



DEER HORN CAPITAL INC.

FINANCIAL STATEMENTS

For the three months ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

NOTICE TO READER

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

The condensed consolidated interim financial statements for the Company for the first quarter ended October 31, 2020 have been prepared for and are the responsibility of the Company's management.

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

DEER HORN CAPITAL INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars) *(unaudited)*

| | Note | Oct. 31, 2020 | July 31, 2020 |
|--|------|-------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Cash | | \$ 65,104 | \$ 120,292 |
| Receivables | 3 | 14,016 | 11,700 |
| Prepaid expenses | 4 | 21,622 | 22,549 |
| | | <u>100,742</u> | <u>154,541</u> |
| Equipment | 5 | 4,467 | 4,702 |
| Right-of-use asset | 6 | 3,266 | 5,330 |
| Reclamation deposit | 7 | 85,212 | 85,212 |
| Investment in an associated company | 9 | 43,460 | 43,460 |
| | | <u>\$ 237,147</u> | <u>\$ 293,245</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 10 | \$ 120,740 | \$ 153,757 |
| Lease liability | 6 | 3,973 | 5,942 |
| Loans payable | 11 | 182,000 | 207,000 |
| Due to related parties | 13 | 244,294 | 231,544 |
| | | <u>551,007</u> | <u>598,243</u> |
| Shareholders' Deficiency | | | |
| Share capital | 12 | 15,325,514 | 15,262,754 |
| Share-based payments reserve | | 499,756 | 545,347 |
| Share subscriptions | | 93,840 | 13,840 |
| Deficit | | (16,232,970) | (16,126,939) |
| | | <u>(313,860)</u> | <u>(304,998)</u> |
| | | <u>\$ 237,147</u> | <u>\$ 293,245</u> |

Nature of Operations and Going Concern (Note 1)

Contingencies (Note 15)

Subsequent Events (Note 18)

On behalf of the Board:

"Tyrone Docherty"
Director

"Tony Fogarassy"
Director

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

DEER HORN CAPITAL INC.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars) (*unaudited*)
For the three months ended October 31,

| | Note | 2020 | 2019 |
|--|------|---------------------|--------------------|
| Expenses | | | |
| Advertising and promotion | | \$ 2,066 | \$ 1,708 |
| Consulting fees | 13 | 15,000 | 15,000 |
| Depreciation | 5,6 | 2,299 | 2,107 |
| Exploration and evaluation expenditures (recovery) | 8 | 19,548 | - |
| Interest expense | 11 | 4,625 | 4,394 |
| Investor relations and shareholder information | | 4,960 | 685 |
| Management fees | 13 | 30,000 | 30,000 |
| Office and miscellaneous | 13 | 5,511 | 5,141 |
| Professional fees | | - | 5,820 |
| Regulatory and filing fees | | 3,818 | 3,342 |
| Share-based payments (recovery) | - | 17,169 | - |
| Travel | | 1,035 | - |
| Loss and comprehensive loss for the year | | \$ (106,031) | \$ (68,197) |
| Basic and diluted loss per share | | \$ - | \$ - |
| Weighted average shares outstanding | | 24,253,168 | 16,010,931 |

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

DEER HORN CAPITAL INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(Expressed in Canadian Dollars)

| | Number of common shares | Share Capital | Share Subscriptions | Share-based payments reserve | Deficit | Total shareholders' deficiency |
|---|-------------------------------|----------------------|------------------------|---------------------------------|------------------------|-----------------------------------|
| Balance, July 31, 2019 | 16,010,931 | \$ 14,509,125 | \$ 5,250 | \$ 236,264 | \$ (15,264,936) | \$ (514,297) |
| Share subscriptions | - | - | 10,000 | - | - | 10,000 |
| Loss and comprehensive loss for the period | - | - | - | - | (68,197) | (68,197) |
| Balance, October 31, 2019 | 16,010,931 | \$ 14,509,125 | \$ 15,250 | \$ 236,264 | \$ (15,333,133) | \$ (572,494) |
| Balance, July 31, 2020 | 28,443,431 | \$ 15,262,754 | \$ 13,840 | \$ 545,347 | \$ (16,126,939) | \$ (304,998) |
| Reversal of expired warrants | - | 62,760 | - | (62,760) | - | - |
| Share based compensation | - | - | - | 17,169 | - | 17,169 |
| Share subscriptions | - | - | 80,000 | - | - | 80,000 |
| Loss and comprehensive loss for the period | - | - | - | - | (106,031) | (106,031) |
| Balance, October 31, 2020 | 28,443,431 | \$ 15,325,154 | \$ 93,840 | \$ 499,756 | \$ (16,232,970) | \$ (313,860) |

