# CRYSTAL LAKE MINING CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

**Expressed in Canadian Dollars**

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

**Head Office Address**
13236 Cliffstone Court, Lake Country,
British Columbia, Canada V4V 2R1

**Registered and Records Office Address**
804 – 750 West Pender Street
Vancouver, British Columbia V6C 2T7

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Crystal Lake Mining Corporation

### *Opinion*

We have audited the accompanying consolidated financial statements of Crystal Lake Mining Corporation (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financings or generate profitable operations in the future. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Hawkshaw.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada — Chartered Professional Accountants

January 28, 2020

**CRYSTAL LAKE MINING CORPORATION**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Expressed in Canadian Dollars
AS AT SEPTEMBER 30,

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 135,986 | $ 537,241 |
| Receivables | 330,550 | 24,366 |
| Prepaids | 214,554 | 93,264 |
| Marketable securities (Note 6) | - | 175,000 |
| Assets held for sale (Note 14) | 2,805,000 | - |
| | 3,486,090 | 829,871 |
| **Exploration and evaluation assets** (Note 3) | 11,069,944 | 8,326,542 |
| **Land, building and equipment** (Note 4) | 102,669 | 268,043 |
| **Deposit** (Note 3) | 200,000 | - |
| **Deferred transaction costs** (Note 14) | 27,500 | - |
| | $ 14,886,203 | $ 9,424,456 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 4,394,430 | $ 114,259 |
| Due to related parties (Note 8) | 99,022 | 151,842 |
| Loans payable (Note 5) | 263,791 | 759,473 |
| Liabilities held for sale (Note 14) | 305,000 | - |
| | 5,062,243 | 1,025,574 |
| **Flow-through premium liability** (Note 7) | 4,486 | - |
| | 5,066,729 | 1,025,574 |
| **Shareholders' equity** | | |
| Capital stock (Note 7) | 34,825,664 | 24,587,270 |
| Subscriptions receivable (Note 7) | (14,000) | (5,430) |
| Share-based payment reserve (Note 7) | 3,740,307 | 2,717,288 |
| Equity component of convertible loans (Note 5) | - | 7,836 |
| Deficit | (28,732,497) | (18,908,082) |
| | 9,819,474 | 8,398,882 |
| | $ 14,886,203 | $ 9,424,456 |

**Nature and continuance of operations** (Note 1)
**Subsequent events** (Note 16)

**On behalf of the Board:**

*"Wally Boguski"* Director    *"Alphonse Ruggiero"* Director

**CRYSTAL LAKE MINING CORPORATION**
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Expressed in Canadian Dollars
FOR THE YEARS ENDED SEPTEMBER 30,

| | 2019 | 2018 |
|---|---|---|
| **EXPENSES** | | |
| Amortization (Note 4) | $ 10,084 | $ 11,142 |
| Consulting and promotion | 1,594,253 | 350,981 |
| Directors fees (Note 8) | 24,996 | 25,730 |
| General, rent and administrative | 200,022 | 95,691 |
| Interest on loans payable (Note 5) | 32,102 | 39,251 |
| Interest on mortgage payable (Note 5) | 29,618 | 29,618 |
| Loss (gain) on settlement of debt (Notes 5 and 7) | (10,114) | 39,023 |
| Management fees (Note 8) | 332,426 | 331,493 |
| Office and miscellaneous | 416,205 | 171,151 |
| Professional fees | 203,452 | 158,276 |
| Property investigation | 15,025 | 38,386 |
| Regulatory and filing fees | 51,147 | 124,965 |
| Other income on reversal of flow-through premium (Note 7) | (233,079) | - |
| Salary | 2,306 | 2,647 |
| Share-based compensation (Note 7 and 8) | 776,077 | 1,681,571 |
| Transfer agent fees | 22,518 | 20,079 |
| Travel and promotion | 673,100 | 110,690 |
| Realized loss on marketable securities (Note 6) | 85,000 | - |
| Write-off of accounts payable | (70,084) | (244) |
| Write-off of exploration and evaluation assets (Note 3) | 5,514,071 | 2,081,567 |
| Write-down of land, building, and equipment (Note 4) | 155,290 | - |
| **Loss and comprehensive loss for the year** | $ (9,824,415) | $ (5,312,017) |
| **Basic and diluted loss per common share** | $ (0.11) | $ (0.09) |
| **Weighted average number of common shares Outstanding – basic and diluted** | 88,919,256 | 61,907,885 |

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

**CRYSTAL LAKE MINING CORPORATION**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Expressed in Canadian Dollars

| | Number of shares | Capital stock | Subscriptions receivable | Subscriptions received in advance | Share-based payment reserve | Equity component of convertible | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|
| **September 30, 2017** | **49,222,494** | **$ 14,789,635** | **$ -** | **$ 4,000** | **$ 1,260,880** | **$ 7,836** | **$ (13,596,065)** | **$ 2,466,286** |
| Private placements | 9,632,726 | 3,193,000 | - | - | - | - | - | 3,193,000 |
| Share issuance costs | - | (64,761) | - | - | - | - | - | (64,761) |
| Exercise of options | 1,081,666 | 376,725 | - | - | - | - | - | 376,725 |
| Exercise of warrants | 1,897,005 | 609,926 | (5,430) | - | - | - | - | 604,496 |
| Fair value of exercise of options | - | 221,033 | - | - | (221,033) | - | - | - |
| Fair value of exercise of warrants | - | 54,919 | - | - | (54,919) | - | - | - |
| Warrants issued as finders' fees | - | (50,789) | - | - | 50,789 | - | - | - |
| Shares issued for mineral properties | 10,500,000 | 5,355,000 | - | - | - | - | - | 5,355,000 |
| Shares issued for debt settlement | 112,727 | 102,582 | - | - | - | - | - | 102,582 |
| Share-based compensation | - | - | - | - | 1,681,571 | - | - | 1,681,571 |
| Subscription received in advance | - | - | - | (4,000) | - | - | - | (4,000) |
| Loss for the year | - | - | - | - | - | - | (5,312,017) | (5,312,017) |
| **September 30, 2018** | 72,446,618 | 24,587,270 | (5,430) | - | 2,717,288 | 7,836 | (18,908,082) | 8,398,882 |
| Private placements | 30,236,626 | 7,768,690 | (14,000) | - | 309,740 | - | - | 8,064,430 |
| Share issuance costs | - | (111,989) | - | - | - | - | - | (111,989) |
| Exercise of options | 518,334 | 155,500 | - | - | - | - | - | 155,500 |
| Exercise of warrants | 3,689,755 | 996,089 | 5,430 | - | - | - | - | 1,001,519 |
| Fair value of exercise of options | - | 100,470 | - | - | (100,470) | - | - | - |
| Fair value of exercise of warrants | - | 5,819 | - | - | (5,819) | - | - | - |
| Warrants issued as finders' fees | - | (43,491) | - | - | 43,491 | - | - | - |
| Flow-through share premium | - | (237,565) | - | - | - | - | - | (237,565) |
| Shares issued for mineral properties | 4,000,000 | 1,080,000 | - | - | - | - | - | 1,080,000 |
| Shares issued for debt settlement | 1,615,734 | 524,871 | - | - | - | (7,836) | - | 517,035 |
| Share-based compensation | - | - | - | - | 776,077 | - | - | 776,077 |
| Loss for the year | - | - | - | - | - | - | (9,824,415) | (9,824,415) |
| **September 30, 2019** | **112,507,067** | **$ 34,825,664** | **$ (14,000)** | **$ -** | **$ 3,740,307** | **$ -** | **$ (28,732,497)** | **$ 9,819,474** |

