derivative was determined to be \$64,238 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.15, risk-free rate of 1.72%, expected volatility of 120%, expected life of 0.29 years and no dividend yield. Accordingly, the change in the fair value of the derivative liability was recognized as a gain in an amount of \$16,520 (2020 - \$11,481) on the consolidated statements of loss and comprehensive loss.

Convertible debenture #3

On January 31, 2020, the Company executed the UnionField Convertible Note (Note 5) in the amount of USD \$21,000,000 (\$27,742,890). Pursuant to the terms of the UnionField Convertible Note, the debenture was convertible (at the option of the holder) into a total of up to 70,000,000 common shares of the Company at a deemed price equal to the greater of:

- \$0.40; and
- The volume-weighted average price of the Company's common shares at the time of conversion, subject to adjustment as provided in the UnionField Convertible Note or any amendments thereto.

The UnionField Convertible Note bore interest at a rate of 6.0% per annum, with interest payable semi-annually, and the principal, if not converted, was to be payable on July 31, 2021. Accordingly, as at December 31, 2020, the liability component of this debenture had been classified as a current liability. On January 31, 2021 (the "Restructuring Date"), the UnionField Convertible Note was restructured (the "Restructuring"), so that the original note was extinguished and replaced with the following:

- 47,625,000 Class A preferred shares with a fair value of USD \$15,000,000 (\$19,170,000); and
- A new convertible note (the "Amended UnionField Convertible Note") in the amount of USD \$6,000,000 (\$7,668,000).

Concurrent with the Restructuring, one year's worth of accrued interest totalling USD \$1,260,000 (\$1,610,280) was converted to common shares of the Company.

The Restructuring was accounted for as an extinguishment for accounting purposes, which resulted in a loss on extinguishment of \$254,599. The UnionField Convertible Note was derecognized and the Amended UnionField Convertible Note and the preferred shares were measured at their fair values as of the Restructuring Date.

As the UnionField Convertible Note was denominated in United States dollars and the functional currency of the Company is the Canadian dollar, the conversion feature was considered an embedded derivative and, collectively, the convertible debenture and conversion feature was considered a hybrid instrument. The embedded derivative was recorded at fair value and re-measured each period with movements being recorded as a gain or loss on the consolidated statements of loss and comprehensive loss. The difference between the fair value of the derivative and the face value of the debt was allocated to the convertible debenture. As a result, the recorded liability to repay the convertible debenture was lower than its face value. Using the effective interest rate method, the convertible debenture is accreted up to its face value over the term. The Company recorded accretion and interest expense totalling \$306,471 for the three months ended March 31, 2021, which consisted of charges to the Restructuring Date (2020 - \$646,093).

Upon initial recognition, the fair value of the derivative was determined to be \$3,302,755 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.40, risk-free rate of 1.65%, expected volatility of 120%, expected life of 1.50 years and no dividend yield.

As at the Restructuring Date, the adjusted fair value of the derivative was determined to be \$808,463 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.40, risk-free rate of 1.72%, expected volatility of 120%, expected life of 0.50 years and no dividend yield. Accordingly, the change in the fair value of the derivative liability was recognized as a gain in an amount of \$222,827 (2020 - \$320,297) on the consolidated statements of loss and comprehensive loss.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital** (continued)**Convertible debentures** (continued)Convertible debenture #4

On January 31, 2021, the Company executed the Amended UnionField Convertible Note in the amount of USD \$6,000,000 (\$7,668,000). Pursuant to the terms of the Amended UnionField Convertible Note, the debenture is convertible (at the option of the holder) into common shares of the Company at a deemed price equal to the greater of:

- \$0.40; and
- The volume-weighted average price of the Company's common shares at the time of conversion, subject to adjustment as provided in the UnionField Convertible Note or any amendments thereto.

The Amended UnionField Convertible Note bears interest at a rate of 6.0% per annum, with interest payable semi-annually, and the principal, if not converted, is payable on January 31, 2022. Accordingly, as at March 31, 2021, the liability component of this debenture had been classified as a current liability.