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

DEER HORN CAPITAL INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars) *(unaudited)*
For the three months ended July 31,

| | 2020 | 2019 |
|--|------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the period | \$ (106,031) | \$ (68,197) |
| Items not involving cash: | | |
| Depreciation | 2,299 | 2,107 |
| Share-based payments | 17,169 | - |
| Interest expense | 4,625 | 18,826 |
| Changes in non-cash working capital balances: | | |
| Decrease (increase) in receivables | (2,316) | (1,334) |
| Decrease (increase) in prepaid expenses | 927 | 2,144 |
| Increase (decrease) in due to related party | 12,750 | 50,250 |
| Increase (decrease) in accounts payable and accrued liabilities | (37,412) | (16,540) |
| Cash flows used in operating activities | (107,989) | (12,744) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loan repayment | (25,000) | - |
| Lease payments | (2,199) | - |
| Share subscriptions received in advance | 80,000 | 10,000 |
| Cash flows provided from financing activities | 52,801 | 10,000 |
| Increase (decrease) in cash during period | (55,188) | (2,774) |
| Cash, beginning of period | 120,292 | 6,212 |
| Cash, end of period | \$ 65,104 | \$ 3,438 |
| Supplemental disclosure with respect to cash flows: | | |
| Cash paid for interest | - | - |
| Cash paid for income taxes | - | - |
| Supplemental non-cash investing and financing activities: | | |
| Transfer expired warrants to share capital | \$ 62,760 | \$ - |

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

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

Deer Horn Capital Inc. (“Deer Horn” or the “Company”) was incorporated under the *Business Corporations Act* (Canada) and continued into British Columbia pursuant to the *Business Corporations Act* (British Columbia, Canada). The Company’s head office and principal place of business is 381 – 1440 Garden Place, Delta, British Columbia, Canada. The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario, Canada and trades on the Canadian Securities Exchange under the symbol “DHC”. The Company owns interests in exploration and evaluation assets in British Columbia and its principal business is the exploration of those assets.

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. Management believes that the Company’s working capital at October 31, 2020, is not sufficient to finance operations through the next twelve months. The Company has incurred ongoing losses and has a shareholders’ deficiency. The Company’s ability to continue on a going concern basis depends on its ability to successfully raise additional financing. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The financial statements were authorized by the Board of Directors of the Company on December 30, 2020.

NOTE 2 – BASIS OF PRESENTATION

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with the accounting policies disclosed in the audited financial statements for the year ended July 31, 2020, except for newly adopted accounting policies as noted below.

These unaudited condensed interim financial statements should be read in conjunction with the most recently issued annual audited financial statements of the Company, which include information necessary or useful to understanding the Company’s business and financial statement presentation. In particular, the Company’s significant accounting policies were presented as Note 3 to the financial statements for the year ended July 31, 2020 and have been consistently applied in the preparation of these unaudited condensed interim financial statements.

NOTE 3 – RECEIVABLES

| | As at Oct. 31, 2020 | | As at July 31, 2020 |
|---|------------------------|----|------------------------|
| Amounts due from the Government of Canada pursuant to GST input tax credits | \$ 14,016 | \$ | 11,700 |
| Total | \$ 14,016 | \$ | 11,700 |

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 4 – PREPAID EXPENSES

| | As at Oct. 31, 2020 | As at July 31, 2020 |
|------------------|------------------------|------------------------|
| Prepaid expenses | \$ 21,622 | \$ 22,549 |
| Total | \$ 21,622 | \$ 22,549 |

NOTE 5 – EQUIPMENT

| Office equipment | |
|--|------------------|
| Cost: | |
| Balance at July 31, 2019 and 2018 | \$ 19,651 |
| Additions | 4,102 |
| Balance at October 31, 2020 | \$ 23,753 |
| Accumulated depreciation: | |
| Balance at July 31, 2019 | 18,788 |
| Depreciation | 263 |
| Balance at July 31, 2020 | 19,051 |
| Depreciation | 235 |
| Balance at October 31, 2020 | \$ 19,286 |
| Carrying amounts: | |
| July 31, 2020 | \$ 4,702 |
| October 31, 2020 | \$ 4,467 |