**CRYSTAL LAKE MINING CORPORATION**
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Canadian Dollars
FOR THE YEARS ENDED SEPTEMBER 30,

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the year | $ (9,824,415) | $ (5,312,017) |
| Item not affecting cash: | | |
| Amortization | 10,084 | 11,142 |
| Interest on loans payable | 32,102 | 39,251 |
| Interest on mortgage payable | 29,618 | 29,618 |
| Loss (gain) on settlement of debt | (10,114) | 39,023 |
| Share-based compensation | 776,077 | 1,681,571 |
| Other income on reversal of flow-through premium | (233,079) | - |
| Realized loss on marketable securities | 85,000 | - |
| Write-off of accounts payable | (70,084) | (244) |
| Write-off of exploration and evaluation assets | 5,514,071 | 2,081,567 |
| Write-down of land, building, and equipment | 155,290 | - |
| Changes in non-cash working capital items: | | |
| Increase in due to related parties | (52,820) | (42,542) |
| Increase in receivables | (307,846) | (3,663) |
| Increase in prepaids | (121,290) | (87,067) |
| Increase (decrease) in accounts payable and accrued liabilities | 1,391,564 | (185,730) |
| Net cash used in operating activities | (2,625,842) | (1,749,091) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares | 8,064,430 | 3,189,000 |
| Proceeds from the exercise of options | 155,500 | 376,725 |
| Proceeds from the exercise of warrants | 1,001,519 | 604,496 |
| Proceeds from special warrants – Sassy | 250,000 | - |
| Subscription received in advance – Sassy | 17,500 | - |
| Repayment on mortgage liability | (27,150) | (41,959) |
| Loan payable | - | 8,950 |
| Loan repayment | (6,930) | (134,000) |
| Share issuance costs | (111,989) | (64,761) |
| Net cash provided by financing activities | 9,342,880 | 3,938,451 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of equipment | - | (11,845) |
| Deposit | (200,000) | - |
| Deferred transaction costs | (27,500) | - |
| Exploration and evaluation assets expenditures | (6,935,540) | (1,536,448) |
| Marketable securities | 90,000 | (175,000) |
| Net cash used in investing activities | (7,073,040) | (1,723,293) |
| **Change in cash for the year** | (356,002) | 466,067 |
| **Cash held in assets held for sale** | (45,253) | - |
| **Cash, beginning of year** | 537,241 | 71,174 |
| **Cash, end of year** | $ 135,986 | $ 537,241 |
| **Cash paid during the year for interest** | $ 27,150 | $ 41,959 |
| **Cash paid during the year for income taxes** | $ - | $ - |

**Supplemental disclosure with respect to cash flows** (Note 11)

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporations Act (British Columbia) on July 20, 2009 and is publicly listed and traded on the TSX Venture Exchange ("TSX-V") under the symbol CLM. The Company is currently engaged in the identification, acquisition and exploration of precious metal resources in Canada. The Company's head office is 13236 Cliffstone Court, Lake Country, British Columbia, V4V 2R1, Canada. The Company's registered and records office is located at #804 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T7, Canada.

On June 25, 2019, the Company entered into an arrangement agreement with its wholly-owned subsidiary, Sassy. The Company will transfer its Northwest Ontario nickel exploration assets to Sassy, and its LOI, to acquire the Foremore claims, by way of a plan of arrangement pursuant to the Business Corporations Act of British Columbia (Note 14).

These consolidated financial statements have been prepared in accordance with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issuance of capital stock and proceeds from loans payable.

The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financings or generate profitable operations in the future. These material uncertainties may cast significant doubt on the entity's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue business.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in the consolidated financial statements are presented below and are based on IFRS' issued and outstanding as of January 28, 2020, the date the Board of Directors approved the consolidated financial statements. None of these standards are expected to have a significant effect on the consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### Principles of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned dormant Mexican subsidiary Minera Sierra Gioc SA, its wholly owned United States subsidiary Sierra Iron Ore USA and its wholly-owned subsidiary Sassy Resources Corp. ("Sassy"). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Estimates, judgments and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

<u>Significant Judgments</u>

Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

Functional currency

The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

<u>Exploration and evaluation assets valuation</u>

At each reporting period, the Company reviews its non-current assets to determine whether there are any indications of impairment. Calculating the estimated recoverable amount of the cash generating unit for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves, estimated future commodity prices, the expected future operating and capital costs and discount rates. Changes in any of these assumptions or estimates used in determining the recoverable amount could impact the impairment analysis.

<u>Significant Estimates</u>

Share-based compensation

Share-based compensation is determined using the Black-Scholes option pricing model based on the estimated fair value of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Non-cash transactions

The valuation of shares issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Estimates, judgments and assumptions (cont'd…)

Significant Estimates (cont'd…)

Assets/Liabilities held for sale

Assets held for sale and liabilities held for sale have been assessed individually to determine their fair value less costs to sell under current market conditions. Fair value less costs to sell is measured using various valuation techniques including third-party appraisals, comparable market transactions, and future cash flow analysis based on the related loan or lease contract. Key inputs used in the Company's fair value models include assumptions regarding fair market values, lease rates, transaction costs, frictional costs, and market discount rates. The Company believes that the valuation assumptions reflect a reasonable estimate of the recoverable amount of each account or asset.

### Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

### Exploration and evaluation assets

Upon acquiring the legal right to explore a property, costs related to acquisition and exploration are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition and exploration costs are not recoverable over the estimated economic life of the exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Decommissioning and restoration provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

As at September 30, 2019 and 2018, the Company has no decommissioning or restoration obligations.

### Land, building and equipment

Land, building and equipment is recorded at cost and amortized using the declining balance method at the following rates per annum.

| | |
|---|---|
| Computer equipment | 55% to 100% per annum |
| Furniture and equipment | 20% per annum |
| Machinery and equipment | 30% per annum |
| Vehicles | 30% per annum |
| Building | 4% per annum |

Land, building and equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off. Current year additions are amortized at half of the normal rate. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to an item of land, building and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in profit or loss at the same time the qualifying expenditures are made.

### Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. The effect of forfeitures is accounted for as they occur.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based compensation is measured at the fair value of goods or services received.

### Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Financial assets at FVTPL* - Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of income (loss) and comprehensive income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of income (loss) and comprehensive income (loss) in the period in which they arise.

*Financial assets at FVTOCI* - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

*Financial assets at amortized cost* - Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of income (loss) and comprehensive income (loss). Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

The Company has classified its cash at fair value through profit and loss. The Company's receivables are classified at amortized cost.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**Financial instruments** (cont'd…)

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss* - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Financial liabilities at amortized cost* - This category consists of liabilities carried at amortized cost using the effective interest method. These financial liabilities are initially recognized at fair value less directly attributable transaction costs.

The Company's accounts payable and accrued liabilities, loans payable, and due to related parties are classified at amortized cost.

Financial instruments that are measured at fair value use inputs, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed by assuming that outstanding options, warrants and similar instruments were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

### Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirements.

An impairment loss is recognized for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of a disposal group, but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the disposal group is recognized at the date of derecognition.

Non-current assets, including those that are part of a disposal group, are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

### Newly adopted accounting policies

Effective October 1, 2018, the Company adopted the following accounting policies. There were no significant impacts to the financial statements upon adoption.

