



## **DEER HORN CAPITAL INC.**

### **FINANCIAL STATEMENTS**

**For the six months ended January 31, 2021 and 2020**

(Expressed in Canadian Dollars)

## **NOTICE TO READER**

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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 second quarter ended January 31, 2021 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.

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

	Note	Jan. 31, 2021	July 31, 2020
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 52,093	\$ 120,292
Receivables	3	16,856	11,700
Prepaid expenses	4	21,622	22,549
		<u>90,571</u>	<u>154,541</u>
<b>Equipment</b>	5	4,244	4,702
<b>Right-of-use asset</b>	6	1,202	5,330
<b>Reclamation deposit</b>	7	85,212	85,212
<b>Investment in an associated company</b>	9	43,460	43,460
		<u>\$ 224,689</u>	<u>\$ 293,245</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 115,536	\$ 153,757
Lease liability	6	2,005	5,942
Loans payable	11	182,000	207,000
Due to related parties	13	214,044	231,544
		<u>513,585</u>	<u>598,243</u>
<b>Shareholders' Deficiency</b>			
Share capital	12	15,529,514	15,262,754
Share-based payments reserve		569,842	545,347
Share subscriptions		13,840	13,840
Deficit		(16,402,092)	(16,126,939)
		<u>(288,896)</u>	<u>(304,998)</u>
		<u>\$ 224,689</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 and six months ended January 31,**

	Note	Three months ended January 31,		Six months ended January 31,	
		2021	2020	2021	2020
<b>Operating Expenses</b>					
Advertising and promotion		1,504	14,947	3,570	16,655
Consulting fees		25,000	15,000	40,000	30,000
Depreciation	5	2,287	41	4,586	84
Exploration and evaluation Expenditures (recovery)		-	-	19,548	-
Interest expense		4,624	4,394	9,249	8,788
Investor relations and shareholder information		5,797	8,135	10,757	8,820
Loss on settlement of debt		84,086	-	84,086	-
Management fees	11	30,000	30,000	60,000	60,000
Office and miscellaneous		4,680	6,893	10,191	14,098
Professional fees		4,860	22,101	4,860	27,921
Regulatory and filing fees		5,870	6,506	9,688	9,848
Share-based payments		-	5,973	17,169	5,973
Travel		414	-	1,449	-
		(169,122)	(113,990)	(275,153)	(182,187)
<b>Loss and comprehensive loss for the period</b>					
		\$ (169,122)	\$ (113,990)	\$ (275,153)	\$ (182,187)
<b>Basic and diluted loss per share</b>					
		\$ (0.005)	\$ (0.01)	\$ (0.01)	\$ (0.01)
<b>Weighted average shares outstanding</b>					
		31,573,101	16,520,181	29,991,257	16,260,021

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
<b>Balance, July 31, 2019</b>	<b>16,010,931</b>	<b>\$ 14,509,125</b>	<b>\$ 5,250</b>	<b>\$ 236,264</b>	<b>\$ (15,264,936)</b>	<b>\$ (514,297)</b>
Shares for debt	2,182,500	109,125	-	-	-	109,125
Share subscriptions	-	-	82,895	-	-	82,895
Stock options granted	-	-	-	5,973	-	5,973
Loss and comprehensive loss for the period	-	-	-	-	(182,187)	(182,187)
<b>Balance, January 31, 2020</b>	<b>16,010,931</b>	<b>\$ 14,618,250</b>	<b>\$ 88,145</b>	<b>\$ 242,237</b>	<b>\$ (15,447,123)</b>	<b>\$ (498,491)</b>
<b>Balance, July 31, 2020</b>	<b>28,443,431</b>	<b>\$ 15,262,754</b>	<b>\$ 13,840</b>	<b>\$ 545,347</b>	<b>\$ (16,126,939)</b>	<b>\$ (304,998)</b>
Private placement	2,800,000	134,000	-	6,000	-	140,000
Shares for debt	1,000,000	70,000	-	64,086	-	134,086
Reversal of expired warrants	-	62,760	-	(62,760)	-	-
Share based compensation	-	-	-	17,169	-	17,169
Loss and comprehensive loss for the period	-	-	-	-	(275,153)	(275,153)
<b>Balance, January 31, 2021</b>	<b>32,243,431</b>	<b>\$ 15,529,514</b>	<b>\$ 13,840</b>	<b>\$ 569,842</b>	<b>\$ (16,402,092)</b>	<b>\$ (288,896)</b>