NOTE 6 – RIGHT-OF-USE ASSET AND LEASE LIABILITY

| | ROU asset | Lease liability |
|------------------------------------|-----------------|-----------------|
| Balance July 31, 2020 | \$ 5,330 | \$ 5,942 |
| Depreciation expense | (2,064) | - |
| Interest expense | - | 230 |
| Payments | - | (2,199) |
| Balance at October 31, 2020 | \$ 3,266 | \$ 3,974 |

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 7 – RECLAMATION DEPOSIT

The Company provided funding for deposits as security against potential future reclamation work related to the Deerhorn property (Note 9).

| | As at Oct. 31, 2020 | As at July 31, 2020 |
|--|------------------------|------------------------|
| Reclamation deposit: Deerhorn property | \$ 85,212 | \$ 85,212 |

NOTE 8 – EXPLORATION AND EVALUATION ASSETS

Deerhorn property

The Company owns a 50% interest in the Deerhorn property, located in north western British Columbia, acquired from a company related by virtue of common directors. It may acquire an additional 25% interest by incurring all costs required to bring the property to commercial production.

Exploration and evaluation expenditures

| | As at Oct. 31, 2020 | As at July 31, 2020 |
|--------------------------------------|------------------------|------------------------|
| Geological consulting | \$ 12,631 | \$ 10,960 |
| Other | 6,917 | - |
| Mining tax credit recovery | - | - |
| Total exploration expense (recovery) | \$ 19,548 | \$ 10,960 |

NOTE 9 – INVESTMENT IN ASSOCIATED COMPANIES

The Company has a 49% investment in two private companies, Cheona Metals Inc. and Cheona Health Inc., which are classified as long-term investments. As the Company owns a 49% interest in each entity and maintains significant influence, but not control, the Company accounts for these investments under the equity method. Cheona Health Inc. has been dormant since incorporation.

The following table is a reconciliation of the investment in Cheona Metals Inc.:

| Investment in Cheona Metals Inc. | |
|---|-----------|
| Balance at July 31, 2019 | \$ 43,460 |
| Additions | - |
| Share of loss | - |
| Balance at October 31, 2020 | \$ 43,460 |

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 9 – INVESTMENT IN ASSOCIATED COMPANIES *(continued)*

The following table summarizes Cheona Metals Inc.'s statement of financial position:

| As at July 31, 2020 | |
|---------------------------------------|--------------------|
| Current assets | \$ 34,509 |
| Current liabilities | (50,000) |
| Net assets at October 31, 2020 | \$ (15,491) |

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | As at Oct. 31, 2020 | As at July 31, 2020 |
|---------------------------|--------------------------------|--------------------------------|
| Trade payables | \$ 38,470 | \$ 75,882 |
| Other accrued liabilities | 82,270 | 77,875 |
| Total | \$ 120,740 | \$ 153,757 |

NOTE 11 – LOANS PAYABLE

In fiscal 2016 the Company issued debenture loans in the principal amount of \$182,000. The loans bear an annual interest rate of 10% and mature on March 2, 2021. The Company recorded interest expense of \$18,155 (2018 - \$18,350) in relation to the accrued interest on the debenture loans and is included in accounts payable and accrued liabilities.

In fiscal 2018, the Company made the required interest payments under the loan agreements, however the Company has not received a waiver of the previous breach of terms, accordingly, the loans are presented as current. Interest payments for the further periods remain outstanding. The Company is therefore currently in default for interest payments due.

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 12 – SHARE CAPITAL

a) **Authorized:** An unlimited number of common shares without par value.

b) **Share issuance:**

Fiscal 2021

There were no share issuances during the three-month period ended October 31, 2020.

Fiscal 2020

There were no share issuances during the three-month period ended October 31, 2019.

b) **Stock Options**

The Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of no less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of ten years. Vesting may be set on an individual basis as determined by the board of directors.

As at October 31, 2020, all outstanding stock options were vested and exercisable, with a weighted average exercise price of \$0.12.