As the Amended UnionField Convertible Note is denominated in United States dollars and the functional currency of the Company is the Canadian dollar, the conversion feature is considered an embedded derivative and, collectively, the convertible debenture and conversion feature is considered a hybrid instrument. The embedded derivative is recorded at fair value and re-measured each period with movements being recorded as a gain or loss on the consolidated statements of loss and comprehensive loss. The difference between the fair value of the derivative and the face value of the debt is allocated to the convertible debenture. As a result, the recorded liability to repay the convertible debenture is lower than its face value. Using the effective interest rate method, the convertible debenture is accreted up to its face value over the term. The Company recorded accretion and interest expense totalling \$168,781 for the period from the Restructuring Date to March 31, 2021 (2020 - \$nil).

Upon initial recognition, the fair value of the derivative was determined to be \$593,799 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.40, risk-free rate of 0.50%, expected volatility of 120%, expected life of 1.00 year and no dividend yield.

As at March 31, 2021, the adjusted fair value of the derivative was determined to be \$473,826 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.15, exercise price of \$0.40, risk-free rate of 0.50%, expected volatility of 120%, expected life of 0.84 years and no dividend yield. Accordingly, the change in the fair value of the derivative liability was recognized as a gain in an amount of \$119,973 (2020 - \$nil) on the consolidated statements of loss and comprehensive loss.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**10. Share capital (continued)****Convertible debentures (continued)**Convertible debentures summarized

The following table reconciles the recorded value of the liability and derivative components of the convertible debentures:

	<b>Liability</b>	<b>Derivative</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, January 1, 2020	606,987	367,705	974,692
Convertible debentures issued	24,606,686	3,404,704	28,011,390
Allocation of transaction costs	(15,991)	-	(15,991)
Accretion/interest expense	4,009,338	-	4,009,338
Fair value adjustment	-	(2,337,328)	(2,337,328)
Foreign exchange adjustment	(1,112,919)	-	(1,112,919)
<b>Balance, December 31, 2020</b>	<b>28,094,101</b>	<b>1,435,081</b>	<b>29,529,182</b>
Balance, January 1, 2021	28,094,101	1,435,081	29,529,182
Convertible debenture issued	7,074,201	593,799	7,668,000
Accretion/interest expense	570,162	-	570,162
Fair value adjustment	-	(413,926)	(413,926)
Conversion of interest on Restructuring	(1,610,280)	-	(1,610,280)
Derecognition on Restructuring	(25,774,937)	(808,463)	(26,583,400)
Foreign exchange adjustment	(45,669)	-	(45,669)
<b>Balance, March 31, 2021</b>	<b>8,307,578</b>	<b>806,491</b>	<b>9,114,069</b>
Current portion	8,307,578	806,491	9,114,069
Long term portion	-	-	-
<b>Balance, March 31, 2021</b>	<b>8,307,578</b>	<b>806,491</b>	<b>9,114,069</b>

**11. Related party transactions and balances**

The Company's related parties include key management personnel and Directors, and companies in which they have control or significant influence over the financial or operating policies of those entities.

During the three months ended March 31, 2021, 18,822,580 stock options were granted to key management personnel and Directors. There was no share-based compensation expense recognized, as no stock options will vest until the Company commences trading on the Canadian Securities Exchange. There were no stock options granted to key management personnel and Directors during the three months ended March 31, 2020.

In connection with the Second CD Agreement (Note 10), the Company incurred cash transaction costs with a current Director of Silk AS in the amount of \$16,680. Further, the Company issued the Second CD Finder's Warrants to this individual, which were fair valued at \$9,100 and issued during the year ended December 31, 2020.

In connection with a unit offering completed on October 26, 2020, the Company incurred cash transaction costs with a current Director of Silk AS in the amount of \$11,880, which remains in due to related parties as at March 31, 2021. Further, the Company was committed to issue this individual a total of 42,240 of the 2020 Finders' Units (Note 10) with a fair value of \$6,336. The 2020 Finders' Units were issued during the three months ended March 31, 2021.