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 7 is amended to require additional disclosures on transition from IAS 39 to IFRS 9. The Company has adopted this policy and it doesn't have a significant effect on the financial statements. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Newly adopted accounting policies** (cont'd…)

IFRS 15, Revenue from Contracts with Customers: IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

**Future accounting pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards.

<u>Accounting Standards Issued and Effective for Annual Reporting Periods Beginning On or After January 1, 2019:</u>

IFRS 16, Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. This standard is applicable to annual periods beginning on or after January 1, 2019. The adoption of this standard is not expected to have a significant impact on the Company's existing accounting policies or financial statement presentation.

Expressed in Canadian Dollars

## 3. EXPLORATION AND EVALUATION ASSETS

| **Year Ended September 30, 2019** | Tom Cat Claims, British Columbia, Canada | Iron Property, Ontario Canada | EL1and EL5 Property, Ontario Canada | Property #1,2,3,4,5,7 and 8 Ontario Canada | Property #6, Ontario Canada | Newmont Lake British Columbia, Canada | Foremore Claims, British Columbia, Canada | Total |
|---|---|---|---|---|---|---|---|---|
| **Acquisition Costs:** | | | | | | | | |
| Balance, beginning of year | $ 61,036 | $ 519,174 | $ 1,600,000 | $ 3,748,500 | $ 530,000 | $ 250,000 | $ - | $ 6,708,710 |
| Cash payment | - | - | - | - | - | 780,000 | 60,000 | 840,000 |
| Shares issued | - | - | - | - | - | 1,080,000 | - | 1,080,000 |
| Write-off (Note 14) | - | (346,072) | (1,066,531) | (2,498,683) | (353,289) | - | (39,995) | (4,304,570) |
| Transfer to available for sale (Note 14) | - | (173,102) | (533,469) | (1,249,817) | (176,711) | - | (20,005) | (2,153,104) |
| Balance, end of year | 61,036 | - | - | - | - | 2,110,000 | - | 2,171,036 |
| **Deferred Exploration Costs:** | | | | | | | | |
| Balance, beginning of year | 92,319 | 444,551 | 1,045,962 | 35,000 | - | - | - | 1,617,832 |
| Assay | 1,819 | - | - | - | - | 453,175 | 8,968 | 463,962 |
| Consulting | - | - | 28,980 | 2,913 | - | 500,396 | 82,018 | 614,307 |
| Drilling, field work and other | - | - | 63,500 | - | - | 4,455,712 | 101,535 | 4,620,747 |
| Travel and helicopters | 5,332 | - | - | - | - | 2,668,856 | - | 2,674,188 |
| Project management fees | 33,978 | - | - | - | - | - | - | 33,978 |
| Supplies | - | - | 1,055 | - | - | 687,321 | - | 688,376 |
| Write-off (Note 14) | - | (296,330) | (759,568) | (25,272) | - | - | (128,331) | (1,209,501) |
| Transfer to available for sale (Note 14) | - | (148,221) | (379,929) | (12,641) | - | - | (64,190) | (604,981) |
| Balance, end of year | 133,448 | - | - | - | - | 8,765,460 | - | 8,898,908 |
| **Total** | **$ 194,484** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 10,875,460** | **$ -** | **$ 11,069,944** |

Expressed in Canadian Dollars

## 3. EXPLORATION AND EVALUATION ASSETS (cont'd…)

| **Year Ended September 30, 2018** | Tom Cat Claims, British Columbia, Canada | Iron Property, Ontario Canada | EL1and EL5 Property, Ontario Canada | Property #1,2,3,4,5,7 and 8 Ontario Canada | Property #6, Ontario Canada | Newmont Lake British Columbia, Canada | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition Costs:** | | | | | | | |
| Balance, beginning of year | $ 244,146 | $ 519,174 | $ 1,350,000 | $ - | $ 530,000 | $ - | $ 2,643,320 |
| Cash payment | - | - | 250,000 | - | - | 250,000 | 500,000 |
| Shares issued | - | - | - | 5,355,000 | - | - | 5,355,000 |
| Write-off | (183,110) | - | - | (1,606,500) | - | - | (1,789,610) |
| Balance, end of year | 61,036 | 519,174 | 1,600,000 | 3,748,500 | 530,000 | 250,000 | 6,708,710 |
| **Deferred Exploration Costs:** | | | | | | | |
| Balance, beginning of year | 317,269 | 444,551 | 131,521 | - | - | - | 893,341 |
| Assay | 725 | - | 20,709 | - | - | - | 21,434 |
| Consulting | - | - | 455,521 | 50,000 | - | - | 505,521 |
| Field work and other | 11,800 | - | 417,962 | - | - | - | 429,762 |
| Travel | 4,172 | - | 4,080 | - | - | - | 8,252 |
| Project management fees | 35,310 | - | 765 | - | - | - | 36,075 |
| Staking | - | - | 6,050 | - | - | - | 6,050 |
| Supplies | - | - | 9,354 | - | - | - | 9,354 |
| Write-off | (276,957) | - | - | (15,000) | - | - | (291,957) |
| Balance, end of year | 92,319 | 444,551 | 1,045,962 | 35,000 | - | - | 1,617,832 |
| **Total** | **$ 153,355** | **$ 963,725** | **$ 2,645,962** | **$ 3,783,500** | **$ 530,000** | **$ 250,000** | **$ 8,326,542** |

## 3. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Tom Cat Claims, British Columbia

The Company owns a 100% interest in certain mining claims, known as the Tom Cat Claims, located in the Nicola Mining District, British Columbia. The claims are subject to a 2% Net Smelter Royalty ("NSR"), of which 1% may be purchased for $2,000,000 for five years from the start of commercial production.

During the year ended September 30, 2018, the Company impaired the Tom Cat Claims by $460,067 based on claims expired.

Iron Property, Emo, Ontario

The Company entered into a series of agreements, the last of which was finalized during the year ended September 30, 2017, to acquire the right to earn a 60% interest in the iron mineralization on the Emerald Lake Property located north of the town of Emo, Ontario.

Pursuant to the agreements, the Company paid $65,000 in fiscal 2014, issued 2,865,625 common shares valued at $386,859 in fiscal 2015 and issued 115,475 common shares valued at $46,190 in fiscal 2016. In order to complete the acquisition of the 60% interest, the Company was required to pay four additional installments of $50,000 each commencing April 15, 2016 and continuing every six months to October 17, 2017 and an additional 6,392,000 common shares on the earlier of a positive feasibility or the commencement of commercial production. The Company was also required to incur exploration expenditures of $1,500,000 by October 15, 2017. The Company has the option to acquire an additional 32% interest in the iron ore mineralization present on the property at terms to be negotiated, plus the right of first refusal on future properties acquired by the vendor.

The Company has not made the cash payments and incurred the required exploration expenditures and is consequentially not in compliance with the terms of their option agreement. The Company is in the process of negotiating an amended agreement.

During the year ended September 30, 2019, the Company entered into an arrangement agreement with Sassy and reallocated the property costs to available for sale (Note 14).

EL1 & EL5 Properties, Emo, Ontario

The Company entered into a series of agreements to acquire the right to earn a 60% interest in the EL1 & EL5 mineral exploration properties located in Emo, Ontario.

During the year ended September 30, 2018, pursuant to the latest amended agreement, the Company can earn a 60% interest in the EL1 and EL5 properties pay paying $2,000,000 in equal instalments of $500,000 (paid $250,000) over a two year period. The first $500,000 instalment is due on February 13, 2018 (paid $250,000). The Company can increase its interest in these properties to 85% by paying Emerald Lake $8,000,000. The option agreement is subject to a NSR on the EL1 property of 3% and EL5 property of 2%.

Prior the latest amended agreement, the Company paid $350,000 and issued 3,500,000 common shares valued at $980,000.