The continuity for stock options for the period ended October 31, 2020, is as follows:

| Number outstanding July 31, 2020 | Granted | Exercised | Expired/ Cancelled | Number outstanding Oct. 31, 2020 | Exercise price per share | Expiry date | Weighted average remaining contractual life in years |
|----------------------------------|---------|-----------|--------------------|----------------------------------|--------------------------|---------------------------|--|
| 120,000 | - | - | - | 120,000 | \$0.25 | June 16, 2021 | 0.64 |
| 850,000 | - | - | - | 850,000 | \$0.14 | April 5, 2028 | 7.44 |
| 100,000 | - | - | - | 100,000 | \$0.05 | January 27, 2030 | 9.25 |
| 1,050,000 | - | - | - | 1,050,000 | \$0.10 | March 6, 2030 | 9.33 |
| - | 150,000 | - | - | 150,000 | \$0.10 | August 6, 2030 | 9.77 |
| 2,120,000 | - | - | - | 2,270,000 | | <i>(weighted average)</i> | 7.52 |
| | | | | | \$0.12 | | |
| \$0.12 | \$0.10 | - | - | Exercisable 2,270,000 | \$0.12 | <i>(weighted average)</i> | 7.52 |

The continuity for stock options for the year ended October 31, 2019, is as follows:

| Number outstanding July 31, 2018 | Granted | Exercised | Expired/ Cancelled | Number outstanding Oct. 31, 2019 | Exercise price per share | Expiry date | Weighted average remaining contractual life in years |
|----------------------------------|---------|-----------|--------------------|----------------------------------|--------------------------|---------------------------|--|
| 120,000 | - | - | - | 120,000 | \$0.25 | June 16, 2021 | 1.89 |
| 850,000 | - | - | - | 850,000 | \$0.14 | April 5, 2028 | 8.69 |
| 134,000 | - | - | (134,000) | - | - | April 27, 2023 | - |
| 1,104,000 | - | - | (134,000) | 970,000 | \$0.15 | <i>(weighted average)</i> | 7.85 |
| \$0.17 | - | - | \$0.25 | Exercisable 970,000 | \$0.15 | <i>(weighted average)</i> | 7.85 |

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 12 – SHARE CAPITAL *(continued)*

c) **Share-based compensation**

The fair value of each option granted to employees, officers and directors was estimated on the date of grant using the Black-Scholes option pricing model.

Fiscal 2021

During the period ended October 31, 2020, the Company recorded \$17,169 in share based compensation pursuant to options granted.

The fair value of 150,000 options granted on August 6, 2020 with an exercise price of \$0.10 was determined using a risk free interest rate of 0.12%, an expected volatility of 177%, an expected life of ten years and an expected dividend rate of zero, resulting in a fair value of \$17,169 or \$0.11 per option.

Fiscal 2020

There was no share-based compensation recorded for the three-month period ended October 31, 2019.

d) **Share-purchase warrants:**

The continuity for share purchase warrants for the period ended October 31, 2020, is as follows:

| Number outstanding July 31, 2020 | Granted | Exercised | Expired/Cancelled | Number outstanding Oct. 31, 2020 | Exercise price per share | Expiry date | Weighted average remaining contractual life in years |
|----------------------------------|---------|-----------|-------------------|----------------------------------|--------------------------|---------------------------|--|
| 2,000,000 | - | - | - | 2,000,000 | \$0.10 | June 1, 2022 | 1.59 |
| 3,050,000 | - | - | - | 3,050,000 | \$0.10 | March 13, 2022 | 1.37 |
| 1,300,000 | - | - | - | 1,300,000 | \$0.10 | February 26, 2022 | 1.33 |
| 1,600,000 | - | - | - | 1,600,000 | \$0.10 | February 19, 2022 | 1.31 |
| 2,300,000 | - | - | - | 2,300,000 | \$0.10 | February 19, 2022 | 1.31 |
| 2,182,500 | - | - | - | 2,182,500 | \$0.10 | January 27, 2022 | 1.25 |
| 100,000 | - | - | 100,000 | - | - | August 3, 2020 | - |
| 100,000 | - | - | 100,000 | - | - | August 13, 2020 | - |
| 41,000 | - | - | 41,000 | - | - | August 29, 2020 | - |
| 12,673,500 | - | - | (241,000) | 12,432,500 | \$0.10 | <i>(weighted average)</i> | 1.36 |
| \$0.29 | - | - | - | Exercisable 12,432,500 | - | - | - |

The fair value of 2,182,500 compensatory warrants granted on January 10, 2020 with an exercise price of \$0.10 was determined using a risk free rate of 0.12%, an expected volatility of 177%, an expected life of ten years, and an expected dividend rate of zero, resulting in a fair value of \$17,169.