In connection with a unit offering completed on January 13, 2021, the Company incurred cash transaction costs with a current Director of Silk AS in the amount of \$17,550, which remains in due to related parties as at March 31, 2021. Further, the Company issued this individual a total of 62,400 of the JAN 2021 Finders' Units (Note 10) with a fair value of \$9,360.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**11. Related party transactions and balances (continued)**

The aggregate value of all other transactions with related parties during the three months ended March 31, 2021 and March 31, 2020 are as follows:

	<b>March 31, 2021</b>	March 31, 2020
	<b>\$</b>	\$
Salaries and wages	818,616	285,399
	<b>818,616</b>	285,399

The aggregate value of balances due to related parties are as follows:

	<b>March 31, 2021</b>	December 31, 2020
	<b>\$</b>	\$
Due to related parties - current		
Adrea Capital Corp. (controlled by Randy Miller, former CEO)	261,783	261,783
Aigerim Svanbayeva (CFO and Director)	54,000	20,310
Bryan Emslie (Director)	6,067	40,515
Herb Brugh (former Director)	19,800	19,800
Silk AS (Directors and key management)	1,041,691	995,978
Vern Bock (former Director)	10,000	10,000
James Davis (former CFO)	52,500	52,500
Charles de Chezelles (former Director)	31,500	31,500
	<b>1,477,341</b>	1,432,386

The aggregate value of balances due from related parties are as follows:

	<b>March 31, 2021</b>	December 31, 2020
	<b>\$</b>	\$
Due from related parties		
Martina Minerals Corp.	52,540	52,540
Hanna Capital Corp.	15,521	15,521
Less: loss provision on amounts due from related parties	(68,061)	(68,061)
	-	-

As at March 31, 2021 and December 31, 2020, the Company has provided an allowance for amounts owing from certain related party companies with common Directors (disclosed above) as there is uncertainty as to whether the amounts will be collected.

In June 2020, the Company entered into a loan agreement ("Loan #1") whereby \$42,000 was received from a Director and Officer of the Company for working capital purposes. Loan #1 is unsecured, was due on or before September 10, 2020 and bears interest at a rate of 5.0% per annum. During the year ended December 31, 2020, the Company made a partial repayment of \$12,000 towards Loan #1. During the three months ended March 31, 2021, the Company made an additional partial repayment of \$24,000 towards Loan #1. As at March 31, 2021, the remaining principal plus accrued interest totaled \$7,217 (December 31, 2020 - \$31,067).

In July 2020, the Company entered into a loan agreement ("Loan #2") whereby \$20,000 was received from a Director and Officer of the Company for working capital purposes. Loan #2 is unsecured, was due on or before October 27, 2020 and bears interest at a rate of 5.0% per annum. As at March 31, 2021, the principal plus accrued interest totaled \$20,714 (December 31, 2020 - \$20,422).

With the exception of Loan #1 and Loan #2, all related party balances are unsecured and are due within thirty days without interest.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**11. Related party transactions and balances (continued)**

On January 13, 2021, the Company issued 2,500,000 common shares to Steve Kappella, a Director and CEO of the Company, as well as 1,000,000 common shares to Aigerim Svanbayeva, a Director and CFO of the Company as bonus consideration. The aggregate fair value of the common shares was \$525,000 (\$0.15 per share) and the bonus has been included within salaries and wages on the consolidated statements of loss and comprehensive loss.

**12. Supplemental cash flow information**

Changes in non-cash operating working capital during the three months ended March 31, 2021 and March 31, 2020 were comprised of the following:

	<b>March 31, 2021</b>	March 31, 2020
	<b>\$</b>	\$
Sales tax recoverable	31,906	(2,848)
Prepaid expenses	(5,000)	1,488
Accounts payable and accrued liabilities	85,741	151,435
Due to related parties	(11,403)	126,631
<b>Net Change</b>	<b>101,244</b>	<b>276,706</b>

The Company incurred non-cash financing activities during the three months ended March 31, 2021 and March 31, 2020 as follows:

	<b>March 31, 2021</b>	March 31, 2020
	<b>\$</b>	\$
Non-cash financing activities:		
Share issue costs remaining in accounts payable and accrued liabilities	5,850	-
Share issue costs remaining in due to related parties	17,550	-
Share capital issued - commitment to issue shares	-	9,750
Shares issued for prepaid consulting services	150,000	-
Shares issued on conversion of interest	1,610,280	-
Units issued - commitment to issue units	1,800	-
Convertible debenture transaction costs included in due to related parties	-	16,680
Finder's warrants issuable as convertible debenture transaction costs	-	9,100
	<b>1,785,480</b>	<b>35,530</b>

The Company incurred non-cash investing activities during the three months ended March 31, 2021 and March 31, 2020 as follows:

	<b>March 31, 2021</b>	March 31, 2020
	<b>\$</b>	\$
Non-cash investing activities:		
Convertible debenture issued as deferred acquisition costs (Note 5)	-	27,742,890
	-	27,742,890

During the three months ended March 31, 2021, no amounts were paid for income tax or interest expenses (2020 - \$nil).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**13. Financial risk management****Capital management**

The Company is an exploration company and considers items included in shareholders' equity (deficiency) as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or pursue other forms of equity financing. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. As at March 31, 2021, the Company's capital structure is comprised of shareholders' equity of \$16,751,204 (December 31, 2020 – shareholders' deficiency of \$3,748,090).

The Company currently has no source of revenues. In order to fund future projects and pay for operating expenses, the Company will spend its existing working capital and raise additional funds as needed. The Company's ability to continue as a going concern on a long term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to borrow or raise additional financing from equity markets (see Note 1).

**Classification of financial instruments**

<b>Financial assets:</b>	<b>Classification:</b>	<b>Subsequent measurement:</b>
Cash	FVTPL	Fair value
Marketable securities	FVOCI	Fair value
Deposit	Amortized cost	Amortized cost
Due from associate	Amortized cost	Amortized cost

  

<b>Financial liabilities:</b>	<b>Classification:</b>	<b>Subsequent measurement:</b>
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Deferred acquisition costs payable	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Convertible debentures - derivative component	FVTPL	Fair value
Convertible debentures - liability component	Amortized cost	Amortized cost
Promissory notes payable	Amortized cost	Amortized cost

**Financial instruments - fair value**

The carrying values of deposit, due from associate, accounts payable and accrued liabilities, due to related parties, deferred acquisition costs payable, loans payable and promissory notes payable approximate their fair values because of the short-term nature of these instruments. The Company's embedded derivative liabilities are measured using Level 3 inputs as disclosed in Note 10.

Financial instruments measured at fair value on the condensed interim consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**13. Financial risk management (continued)****Financial instruments - fair value (continued)**

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>March 31, 2021</b>				
Cash	2,578	-	-	2,578
Marketable securities	1,111	-	-	1,111
	<b>3,689</b>	-	-	<b>3,689</b>
December 31, 2020				
Cash	-	-	-	-
Marketable securities	1,111	-	-	1,111
	1,111	-	-	1,111

**Financial instruments - risk**

The Company's financial instruments can be exposed to certain financial risks, including credit risk, interest rate risk, liquidity risk and market and currency risk.

**(a) Credit risk**

The Company is exposed to credit risk by holding cash. All of the Company's cash is held in large financial institutions in Canada, Norway, and Kazakhstan, and management believes the exposure to credit risk with respect to such institutions is not significant. The Company has minimal receivables exposure as its refundable credits are due from the Canadian government. The Company's deposit relates to its office lease and is refundable at the end of the lease term. The Company's maximum risk exposure to the amounts due from related parties equates to its carrying value, which has been offset by a full allowance as at March 31, 2021.

**(b) Interest rate risk**

The Company is not exposed to interest rate risk as it does not hold financial securities or debt that would be impacted by fluctuating interest rates.

**(c) Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. As at March 31, 2021, the Company is in a working capital deficiency position and requires additional equity or other forms of financing to continue as a going concern (refer to Note 1).

**(d) Market and currency risk**

The Company is exposed to market risk because of fluctuating values of its publicly traded marketable securities. The Company has no control over these fluctuations and does not hedge its investments. Based on the March 31, 2021 value of marketable securities, every 10% fluctuation in the share prices of these companies would have an insignificant impact to profit or loss for the period.