The Company has not made the cash payments and incurred the required exploration expenditures and is consequentially not in compliance with the terms of their option agreement. The Company is in the process of negotiating an amended agreement.

During the year ended September 30, 2019, the Company entered into an arrangement agreement with Sassy and reallocated the property costs to available for sale (Note 14).

**3. EXPLORATION AND EVALUATION ASSETS** (cont'd…)

Emo Ontario Properties (Property #1,2,3,4,5,7, and 8), Emo, Ontario

Right of First Refusal Agreement

On September 27, 2016, the Company entered a right of first refusal agreement ("ROFR") with Emerald Lake to acquire 100% of eight additional claim blocks near the town of Emo, Ontario.

During the year ended September 30, 2017, the Company announced that pursuant to the ROFR, it has entered into an agreement, with Emerald Lake. The agreement provides the Company the option to 100% in the mineral rights of certain properties near Emo Ontario for determined numbers of common shares.

The Company and Emerald Lake amended the agreement several times during the year ended September 30, 2017. The amended agreement provides the Company the option to acquire any or all of the following properties near Emo Ontario for the designed numbers of common shares: Property #2 for 3,000,000 common shares, Property #5 for 3,000,000 common shares, Property #7 for 1,000,000 common shares, and Property #8 for 500,000 common shares. Any property acquired would be subject to a net smelter royalty payable to Emerald Lake.

During the year ended September 30, 2018, the Company agreed to purchase a 100% interest in Property #1, Property #2, Property #3, Property #4, Property #5, Property #7 and Property #8 by issuing 10,500,000 shares (valued at $5,355,000) to Emerald Lake, subject to a 2% NSR, 1% of which may be purchased for $1,000,000. During the year ended September 30, 2018, the TSX-V approved the agreement.

At September 30, 2018, the Company impaired Property#1, 2, 3, 4, 5, 7, and 8 by $1,621,500 based on the claims that expired.

During the year ended September 30, 2019, the Company entered into an arrangement agreement with Sassy and reallocated the property costs to available for sale (Note 14).

Property #6, Emo, Ontario

In January 2017, pursuant to the ROFR, the Company entered into a purchase agreement, with Emerald Lake to buy a 100% interest in the mineral rights hosted by the property known as Property #6 near Emo, Ontario.

In order to complete the purchase, the Company issued 2,000,000 common shares valued at $530,000 to Emerald Lake. A 3% of NSR shall be payable to Emerald Lake upon the commencement of commercial production.

During the year ended September 30, 2019, the Company entered into an arrangement agreement with Sassy and reallocated the property costs to available for sale (Note 14).

## 3. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Newmont Lake Claims, British Columbia

In September 2018, the Company entered into a letter agreement for an option to acquire a 100% interest in the Newmont Lake mineral property from of Romios Gold Resources Inc. ("Romios"). Pursuant to the agreement, in order to complete the acquisition, the Company is required to:

i) pay $250,000 immediately upon signing (paid).
ii) pay $250,000 at 90 days following the regulatory approval (paid).
iii) pay $250,000 at 180 days following the regulatory approval (paid).
iv) pay $250,000 at 270 days following the regulatory approval (paid).
v) pay $1,000,000 concurrently with the Company being vested with a 100% interest in the property.
vi) issue 4,000,000 shares upon the regulatory approval (issued at a value of $1,080,000)
vii) issue 4,000,000 shares on September 19, 2020.
viii) issue 4,000,000 shares on September 19, 2021.
ix) incur exploration expenditures of $3,000,000 by September 20, 2019 (incurred).
x) incur exploration expenditures of $2,500,000 by September 19, 2020.
xi) incur exploration expenditures of $2,500,000 by September 19, 2021.
xii) incur an underlying annual payment of $30,000 (paid $30,000).

The claims are subject to a 2% NSR, one-half of which can be bought back by the Company for $2,000,000 for a period of 2 years after completion by the Company of the commitments under the option. The Company will issue 2,000,000 shares to Romios in the event a NI 43-101 compliant resource estimate with exceeds 1,000,000 ounces of gold equivalent resources is issued. An additional 1,000,000 shares of the Company will be issued to Romios for each full 1,000,000 additional ounces of gold equivalent resources which is so documented.

During the year ended September 30, 2019, the TSX-V approved the agreement.

Foremore Claims, British Columbia

In June 2019, the Company entered into a binding letter of intent ("LOI"), subsequently amended, to acquire a 100% interest in certain mineral claims known as the Foremore claims. Pursuant to the agreement, in order to complete the acquisition, the Company is required to:

i) pay $10,000 within 3 business days following the execution of the LOI (paid).
ii) pay $50,000 at 3 business days following the regulatory approval (paid).
iii) pay $50,000 by Sassy on or before the first anniversary of the regulatory approval.
iv) pay $66,667 by Sassy on or before the second anniversary of the regulatory approval.
v) pay $66,667 by Sassy on or before the third anniversary of the regulatory approval.
vi) pay $66,667 by Sassy on or before the fourth anniversary of the regulatory approval.
vii) issue 250,000 shares upon the completion of the arrangement agreement (Note 14).
viii) issue 250,000 shares of Sassy on the first anniversary of the regulatory approval.
ix) issue 250,000 shares of Sassy on the second anniversary of the regulatory approval.
x) issue 250,000 shares of Sassy on or before the third anniversary of the regulatory approval.
xi) issue 250,000 shares of Sassy on or before the fourth anniversary of the regulatory approval.
xii) incur $150,000 by Sassy on or before the first anniversary of the regulatory approval.
xiii) incur $150,000 by Sassy on or before the second anniversary of the regulatory approval.
xiv) incur $300,000 by Sassy on or before the third anniversary of the regulatory approval.
xv) incur $300,000 by Sassy on or before the fourth anniversary of the regulatory approval.
xiv) incur $300,000 by Sassy on or before the fifth anniversary of the regulatory approval.

The claims are subject to a 3% NSR and the Company's subsidiary, Sassy, has the right to purchase back the royalty of 2% for $2,000,000 and an additional royalty of 0.5% for $1,000,000.

During the year ended September 30, 2019, the Company entered into an arrangement agreement with Sassy and reallocated the property costs to available for sale assets (Note 14).

Expressed in Canadian Dollars

## 4. LAND, BUILDING AND EQUIPMENT

Equipment is carried at cost less accumulated amortization. Details are as follows:

| | Vehicles | Furniture and Equipment | Building(1) | Land(1) | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, September 30, 2017 | $ 15,000 | $ 15,974 | $ 120,000 | $ 145,290 | $ 296,264 |
| Additions | - | 11,845 | - | - | 11,845 |
| Balance, September 30, 2018 | 15,000 | 27,819 | 120,000 | 145,290 | 308,109 |
| Additions | - | - | - | - | - |
| Balance, September 30, 2019 | $ 15,000 | $ 27,819 | $ 120,000 | $ 145,290 | $ 308,109 |
| **Accumulated depreciation** | | | | | |
| Balance, September 30, 2017 | $ 2,250 | $ 12,274 | $ 14,400 | $ - | $ 28,924 |
| Additions | 3,825 | 2,517 | 4,800 | - | 11,142 |
| Balance, September 30, 2018 | 6,075 | 14,791 | 19,200 | - | 40,066 |
| Additions | 2,678 | 2,606 | 4,800 | - | 10,084 |
| Write-down | - | - | 61,784 | 93,506 | 155,290 |
| Balance, September 30, 2019 | $ 8,753 | $ 17,397 | $ 85,784 | $ 93,506 | $ 205,440 |
| **Carrying amounts** | | | | | |
| Balance, September 30, 2018 | $ 8,925 | $ 13,028 | $ 100,800 | $ 145,290 | $ 268,043 |
| Balance, September 30, 2019 | $ 6,247 | $ 10,422 | $ 34,216 | $ 51,784 | $ 102,669 |

(1) Land and building are listed as collateral for the mortgage payable. (Note 5)

During the year ended September 30, 2019, the Company recognized a write-down of $155,290 on land and building.