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 12 – SHARE CAPITAL (continued)

The continuity for share purchase warrants for the year ended October 31, 2019, is as follows:

| Number outstanding July 31, 2019 | Granted | Exercised | Expired/Cancelled | Number outstanding Oct. 31, 2019 | Exercise price per share | Expiry date | Weighted average remaining contractual life in years |
|----------------------------------|---------|-----------|-------------------|----------------------------------|--------------------------|---------------------------|--|
| 100,000 | - | - | - | 100,000 | \$0.60 | August 3, 2020 | 0.81 |
| 100,000 | - | - | - | 100,000 | \$0.60 | August 13, 2020 | 0.83 |
| 41,000 | - | - | - | 41,000 | \$0.60 | August 29, 2020 | 0.86 |
| 400,000 | - | - | - | 400,000 | \$0.25 | November 15, 2019 | 0.04* |
| 1,640,000 | - | - | - | 1,640,000 | \$0.25 | December 10, 2019 | 0.11* |
| 2,281,000 | - | - | (240,000) | Exercisable 2,040,000 | \$0.28 | <i>(weighted average)</i> | 0.08 |
| \$0.29 | - | - | \$0.60 | - | - | - | - |

*expired subsequent to period end, unexercised.

NOTE 13 – RELATED PARTY TRANSACTIONS

- a) The Company's related parties consist of companies with directors and officers in common and companies owned in whole or in part by executive officers, directors or close family members of those individuals as follows:

| Name | Nature of transactions |
|--|---|
| Docherty Capital Corp. (Tyrone Docherty) | Management fees charged as CEO, expense allowances, share-based compensation |
| Saulnier Business Consulting LLP (Pamela Saulnier) | Management fees charged as CFO, expense allowances, share-based compensation |
| Dunbar Law Corporation (Tony Fogarassy) | Consulting fees charged by a director, expense allowances, share-based compensation |
| Allen Schwabe | Directors fees |
| Matt Wayrynen | Directors fees |

The Company incurred the following fees with individuals and / or companies owned, or partially owned, by key management which the Company defines as officers and directors.

| For the period ended | Oct. 31, 2020 | July 31, 2020 |
|---|---------------|---------------|
| Management fees CEO | \$ 22,500 | \$ 22,500 |
| Management fees CFO | 7,500 | 7,500 |
| Consulting fees | 15,000 | 15,000 |
| Rent (included in office and miscellaneous) | 4,000 | - |
| Total | \$ 49,000 | \$ 45,000 |

DEER HORN CAPITAL INC.
NOTES TO THE FINANCIAL STATEMENTS
For the three months ended October 31, 2020

NOTE 13 – RELATED PARTY TRANSACTIONS *(continued)*

The Company owes amounts to key management personnel as follows:

| Three months ended October 31, | 2020 | 2019 |
|---|-------------|-------------|
| Due to key management or companies controlled by key management personnel | \$ 244,294 | \$ 231,544 |
| Total | \$ 244,294 | \$ 231,544 |

Balances owed to related parties are unsecured and non-interest bearing.

NOTE 14 – SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of exploration and evaluation assets in Canada, as described in note 9. The total assets attributable to the geographical locations relate primarily to equipment and reclamation deposits.

NOTE 15 – CONTINGENCIES

Contingencies

The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Classification of financial instruments

Financial instruments measured at fair value are classified into one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value ("FV") hierarchy has the following levels:

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and

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

The Company's financial instruments consist of cash, receivables, loan receivable, reclamation deposit, accounts payable and accrued liabilities, loans payable and due to related parties.

Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, loan receivable, reclamation deposit, accounts payable and accrued liabilities, loans payable and due to related parties approximate their fair value because of the short term nature of these instruments.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Financial instrument risk exposure and risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance. The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash, receivables and deposits. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances or debt financings. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. The Company is exposed to liquidity risk.

Interest rate risk

The Company has cash balances and debt. The Company's current policy is to invest excess cash in investment grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is marginally exposed to interest rate risk.

Foreign currency risk

The Company is not exposed to foreign currency risk.

Commodity price risk

The Company is nominally 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, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

NOTE 17 – CAPITAL MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

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

The Company does not pay out dividends at this time. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consists of cash on hand, balances with banks and investments in highly liquid instruments, if any. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents as the fair value approximates carrying value. There have been no changes to the Company's approach to capital management during the period ended October 31, 2020. The Company is not subject to externally imposed capital requirements.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent to October 31, 2020, the Company:

- a) issued 2,800,000 units for gross proceeds of \$140,000. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at a price of \$0.10 for a period of two years; and
- b) issued 1,000,000 units to settle debt of \$50,000 with a related party. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at a price of \$0.10 for a period of two years.