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 six months ended January 31,**

	<b>2021</b>	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (275,153)	\$ (182,187)
Items not involving cash:		
Depreciation	4,586	84
Share-based payments	17,169	5,973
Interest expense	9,249	-
Loss on settlement of debt	84,086	
Changes in non-cash working capital balances:		
Decrease (increase) in receivables	(5,156)	(739)
Decrease (increase) in prepaid expenses	927	3,557
Increase (decrease) in due to related party	(17,500)	13,453
Increase (decrease) in accounts payable and accrued liabilities	(38,221)	(5,971)
Cash flows used in operating activities	(220,013)	(165,830)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of share capital	181,212	109,125
Loan repayment	(25,000)	
Lease payments	(4,398)	-
Share subscriptions received in advance	-	82,895
Cash flows provided from financing activities	151,814	192,020
<b>Increase (decrease) in cash during period</b>	<b>(68,199)</b>	<b>29,190</b>
<b>Cash, beginning of period</b>	<b>120,292</b>	<b>6,212</b>
<b>Cash, end of period</b>	<b>\$ 52,093</b>	<b>\$ 32,402</b>
<b>Supplemental non-cash investing and financing activities:</b>		
Transfer expired warrants to share capital	\$ 62,760	\$ -
Shares issued for debt settlement	50,000	-

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

**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended January 31, 2021**

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**NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN**

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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 January 31, 2021, 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 March 30, 2021.

**NOTE 2 – BASIS OF PRESENTATION**

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**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**

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	As at Jan. 31, 2021		As at July 31, 2020
Amounts due from the Government of Canada pursuant to GST input tax credits	\$ 16,856	\$	11,700
Total	\$ 16,856	\$	11,700

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**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the six months ended January 31, 2021

**NOTE 4 – PREPAID EXPENSES**

	As at Jan. 31, 2021	As at July 31, 2020
Prepaid expenses	\$ 21,622	\$ 22,549
Total	\$ 21,622	\$ 22,549

**NOTE 5 – EQUIPMENT**

Office equipment	
<b>Cost:</b>	
<b>Balance at July 31, 2019</b>	\$ 19,651
Additions	4,102
<b>Balance at July 31, 2020 and January 31, 2021</b>	\$ 23,753
<b>Accumulated depreciation:</b>	
<b>Balance at July 31, 2019</b>	18,788
Depreciation	263
<b>Balance at July 31, 2020</b>	19,051
Depreciation	458
<b>Balance at January 31, 2021</b>	\$ 19,509
<b>Carrying amounts:</b>	
<b>July 31, 2020</b>	\$ 4,702
<b>January 31, 2021</b>	\$ 4,244

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

	ROU asset	Lease liability
<b>Balance July 31, 2020</b>	\$ 5,330	\$ 5,942
Depreciation expense	(4,128)	-
Interest expense	-	460
Payments	-	(4,397)
<b>Balance at January 31, 2021</b>	\$ 1,202	\$ 2,005



**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended January 31, 2021**

**NOTE 7 – RECLAMATION DEPOSIT**

The Company provided funding for deposits as security against potential future reclamation work related to the Deerhorn property (Note 8).

	As at Jan. 31, 2021	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 Jan. 31, 2021	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.:

<b>Investment in Cheona Metals Inc.</b>	
<b>Balance at July 31, 2019</b>	\$ 43,460
Additions	-
Share of loss	-
<b>Balance at January 31, 2021</b>	\$ 43,460

**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended January 31, 2021**

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

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

<b>As at July 31, 2020</b>	
Current assets	\$ 34,509
Current liabilities	(50,000)
<b>Net assets at January 31, 2021</b>	<b>\$ (15,491)</b>

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**NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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	<b>As at Jan. 31, 2021</b>	<b>As at July 31, 2020</b>
Trade payables	\$ 57,509	\$ 75,882
Other accrued liabilities	60,032	77,875
<b>Total</b>	<b>\$ 117,541</b>	<b>\$ 153,757</b>

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**NOTE 11 – LOANS PAYABLE**

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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.