Expressed in Canadian Dollars

## 5. LOANS PAYABLE

| | | | 2019 | | 2018 |
|---|---|---|---|---|---|
| i) | During the year ended September 30, 2015, the Company entered into a $250,000 debenture loan. The debenture matured on March 28, 2017 and bears interest at a rate of 10% per annum payable annually. The loan was convertible into common shares of the Company at a price of $0.32 per share at any time prior to maturity.<br><br>On issuance, the loan has been classified into its separate loan liability and conversion feature equity components in the Company's financial statements using the fair value method and an effective interest rate of 12%. The liability was valued first, resulting in an initial amount of $242,164 being allocated to the liability and $7,836 being allocated to the conversion feature. Over the term of the loan this carrying value was accreted to the $250,000 principal amount using the effective-interest-rate method, with an effective interest rate of 12%. During the year ended September 30, 2019, the corresponding interest and accretion of $21,713 (2018 - $24,999) charged to operations. During the year ended September 30, 2019, the Company settled $355,958 with issuance of common shares resulting a gain on debt conversion of $4,315 (Note 7). | $ | - | $ | 334,245 |
| ii) | During the year ended September 30, 2014, the Company entered into two debenture loan agreements whereby the Company borrowed $200,000. The loans bear simple interest at 12% per annum and were repayable by December 13, 2014. Pursuant to the agreements, the lenders had the right to convert all or any portion of the accrued interest into common shares of the Company prior to the end of the term. The loan is secured by certain assets of the Company.<br><br>During the year ended September 30, 2015, the Company settled $100,000 of the principal debt for shares. The remaining $100,000 of principal and interest remained unpaid. Interest continues to accrue with no additional penalties. During the year ended September 30, 2019, the Company accrued $10,389 (2018 – $12,000) of interest. During the year ended September 30, 2019, the Company settled $167,364 with issuance of common shares resulting a gain on debt conversion of $1,972 (Note 7). | | - | | 156,975 |
| iii) | During the year ended September 30, 2014, the Company financed the acquisition of land and building with a mortgage payable of $260,117. Mortgage was due on August 15, 2015. The mortgage is secured by land and a building in the district of Rainy River, Ontario. During the year ended September 30, 2016, the Company paid $27,150 to reduce the mortgage payable and accrued $29,618 in interest. During the year ended September 30, 2017, the Company paid $22,213 to reduce the mortgage payable and accrued $29,618 in interest. During the year ended September 30, 2018, the Company paid $41,959 to reduce the mortgage payable and accrued $29,618 in interest. During the year ended September 30, 2019, the Company paid $27,150 to reduce the mortgage payable and accrued $29,618 in interest. | | 263,791 | | 261,323 |
| iv) | During the year ended September 30, 2016, the Company received $96,280 from the CEO of the Company, consisting of a series of non-interest bearing, unsecured advances with no fixed terms of repayment. The Company repaid $5,000 of the amounts advanced during the year ended September 30, 2016. During the year ended September 30, 2017, the Company received $187,700 and repaid $67,000 and settled $80,000 with issuance of common shares. During the year ended September 30, 2018, the Company received $8,950 and repaid $134,000. During the year ended September 30, 2019, the Company repaid $6,930. | | - | | 6,930 |
| Total loan payable | | $ | 263,791 | $ | 759,473 |

## 6. MARKETABLE SECURITES

During the year ended September 30, 2018, the Company advanced $175,000 to acquire 2,187,500 units of Romios Gold Resources Inc. ("Romios"). The acquisition of the units completed on October 2, 2018. Each unit is comprised of one common share of Romios and warrants to acquire an additional 1,093,750 common shares of Romios exercisable at $0.12 expiring October 2, 2019 (expired unexercised subsequent to September 30, 2019).

During the year ended September 30, 2019, the Company sold all its shares in Romios for $90,000, which resulted in a realized loss of $85,000.

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE

During the year ended September 30, 2019, the Company:

i) issued 518,334 common shares pursuant to exercise of options for gross proceeds of $155,500. The Company transferred $100,470 to capital stock from share-based payment reserve.

ii) issued 3,689,755 common shares pursuant to exercise of warrants for gross proceeds of $996,089. The Company transferred $5,819 to capital stock from share-based payment reserve.

iii) closed a non-brokered private placement and issued 1,428,572 flow-through common shares at $0.35 per flow-through share for gross proceeds of $500,000. The Company issued 100,000 finders' warrants (valued at $16,255) exercisable at $0.35 on or before December 20, 2020. A value of $100,000 was attributed to the flow-through premium liability in connection with the financing. The Company expended certain of the flow-through proceeds and accordingly, recorded $97,800 as reversal of flow-through premium during the year ended September 30, 2019 resulting in a remaining flow-through premium liability of $2,200. The Company paid share issuance costs of $43,149.

iv) closed a non-brokered private placement and issued 381,000 flow-through common shares at $0.35 per flow-through share for gross proceeds of $133,350. The Company issued 10,570 finders' warrants (valued at $1,718) exercisable at $0.35 on or before December 21, 2020. A value of $22,860 was attributed to the flow-through premium liability in connection with the financing. The Company expended certain of the flow-through proceeds and accordingly, recorded $20,574 as reversal of flow-through premium during the year ended September 30, 2019 resulting in a remaining flow-through premium liability of $2,286. The Company paid share issuance costs of $3,700.

v) closed a non-brokered private placement and issued 370,000 units at $0.30 per unit for net proceeds of $111,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.45 on or before December 28, 2019. The Company paid share issuance costs of $6,608.

vi) issued 4,000,000 shares at a value of $1,080,000 pursuant to the acquisition of Newmont Lake Property (Note 3).

vii) closed the first tranche of a non-brokered private placement and issued 8,488,443 units at $0.225 per unit for proceeds of $1,909,900. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.35 on or before March 25, 2021. The Company issued 3,200 finders' warrants (valued at $533) exercisable at $0.35 on or before March 25, 2021. The Company paid share issuance costs of $20,620.

**7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE** (cont'd…)

viii) closed the second tranche of the non-brokered private placement and issued 8,827,944 units at $0.225 per unit for proceeds of $1,986,288. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.35 on or before March 27, 2021. The Company issued 48,000 finders' warrants (valued at $7,442) exercisable at $0.35 on or before March 27, 2021.