**14. Segmented information**

Previously, the Company primarily operated in one reportable operating segment, being the acquisition, exploration and development of mineral properties located in Canada. The Company's Chilean mineral property has been optioned out, and the Company has no continuing involvement in operations of the project. Accordingly, all of the Company's non-current assets (with the exception of the nominal carrying value of the Chilean property of \$1) were located in Canada.

As at March 31, 2021, the Company is focused on the exploration of oil and gas concessions in Kazakhstan (Note 5). As such, the Company's exploration and evaluation assets are located in Kazakhstan with the remainder of all non-current assets being located in Canada.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**15. Credit facility and other commitment****GEM Facility**

On March 12, 2019, Silk AS had entered into a Share Subscription Agreement (the “Former Facility Agreement”) with GEM Investments America, LLC (“GEMIA”) pursuant to which GEMIA provided a commitment to subscribe for up to \$50,000,000 of securities of Silk AS (the “Commitment”) that would result in the completion of an RTO. GEMIA did not end up being involved in the Company’s RTO but wished to extend the Commitment to the Resulting Issuer.

As such, on October 17, 2019, the Company, Silk AS, GEMIA, and GEM Global Yield Fund LLC SCS (“GEM Global”) terminated the Former Facility Agreement and entered into a 3-year Novation Agreement (the “Current Facility Agreement”), which provides the Company with the same Commitment from GEMIA and GEM Global (collectively, “GEM”) in the form of partial draw downs that the Company can request towards the Commitment (the “Draw Downs”). As at March 31, 2021, the Company has not provided GEM with any Draw Down requests towards the Commitment.

Pursuant to the Current Facility Agreement, a one-time credit facility fee (the “Fee”) was negotiated and consists of the issuance of 5,000,000 common shares at a fair value of \$1,000,000 (\$0.20 per share). The shares were issuable as at December 31, 2019 and were issued during the year ended December 31, 2020. The value of the share commitment was recorded on execution of the Current Facility Agreement as a deferred financing charge and is being amortized over the term of the Current Facility Agreement, with amortization charges amounting to \$83,333 for the three months ended March 31, 2021 (2020 - \$83,334). As at March 31, 2021, the carrying amount of the deferred financing charges is \$513,888 (December 31, 2020 - \$597,221).

The Current Facility Agreement was subsequently amended (Note 17(b)).

**Financing commitment**

On June 12, 2020, the Company entered into an Acquisition Financing Agreement (the “AF Agreement”) with Arch Capital Solutions Limited (“Arch”) whereby Arch will act as a principal financial advisor in connection with possible transactions involving the Company’s acquisition of certain other oil and gas assets located in Kazakhstan (the “Possible Transactions”). The AF Agreement can be terminated by either party upon 30 days prior written notice.

Pursuant to the terms of the AF Agreement, a monthly retainer of USD \$20,000 will be payable to Arch, commencing payment once the Company has listed its common shares or raised not less than \$1,000,000 (the “Equity Raise”) with the assistance of Arch. The AF Agreement also stipulates a success fee of 3.75% of the total equity or loan financing value of any of the Possible Transactions as well as selling agent fees in connection with the Equity Raise of 6.0% in cash and 6.0% in Company units. Each unit will be comprised of one common share and one-half share purchase warrant, with each whole warrant being exercisable into an additional common share at a price of \$0.21 for a period to be determined. Should the Company raise funds through the issuance of a convertible debenture (facilitated by Arch), the selling agent fees would comprise a 6.0% fee payable in cash as well as 6.0% warrants, with each warrant being exercisable into a common share of the Company at a price of \$0.15 for a period to be determined.

As at March 31, 2021, the Company has accrued USD \$220,000 (\$276,650) in monthly retainers which is included in accounts payable and accrued liabilities (December 31, 2020 - \$204,493).

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**16. Restatement**

The Company has amended and restated its unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021, which were previously filed on SEDAR (the “Interim Financial Statements”). Subsequent to the original issuance of the Interim Financial Statements, the Company recognized that it not appropriately accounted for the acquisition of UnionField Group, which had completed on January 14, 2021 (Note 5). The impact on the Company’s financial statements was pervasive and material to the Interim Financial Statements as a whole.