**NOTE 12 – SHARE CAPITAL**

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

b) **Share issuance:**

**Fiscal 2021**

On November 6, 2020, the Company completed a debt settlement transaction, issuing 1,000,000 units to settle debt of \$50,000. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.10 per share for a period of two years. The common shares were issued with a fair value of \$70,000 and the warrants were issued with a fair value of \$64,086. The Company recognized a loss of \$84,086 on the settlement of debt.

On November 6, 2020, the Company completed the first tranche of a non-brokered private placement, issuing 1,600,000 units at a price of \$0.05 per unit for total proceeds of \$80,000. Each unit consisted of one common share and one common share purchase warrant exercisable at \$ per share for a period of two years. No value was attributed to the warrant portion of the units.

On December 11, 2020, the Company completed the second and final tranche of a non-brokered private placement, issuing 1,200,000 units at a price of \$0.05 per unit for total proceeds of \$60,000. Each unit consisted of one common share and one common share purchase warrant exercisable at \$ per share for a period of two years. A value of \$6,000 was attributed to the warrant portion of the units.

**Fiscal 2020**

On January 10, 2020, completed a debt settlement transaction, issuing 2,182,500 units at a deemed price of \$0.05 per unit to retire \$108,125 of existing debt payable to consultants, lenders and other creditors, including insiders. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.10 per share for a period of two years.

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 January 31, 2021, all outstanding stock options were vested and exercisable, with a weighted average exercise price of \$0.12.

**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the six months ended January 31, 2021

**NOTE 12 – SHARE CAPITAL** *(continued)*

The continuity for stock options for the period ended January 31, 2021, is as follows:

Number outstanding July 31, 2020	Granted	Exercised	Expired/Cancelled	Number outstanding Jan. 31, 2021	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
120,000	-	-	-	<b>120,000</b>	\$0.25	June 16, 2021	0.39
850,000	-	-	-	<b>850,000</b>	\$0.14	April 5, 2028	7.19
100,000	-	-	-	<b>100,000</b>	\$0.05	January 27, 2030	8.71
1,050,000	-	-	-	<b>1,050,000</b>	\$0.10	March 6, 2030	9.08
-	150,000	-	-	<b>150,000</b>	\$0.10	August 6, 2030	9.52
2,120,000	-	-	-	<b>2,270,000</b>	\$0.12	<i>(weighted average)</i>	7.93
				Exercisable			
\$0.12	\$0.10	-	-	<b>2,270,000</b>	\$0.12	<i>(weighted average)</i>	-

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

Number outstanding July 31, 2019	Granted	Exercised	Expired/Cancelled	Number outstanding Jan. 31, 2020	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
120,000	-	-	-	<b>120,000</b>	\$0.25	June 16, 2021	1.89
850,000	-	-	-	<b>850,000</b>	\$0.14	April 5, 2028	8.69
-	100,000	-	-	<b>100,000</b>	\$0.05	January 27, 2030	9.71
970,000	100,000	-	-	<b>1,070,000</b>	\$0.14	<i>(weighted average)</i>	7.85
				Exercisable			
\$0.15	\$0.05	-	-	<b>1,070,000</b>	\$0.14	<i>(weighted average)</i>	7.85

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 January 31, 2021, 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**

During the six-month period ended January 31, 2020, the Company recorded \$5,973 in share-based compensation for options granted to a consultant on January 27, 2020.

**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the six months ended January 31, 2021

**NOTE 12 – SHARE CAPITAL** *(continued)*

c) **Share-purchase warrants:**

The continuity for share purchase warrants for the period ended January 31, 2021, is as follows:

Number outstanding July 31, 2020	Granted	Exercised	Expired/Cancelled	Number outstanding Jan. 31, 2021	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
2,182,500	-	-	-	<b>2,182,500</b>	\$0.10	January 27, 2022	1.00
3,050,000	-	-	-	<b>3,050,000</b>	\$0.10	March 13, 2022	1.12
1,300,000	-	-	-	<b>1,300,000</b>	\$0.10	February 26, 2022	1.08
1,600,000	-	-	-	<b>1,600,000</b>	\$0.10	February 19, 2022	1.06
2,300,000	-	-	-	<b>2,300,000</b>	\$0.10	February 19, 2022	1.06
2,000,000	-	-	-	<b>2,000,000</b>	\$0.10	June 1, 2022	1.34
-	1,000,000	-	-	<b>1,000,000</b>	\$0.10	November 6, 2022	1.84
-	1,600,000	-	-	<b>1,600,000</b>	\$0.10	November 6, 2022	1.84
-	1,200,000	-	-	<b>1,200,000</b>	\$0.10	December 11, 2022	1.87
100,000	-	-	100,000	-	-	August 3, 2020	-
100,000	-	-	100,000	-	-	August 13, 2020	-
41,000	-	-	41,000	-	-	August 29, 2020	-
12,673,500	3,800,000	-	(241,000)	<b>16,232,500</b>	\$0.10	<i>(weighted average)</i>	1.28
\$0.29	\$0.10	-	-	Exercisable <b>16,232,500</b>	-	-	\$0.10