As part of the second tranche, the Company issued 1,250,000 flow-through common shares at $0.32 per flow-through share for gross proceeds of $400,000. The Company issued 100,000 finders' warrants (valued at $15,989) exercisable at $0.32 on or before March 29, 2021. A value of $62,500 was attributed to the flow-through premium liability in connection with the financing. The Company expended the flow-through proceeds and accordingly, recorded $62,500 as reversal of flow-through premium during the year ended September 30, 2019. The Company paid share issuance costs of $34,000.

ix) issued 200,000 flow-through units at $0.35 per flow-through units and for gross proceeds of $70,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.45 on or before March 25, 2021. A value of $13,000 was attributed to the flow-through premium liability in connection with the financing. The Company expended the flow-through proceeds and accordingly, recorded $13,000 as reversal of flow-through premium during the year ended September 30, 2019.

x) issued 85,500 flow-through units at $0.35 per flow-through units for gross proceeds of $29,925. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.45 on or before March 27, 2021. A value of $7,080 was attributed to the flow-through premium liability in connection with the financing. The Company expended the flow-through proceeds and accordingly, recorded $7,080 as reversal of flow-through premium during the year ended September 30, 2019.

xi) closed the final tranche of the non-brokered private placement and issued 525,000 units at $0.225 per unit for gross proceeds of $118,125. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.35 on or before April 1, 2021.

xii) closed a non-brokered private placement and issued 2,865,834 units at $0.35 per unit for gross proceeds of $1,003,042. Each unit consists of one common share and one-half common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.50 on or before August 2, 2021.

xiii) closed 725,000 flow-through units at $0.40 per flow-through units for gross proceeds of $290,000. Each unit consists of one common share and one-half common share purchase warrant. Each warrant may be exercisable by the holder to purchase an additional common share at a price of $0.60 on or before August 2, 2021. A value of $18,125 was attributed to the flow-through premium liability in connection with the financing. The Company expended the flow-through proceeds and accordingly, recorded $18,125 as reversal of flow-through premium during the year ended September 30, 2019.

xiv) issued 1,615,734 common shares at $0.32 per share at a value of $517,035 to settle debenture loans of $523,322 resulting in a gain of $6,287 on the settlement of debt.

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

xv) closed the first tranche of the non-brokered private placement and issued 4,793,333 units at $0.30 per unit for gross proceeds of $1,438,000, of which $14,000 is receivable as of September 30, 2019 and is recorded as subscriptions receivable. Each unit consists of one common share and one-half common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.35 on or before September 12, 2021.

xvi) closed the second tranche of the non-brokered private placement and issued 246,000 units at $0.30 per unit for gross proceeds of $73,800. Each unit consists of one common share and one-half common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.35 on or before September 24, 2021. The Company paid share issuance costs of $3,912 and issued 13,040 finders' warrants (valued at $1,554) exercisable at $0.35 on or before September 24, 2021.

xvii) closed 100,000 flow-through units at $0.35 per flow-through units for gross proceeds of $35,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercisable by the holder to purchase an additional common share at a price of $0.45 on or before September 24, 2021. A value of $14,000 was attributed to the flow-through premium liability in connection with the financing. The Company expended the flow-through proceeds and accordingly, recorded $14,000 as reversal of flow-through premium during the year ended September 30, 2019.

xviii) cancelled 50,000 flow-through units at $0.40 per flow-through units.

During the year ended September 30, 2018, the Company:

i) closed a non-brokered private placement and issued 2,100,000 units at $0.20 per unit for proceeds of $420,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.25 on or before May 6, 2019.

ii) closed a non-brokered private placement and issued 2,000,000 units at $0.20 per unit for proceeds of $400,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.25 on or before June 3, 2019. The Company paid share issuance costs of $4,200 and issued 21,000 finders' warrants exercisable at $0.25 on or before June 3, 2019.

iii) closed a non-brokered flow-through private placement and issued 2,000,000 units at $0.25 per unit for proceeds of $500,000. Each unit consists of one common share and one-half common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.30 on or before June 10, 2019. The Company paid share issuance costs of $14,753 and issued 59,010 finders' warrants exercisable at $0.30 on or before June 10, 2019. On issuance, the Company recognized a flow through premium of $Nil.

iv) closed a non-brokered private placement and issued 1,400,000 units at $0.50 per unit for proceeds of $700,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.52 on or before January 18, 2020.

v) issued 112,727 units to a creditor at $0.91 per unit, to settle debts aggregating $56,559 resulting in a loss of $46,023 on the settlement of debt. Each unit is comprised of one common share and one common purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.68 on or before February 14, 2020. Total loss on settlement of debt for the year ended September 30, 2018 was $39,023 after other gains of $7,000.

Expressed in Canadian Dollars

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

vi) issued 10,500,000 shares at a value of $5,355,000 pursuant to the acquisition of Emo Ontario Properties (Note 3).

vii) closed the first tranche of a non- brokered private placement to strategic investors and issued 1,272,726 shares at $0.55 per unit for gross proceeds of $700,000. Each unit consists of one common share of the Company and one full share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.70 on or before May 24, 2020.

viii) closed the second tranche of the non-brokered private placement and issued 860,000 shares at $0.55 per unit for gross proceeds of $473,000. Each unit consists of one common shares and one full share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.70 on or before May 29, 2020.

ix) issued 1,081,666 common shares pursuant to exercise of options for gross proceeds of $376,725.

x) issued 1,897,005 common shares pursuant to exercise of warrant for gross proceeds of $609,927, of which $5,430 is receivable as of September 30, 2018 and is recorded as subscriptions receivable.

**Stock options**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less an applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

A summary of changes in options during the year is as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Outstanding and exercisable September 30, 2017 | 915,000 | $ 0.38 |
| Granted | 7,500,000 | 0.42 |
| Exercised | (1,081,666) | 0.35 |
| Cancelled/Expired | (800,000) | 0.33 |
| Outstanding and exercisable September 30, 2018 | 6,533,334 | 0.44 |
| Granted | 3,580,000 | 0.31 |
| Exercised | (518,334) | 0.30 |
| Outstanding and exercisable September 30, 2019 | 9,595,000 | $ 0.30 |

Expressed in Canadian Dollars

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

**Stock options** (cont'd…)

The following stock options were outstanding at September 30, 2019:

| Expiry Date | Exercise Price | Number of Options | Number of Options Exercisable |
|---|---|---|---|
| October 3, 2019* | $ 0.30 | 2,630,000 | 2,630,000 |
| December 19, 2019* | $ 0.30 | 600,000 | 600,000 |
| January 14, 2020* | $ 0.30 | 785,000 | 785,000 |
| September 25, 2020** | $ 0.30 | 2,000,000 | 2,000,000 |
| December 19, 2020*** | $ 0.30 | 750,000 | 750,000 |
| March 18, 2021**** | $ 0.30 | 960,000 | 960,000 |
| April 1, 2021 | $ 0.30 | 1,200,000 | 1,200,000 |
| June 24, 2024 | $ 0.35 | 670,000 | 670,000 |
| | | 9,595,000 | 9,595,000 |

* expired unexercised subsequent to September 30, 2019
** 650,000 options cancelled subsequent to September 30, 2019
***220,000 options cancelled subsequent to September 30, 2019
****500,000 options cancelled subsequent to September 30, 2019

*Share-based compensation*

During the year ended September 30, 2019, the Company recognized $694,400 (2018 - $1,681,571) on options granted and vested. The weighted average fair value of each stock option granted during the year was $0.19 (2018 - $0.32), calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

| | **Year ended September 30, 2019** | **Year ended September 30, 2018** |
|---|---|---|
| Volatility | 121.55% | 94.56% |
| Risk-free interest rate | 1.62% | 1.73% |
| Dividend yield | 0.00% | 0.00% |
| Expected life | 2.56 years | 2 years |
| Expected forfeiture rate | 0.00% | 0.00% |

During the year ended September 30, 2019, the Company repriced the following 1,525,000 stock options to $0.30 per option resulting in additional share-based compensation of $81,677. All other terms of the stock options remain unchanged.

| Expiry Date | Number of Options |
|---|---|
| December 19, 2019 | 250,000 |
| January 14, 2020 | 750,000 |
| September 25, 2020 | 525,000 |
| | 1,525,000 |