The restatement of the Interim Financial Statements resulted in the following changes:

	As previously reported	Effect of restatement	As restated
	\$	\$	\$
<b>As at March 31, 2021</b>			
<b>Condensed interim consolidated statement of financial position</b>			
Cash	22,341	237	<b>22,578</b>
Due from UnionField Group	133,790	(133,790)	-
Investment in associate	-	17,188,654	<b>17,188,654</b>
Due from associate	-	112,546	<b>112,546</b>
Deferred acquisition costs	27,742,890	(27,742,890)	-
Exploration and evaluation assets - oil and gas	-	28,081,308	<b>28,081,308</b>
Deferred acquisition costs payable - current	-	(6,287,500)	<b>(6,287,500)</b>
Deferred acquisition costs payable - non-current	-	(11,066,000)	<b>(11,066,000)</b>
Accumulated other comprehensive loss	(362,162)	122,320	<b>(239,842)</b>
Deficit	(13,745,594)	30,245	<b>(13,715,349)</b>
<b>For the three months ended March 31, 2021</b>			
<b>Condensed interim consolidated statement of loss and comprehensive loss</b>			
Foreign exchange gain	174,264	51,145	<b>225,409</b>
Office and general	(19,068)	(71)	<b>(19,139)</b>
Loss from investment in associate	-	(20,829)	<b>(20,829)</b>
Net loss for the period	(1,414,246)	30,245	<b>(1,384,001)</b>
Translation adjustment	(118,505)	122,320	<b>3,815</b>
Comprehensive loss for the period	(1,532,751)	152,565	<b>(1,380,186)</b>
<b>For the three months ended March 31, 2021</b>			
<b>Condensed interim consolidated statement of cash flows</b>			
Cash outflows from operating activities	(401,676)	55,640	<b>(346,036)</b>
Cash inflows from investing activities	-	309	<b>309</b>
Effect of foreign exchange on cash	7,695	(55,712)	<b>(48,017)</b>
Net change in cash	22,341	237	<b>22,578</b>

Further, the Company had erroneously included reference to the Initial UnionField Agreement (Note 5) requiring approval by the Canadian Securities Exchange, which was not a requirement of closing. The audited consolidated financial statements for the year ended December 31, 2020, also include this erroneous reference.

---

**Silk Energy Limited****(formerly Inspiration Mining Corporation)****Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management**

---

**For the three months ended March 31, 2021 and March 31, 2020**

---

**17. Events after the reporting period**

Subsequent to March 31, 2021, the Company:

- (a) On April 21, 2021, the Company extended the maturity date of certain warrants as follows:
- 238,325 warrants with an exercise price of \$0.21 and an original expiration date of April 7, 2021 were extended by one year to April 7, 2022;
  - 1,600,000 warrants with an exercise price of \$0.21 and an original expiration date of April 28, 2021 were extended by one year to April 28, 2022;
  - 4,854,675 warrants with an exercise price of \$0.08 and an original expiration date of September 3, 2021 were extended by one year to September 3, 2022;
  - 556,000 warrants with an exercise price of \$0.15 and an original expiration date of October 29, 2021 were extended by one year to October 29, 2022; and
  - 175,950 warrants with an exercise price of \$0.21 and an original expiration date of October 29, 2021 were extended by one year to October 29, 2022.
- (b) On April 29, 2021, the Current Facility Agreement (Note 15) was amended so that the term was extended for an additional two years to October 17, 2024.
- (c) On May 21, 2021, the Company executed a Convertible Debenture Agreement (the “May CD Agreement”) whereby the Company received proceeds of USD \$250,000. Pursuant to the terms of the May CD Agreement, the debenture is convertible (at the option of the holder) into units of the Company at a price of \$0.15 per unit until 60 days following recommencement of trading of the Company’s common shares, bears interest at a rate of 8.0% per annum, and has a maturity date of May 21, 2023. Each unit is comprised of one common share and one-half warrant, with each whole warrant being exercisable into an additional common share at an exercise price of \$0.21 for a period of 18 months from the date of conversion.