The fair value of 2,182,500 compensatory warrants granted on December 11, 2020 with an exercise price of \$0.10 was determined using a risk free rate of 0.02%, an expected volatility of 255%, an expected life of two years, and an expected dividend rate of zero, resulting in a fair value of \$64,086.

The continuity for share purchase warrants for the year ended January 31, 2020, is as follows:

Number outstanding July 31, 2019	Granted	Exercised	Expired/Cancelled	Number outstanding Jan. 31, 2020	Exercise price per share	Expiry date	Weighted average remaining contractual life in years
100,000	-	-	-	<b>100,000</b>	\$0.60	August 3, 2020	0.51
100,000	-	-	-	<b>100,000</b>	\$0.60	August 13, 2020	0.53
41,000	-	-	-	<b>41,000</b>	\$0.60	August 29, 2020	0.58
-	2,182,000	-	-	<b>2,182,000</b>	\$0.10	January 27, 2022	1.71
400,000	-	-	(400,000)	-	-	November 15, 2019	-
1,640,000	-	-	(1,640,000)	-	-	December 10, 2019	-
2,281,000	2,182,500	-	(2,040,000)	Exercisable <b>2,423,500</b>	\$0.15	<i>(weighted average)</i>	1.47
\$0.29	\$0.10	-	\$0.25	-	-	-	\$0.15

**DEER HORN CAPITAL INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended January 31, 2021**

**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:

<b>Name</b>	<b>Nature of transactions</b>
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.

<b>For the period ended</b>	<b>Jan. 31, 2021</b>	<b>July 31, 2020</b>
Management fees CEO	\$ 45,000	\$ 45,000
Management fees CFO	15,000	15,000
Directors fees	10,000	-
Consulting fees	30,000	30,000
Rent (included in office and miscellaneous)	9,000	-
<b>Total</b>	<b>\$ 109,000</b>	<b>\$ 90,000</b>

The Company owes amounts to key management personnel as follows:

<b>Six months ended January 31,</b>	<b>2021</b>	<b>2020</b>
Due to key management or companies controlled by key management personnel	\$ 214,044	\$ 258,687
<b>Total</b>	<b>\$ 214,044</b>	<b>\$ 258,687</b>

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 8. The total assets attributable to the geographical locations relate primarily to equipment and reclamation deposits.

## **NOTE 15 – CONTINGENCIES**

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### **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.

In January 2021, the Issuer was provided with information relating to a potential previously undisclosed NSR on the property. Management is seeking further information and clarification and will issue a news release if and when it is determined this is a valid charge against the property.

## **NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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### **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.

### **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.

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

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**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**

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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 January 31, 2021. The Company is not subject to externally imposed capital requirements.

**NOTE 18 – SUBSEQUENT EVENTS**

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Subsequent to January 31, 2021, the Company:

- a) acquired a purchase option with Colorado Klondike LLC on a tellurium-gold-silver property (the "Klondike Property") located in south-central Colorado. The terms of the Deer Horn-Colorado Klondike LLC agreement include consideration for an aggregate of US\$260,000 cash and Deer Horn incurring an aggregate of US\$300,000 in exploration expenses on the property within five years, at which time the option may be fully exercised upon payment of an additional up to US\$1,500,000. Upon full exercise of the option the Company will grant the vendor a 3% NSR, with the right to buy-back a 1% NSR upon payment of US\$1,000,000. The Company will also be required to pay an advance royalty payment of US\$60,000/year commencing on the first anniversary of the exercise of the option.
- b) announced that its 51% Indigenous partner Cheona Metals Inc. staked two mineral claims totaling 2,403 hectares on the ancestral lands of the Dease River First Nation, a Kaska Nation community at Good Hope Lake in northern British Columbia.