Expressed in Canadian Dollars

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

**Stock options** (cont'd…)

The weighted average fair value of each stock option repriced during the year was $0.15, calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

| | **Year ended September 30, 2019** |
|---|---|
| Volatility | 102.37% |
| Risk-free interest rate | 1.65% |
| Dividend yield | 0.00% |
| Expected life | 1.06 years |
| Expected forfeiture rate | 0.00% |

**Warrants**

A summary of changes in warrants during the year is as follows:

| | Number of warrants | | Weighted average exercise price |
|---|---|---|---|
| Outstanding September 30, 2017 | 654,000 | $ | 0.52 |
| Granted | 8,877,645 | | 0.41 |
| Exercised | (1,872,005) | | 0.32 |
| Expired | (153,000) | | 0.51 |
| Outstanding September 30, 2018 | 7,506,640 | | 0.44 |
| Granted | 22,976,781 | | 0.37 |
| Exercised | (3,689,755) | | 0.27 |
| Expired | (117,500) | | 0.40 |
| Outstanding September 30, 2019 | 26,676,166 | $ | 0.40 |

Expressed in Canadian Dollars

## 7. CAPITAL STOCK AND SHARE-BASED PAYMENT RESERVE (cont'd…)

**Warrants** (cont'd…)

The following warrants were outstanding at September 30, 2019:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 400,000* | $ 0.25 | December 1, 2019 |
| 1,750* | $ 0.25 | December 1, 2019 |
| 185,000* | $ 0.45 | December 28, 2019 |
| 1,400,000* | $ 0.52 | January 14, 2020 |
| 112,727 | $ 0.68 | February 14, 2020 |
| 1,317,908 | $ 0.70 | May 24, 2020 |
| 867,000 | $ 0.70 | May 29, 2020 |
| 100,000 | $ 0.35 | December 20, 2020 |
| 10,570 | $ 0.35 | December 21, 2020 |
| 8,091,643 | $ 0.35 | March 25, 2021 |
| 200,000 | $ 0.45 | March 25, 2021 |
| 8,875,944 | $ 0.35 | March 27, 2021 |
| 85,500 | $ 0.45 | March 27, 2021 |
| 100,000 | $ 0.32 | March 29, 2021 |
| 525,000 | $ 0.35 | April 1, 2021 |
| 1,432,917 | $ 0.50 | August 2, 2021 |
| 337,500 | $ 0.60 | August 2, 2021 |
| 2,396,667 | $ 0.35 | September 12, 2021 |
| 136,040 | $ 0.35 | September 24, 2021 |
| 100,000 | $ 0.45 | September 24, 2021 |
| 26,676,166 | | |

* expired unexercised subsequent to September 30, 2019

The weighted average fair value of each finder's warrant granted during the year was $0.16 (2018 - $0.41), calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

| | **Year ended September 30, 2019** | **Year ended September 30, 2018** |
|---|---|---|
| Volatility | 124.08% | 116.98% |
| Risk-free interest rate | 1.68% | 1.67% |
| Dividend yield | 0.00% | 0.00% |
| Expected life | 2 years | 1.70 years |
| Expected forfeiture rate | 0.00% | 0.00% |

## 8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers. Other than disclosed below, there was no other compensation paid to key management during the years ended September 30, 2019 and 2018. During the year ended September 30, 2019, the Company paid or accrued:

(i) management fees of $331,146 (2018 - $331,493) to the CEO, former CEO, CFO and companies controlled by the CEO, former CEO, and CFO of the Company.

(ii) director's fees of $24,996 (2018 - $25,730) to directors and a former director of the Company.

(iii) share-based compensation of $248,790 (2018 - $731,743) to directors of the Company.

Included in due to related parties as at September 30, 2019 is $99,022 (2018 - $151,842) due to directors, a spouse of a director, former directors and companies controlled by directors.

At September 30, 2019, the Company owed $Nil (2018 - $6,930) for loans received from the former CEO.

During the year ended September 30, 2019, the Company issued 1,310,000 stock options (2018 – 3,200,000) to directors resulting in share-based compensation of $248,790 (2018 - $731,743).

During the year ended September 30, 2019, the Company paid interest of $86,853 to a director of the Company.

Included in receivables as at September 30, 2019 is $17,308 (2018 - $17,308) due to a company with common directors.

## 9. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and to maintain sufficient funds to finance the exploration of its exploration and evaluation interests. Capital is comprised of the Company's shareholders' equity. As at September 30, 2019, the Company's shareholders' equity was $9,819,474 (2018 – $8,398,882).

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended September 30, 2019.

## 10. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

The carrying value of the Company's receivables, accounts payable and accrued liabilities, due to related parties, and loans payable approximate their fair value because of the short-term nature of these instruments. Cash is carried at a fair value using a level 1 fair value measurement. Loans payable are accounted for using the effective interest rate method.

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's management believes it has no significant credit risk.

## 10. FINANCIAL RISK FACTORS (cont'd…)

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At September 30, 2019, the Company had a cash balance of $135,986 (2018 - $537,241) to settle current liabilities of $5,062,243 (2018 - $1,025,574). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company expects to fund these liabilities through the use of existing cash resources and additional equity financing.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances held with financial institutions. The Company is satisfied with the credit rating of its bank.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in a foreign currency. As at September 30, 2019, the Company had minimal cash amounts in foreign currencies and considers foreign currency risk insignificant.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of commodities, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended September 30, 2019 include the Company:

i) issued 274,810 finders' warrants at a value of $43,491 pursuant to private placements.

ii) transferred $100,470 from share-based payment reserve to share capital upon exercise of options.

iii) transferred $5,819 from share-based payment reserve to share capital upon exercise of warrants.

iv) Attributed $237,565 to the flow-through premium liability in connection with the financing.

v) issued 4,000,000 shares at a value of $1,080,000 pursuant to Newmont Lake option payment.

vi) issued 1,615,734 shares valued at $517,035 to settle a loan payable.

At September 30, 2019, the Company had an accounts payable balance of $3,009,818 (September 30, 2018 - $9,000) related to exploration and evaluation asset expenditures.

Expressed in Canadian Dollars

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

Significant non-cash transactions during the year ended September 30, 2018 include the Company:

i) issued 132,192 finders' warrants at a value of $50,789 pursuant to private placements.

ii) issued 112,727 shares valued at $102,582 to settle a loan payable.

iii) transferred $221,033 from share-based payment reserve to share capital upon exercise of options.

iv) transferred $54,919 from share-based payment reserve to share capital upon exercise of warrants.

v) issued 10,500,000 shares at a value of $5,355,000 pursuant to the acquisition of Property #1, Property #2, Property #3, Property #4, Property #5, Property #7 and Property #8.

## 12. SEGMENTED INFORMATION

The Company has one operating segment, being the exploration of exploration and evaluation assets in Canada. The Company's equipment and exploration and evaluation assets at September 30, 2019 were $11,116,232 (2018 - $8,594,585).

## 13. SUBSIDIARIES

Significant subsidiaries of the Company are as follows:

| | Country of Incorporation | Principal Activity | Effective interest for 2019 | Effective interest for 2018 |
|---|---|---|---|---|
| Minera Sierra Gioc SA | Mexico | Holding company | 100% | 100% |
| Sierra Iron Ore USA | United States | Holding company | 100% | 100% |
| Sassy Resources Corporation | Canada | Mineral exploration | 100% | - |

## 14. ARRANGEMENT AGREEMENT AND ASSETS HELD FOR SALE

On June 25, 2019, the Company entered into an arrangement agreement with its wholly-owned subsidiary, Sassy to transfer its Northwest Ontario nickel exploration assets to Sassy, and its LOI, to acquire the Foremore claims, by way of a plan of arrangement pursuant to the Business Corporations Act of British Columbia. The arrangement contemplates the Company transferring the above noted exploration assets to Sassy in exchange for 10,000,000 common shares of Sassy to be distributed to the Company's shareholders. On September 30, 2019, the Company received shareholder approval of the transaction.

The transaction is subject to regulatory and court approval.

The disposal group reclassified for distribution to shareholders at September 30, 2019 consists of the Company's Canadian subsidiary, Sassy, and certain exploration and evaluation assets which will be spun-out subsequent to September 30, 2019. The disposal group is part of the Company's only segment, which is the exploration of exploration and evaluation assets (Note 3).

Expressed in Canadian Dollars

## 14. ARRANGEMENT AGREEMENT AND ASSETS HELD FOR SALE (cont'd…)

Management determined the assets and liabilities of Sassy to meet the definitions of assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Consequently, assets and liabilities of Sassy were classified as a disposal group.

In accordance with IFRS 5, on the reclassification of disposal groups as assets held for sale and discontinued operations, the Company remeasured the net assets of Sassy to fair value less costs of disposal. During the year ended September 30, 2019, an impairment of $5,514,071 was recognized against exploration and evaluation assets (Note 3), which is included in loss and comprehensive loss for the year.

| Assets and liabilities held for sale | | 2019 |
|---|---|---|
| Cash | $ | 45,253 |
| Receivables | | 1,662 |
| Exploration and evaluation assets (Note 3) | | 2,758,085 |
| Total assets held for sale | $ | 2,805,000 |
| Accounts payable and accrued liabilities | $ | 37,500 |
| Subscriptions received in advance – Sassy (Note 17) | | 17,500 |
| Special warrants - Sassy | | 250,000 |
| Total liabilities held for sale | $ | 305,000 |

The fair value of the nest assets to be distributed was based on subsequent Sassy private placements completed at $0.25 per share multiplied by the total number of shares to be issued, 10,000,000.

As at September 30, 2019, the Company has incurred $27,500 in transaction costs associated with the plan of arrangement.

**Special Warrants**

During the year ended September 30, 2019, Sassy granted 5,000,000 special warrants at $0.05 per warrant for gross proceeds of $250,000. Each special warrant shall be convertible into one common share and one common share purchase warrant on a date to be determined by the board of directors of Sassy but no later than two weeks after Sassy becomes a reporting issuer. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.10 for a period of two years.

Expressed in Canadian Dollars

## 15. INCOME TAXES

A reconciliation of income taxes at statutory rate with the reported taxes is as follows:

| | | **2019** | | **2018** |
|---|---|---|---|---|
| Earnings (loss) for the year | $ | (9,824,415) | $ | (5,312,017) |
| Expected income tax (recovery) | $ | (2,653,000) | $ | (866,000) |
| Change in statutory, foreign tax, foreign exchange rate and other | | (44,000) | | 101,000 |
| Permanent Difference | | 164,000 | | 455,000 |
| Share issue cost | | (30,000) | | (17,000) |
| Impact of flow-through shares | | 388,000 | | - |
| Adjustment to prior years provision | | 1,000,000 | | - |
| Change in unrecognized deductible temporary differences | | 1,175,000 | | 327,000 |
| Total income tax expense (recovery) | $ | - | $ | - |

The significant components of the Company's deferred tax assets and liabilities are as follows that have not been included on the consolidated statement of financial position as follows:

| | | **2019** | | **2018** |
|---|---|---|---|---|
| Deferred Tax Assets (liabilities) | | | | |
| Exploration and evaluation assets | $ | 1,519,000 | $ | 1,424,000 |
| Share issue cost | | 36,000 | | 16,000 |
| Property and equipment | | 19,000 | | (33,000) |
| Allowable capital losses | | 18,000 | | 1,000 |
| Non-capital losses | | 3,237,000 | | 2,246,000 |
| Unrecognized deferred tax asset | $ | 4,829,000 | $ | 3,654,000 |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | | 2019 | Expiry Date Range | | 2018 | Expiry Date Range |
|---|---|---|---|---|---|---|
| **Temporary Differences** | | | | | | |
| Exploration and evaluation assets | $ | 5,615,000 | No expiry date | $ | 5,073,000 | No expiry date |
| Investment tax credit | | 4,000 | 2020 to 2034 | | 4,000 | 2020 to 2034 |
| Property and equipment | | 70,000 | No expiry date | | (126,000) | No expiry date |
| Canadian eligible capital (CEC) | | - | No expiry date | | - | No expiry date |
| Share issue costs | | 132,000 | 2037 to 2043 | | 61,000 | 2037 to 2042 |
| Allowable capital losses | | 66,000 | No expiry date | | 3,000 | No expiry date |
| Non-capital losses available for future period | | 12,198,000 | 2029 to 2039 | | 8,528,000 | 2029 to 2038 |

Tax attributes are subject to review, and potential adjustment, by tax authorities

## 16. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2019, the Company:

i) closed a non-brokered private placement and issued 15,513,250 units at $0.10 per unit for gross proceeds of $1,551,325, of which $66,000 remains receivable. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.15 on or before November 19, 2024. The Company issued 290,800 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.15 on or before November 19, 2021.

ii) issued 2,557,693 flow-through units at $0.13 per unit for gross proceeds of $332,500. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.20 on or before November 14, 2021. The Company issued 196,615 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.20 on or before May 19, 2021.

iii) closed an additional tranche of the non-brokered private placement and issued 15,477,000 units at $0.10 per unit for gross proceeds of $1,547,700, of which $85,000 remains receivable. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.15 on or before December 20, 2024. The Company paid finder's fees of $25,360 and issued 253,600 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.15 on or before December 20, 2021.

The Company also issued 1,715,923 flow-through units at $0.13 per unit for gross proceeds of $223,070. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.20 on or before December 20, 2021. The Company paid finder's fees of $10,005 and issued 76,960 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.20 on or before June 20, 2021.

iv) closed the final tranche of the non-brokered private placement and issued 1,680,000 units at $0.10 per unit for gross proceeds of $168,000. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.15 on or before December 31, 2024. The Company paid finder's fees of $8,800 and issued 88,000 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.15 on or before December 31, 2021.

The Company also issued 357,000 flow-through units at $0.13 per unit for gross proceeds of $46,410. Each unit consists of one common share and one common share purchase warrant. Each warrant may be exercised by the holder to purchase an additional common share at a price of $0.20 on or before December 31, 2021. The Company paid finder's fees of $3,713 and issued 28,560 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.20 on or before December 31, 2021.

v) Sassy closed the first tranche of a non-brokered private placement and issued 770,000 shares at $0.25 for gross proceeds of $192,500, of which $17,500 was received prior to September 30, 2019. The Company paid finder's fees of $8,000 and issued 32,800 finder's warrants. Each finder's warrant may be exercised to purchase an additional common share at a price of $0.25 on or before October 4, 2020. As a result of the financing, the Company deconsolidated Sassy subsequent to September 30, 2019.

vi) Sassy closed the second tranche of the non-brokered private placement and issued 140,000 shares at $0.25 for gross proceeds of $35,000.

vii) Sassy closed the third tranche of the non-brokered private placement and issued 40,000 shares at $0.25 for gross proceeds of $10,000.

## 16. SUBSEQUENT EVENTS (cont'd…)

viii) Sassy entered into an employment agreement during fiscal 2019 with the CEO of Sassy. Per the agreement, Sassy is to grant 250,000 stock options and pay an annual salary of $200,000 to the CEO commencing in fiscal 2020.