

**SILVER PHOENIX RESOURCES INC.**

(An Exploration Stage Company)

Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

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**INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of Silver Phoenix Resources Inc.

**Opinion**

We have audited the financial statements of Silver Phoenix Resources Inc. (the "Company") which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the 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 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 accompanying financial statements, which describes matters that indicate the existence of a material uncertainty 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, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 audits. We also:

- Identify and assess the risks of material misstatement of the 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 auditors' report is Joseph Bonvillain.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

April 27, 2020

**SILVER PHOENIX RESOURCES INC.**

## Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Current Assets		
Cash	\$ 8,724	\$ 429,297
Amounts receivable	19,652	9,982
Marketable securities (Note 5)	1	1
	<b>28,377</b>	439,280
Non-current Assets		
Exploration and evaluation assets (Note 7)	1	3
Equipment (Note 6)	-	392
<b>Total Assets</b>	<b>\$ 28,378</b>	<b>\$ 439,675</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 62,769	\$ 351,553
Deferred flow-through premium (Note 9)	-	23,125
	<b>62,769</b>	374,678
<b>Equity (Deficiency)</b>		
Share capital (Note 8)	3,010,579	1,737,454
Subscriptions received (Note 8)	-	1,250,000
Equity reserve (Note 8)	363,699	363,699
Deficit	(3,408,669)	(3,286,156)
	<b>(34,391)</b>	64,997
<b>Total Liabilities and Equity</b>	<b>\$ 28,378</b>	<b>\$ 439,675</b>

Nature and continuance of operations (Note 1)

Commitments (Note 14)

Approved on Behalf of the Board on April 27, 2020:

"Scott Ackerman"

Scott Ackerman – CEO/Director

"Doug McFaul"

Doug McFaul – CFO/Director

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

**SILVER PHOENIX RESOURCES INC.**Statements of Loss and Comprehensive Loss  
(Expressed in Canadian dollars)

	For the years ended December 31,	
	2019	2018
<b>Expenses</b>		
Depreciation	\$ 392	\$ 132
General and administrative	891	3,165
Interest and penalties	-	7,475
Management fees	144,000	118,402
Professional fees	20,136	62,454
Share-based compensation	-	247,000
Transfer agent and filing fees	38,283	13,265
Travel	131	3,031
<b>Loss before other items</b>	<b>(203,833)</b>	<b>(454,924)</b>
<b>Other items</b>		
Expense recoveries (Note 9)	51,322	-
Gain on settlement of debt (Note 10)	29,998	-
Interest income	-	110
Write down of mineral properties	-	(768,606)
<b>Net loss and comprehensive loss</b>	<b>\$ (122,513)</b>	<b>(1,223,420)</b>
<b>Weighted average number of common shares outstanding</b>	<b>34,574,328</b>	<b>13,554,428</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.09)</b>

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

**SILVER PHOENIX RESOURCES INC.**

## Statements of Changes in Equity (Deficiency)

(Expressed in Canadian dollars)

	Number of Common Shares <sup>1</sup>	Share Capital	Subscriptions Received	Equity Reserve	Deficit	Total Shareholders' Equity (Deficiency)
<b>Balance, December 31, 2017</b>	13,488,878	\$ 1,728,029	-	\$ 106,124	\$ (2,062,736)	\$ (228,583)
Shares issued (Note 8)	68,966	9,425	-	10,575	-	20,000
Subscriptions received	-	-	1,250,000	-	-	1,250,000
Share-based compensation	-	-	-	247,000	-	247,000
Net loss and comprehensive loss	-	-	-	-	(1,223,420)	(1,223,420)
<b>Balance, December 31, 2018</b>	13,557,844	\$ 1,737,454	\$ 1,250,000	\$ 363,699	\$ (3,286,156)	\$ 64,997
Shares issued (Note 8)	25,000,000	1,250,000	(1,250,000)	-	-	-
Deferred flow-through premium adjustment (Note 9)	-	23,125	-	-	-	23,125
Net loss and comprehensive loss	-	-	-	-	(122,513)	(122,513)
<b>Balance, December 31, 2019</b>	<b>38,557,844</b>	<b>\$ 3,010,579</b>	<b>-</b>	<b>\$ 363,699</b>	<b>\$ (3,408,669)</b>	<b>\$ (34,391)</b>

<sup>1</sup>All share information has been retroactively adjusted to reflect the February 28, 2019 1.45 old for 1 new common share consolidation.

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

**SILVER PHOENIX RESOURCES INC.**

## Statements of Cash Flows

(Expressed in Canadian dollars)

	For the years ended December 31,	
	2019	2018
<b>Cash (used in) provided by:</b>		
<b>Operating Activities</b>		
Loss for the year	\$ (122,513)	\$ (1,223,420)
Items not affecting cash:		
Depreciation	392	132
Expense recoveries	(51,322)	-
Gain on settlement of debt	(29,998)	-
Share-based compensation	-	247,000
Write down of mineral properties	-	768,606
Changes in non-cash working capital items:		
Amounts receivable	(9,672)	(9,110)
Accounts payables and accrued liabilities	(207,464)	(643,412)
	(420,577)	(860,204)
<b>Investing Activities</b>		
Reclamation bond	-	10,110
Exploration and evaluation expenditures	-	(14,506)
	-	(4,396)
<b>Financing Activities</b>		
Shares issued for cash	-	20,000
Share subscriptions received	-	1,250,000
	-	1,270,000
<b>Change in cash for the year</b>	<b>(420,577)</b>	<b>405,400</b>
Cash, beginning of the year	429,297	23,897
<b>Cash, end of the year</b>	<b>\$ 8,724</b>	<b>\$ 429,297</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ -	\$ -
Income taxes	\$ -	\$ -

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

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Silver Phoenix Resources Inc. (the "Company") was incorporated on February 14, 2003 under the Company Act (British Columbia). The Company is an exploration stage company engaged in acquiring, exploring and developing mineral properties, principally located in British Columbia, Canada. The Company is listed on the Canadian Securities Exchange, under the trading symbol SP. The address of the Company's corporate office and principal place of business is 1600 – 609 Granville Street, Vancouver, BC V7Y 1C3, and the registered and records office is located at 2200 – 885 West Georgia Street, Vancouver, BC V6C 3E8.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. As of December 31, 2019, the Company has not generated revenues from its principal activities and is considered to be in the exploration stage.

Going Concern

These financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception, has a working capital deficit of \$34,392 and an accumulated deficit of \$3,408,669 at December 31, 2019. The Company has no source of operating cash flows and expects to incur further losses in the exploration and development of its mineral properties. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. The Company's continuing operations, and the recoverability of the amounts shown for exploration and evaluation assets are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests. The Company has been successful in the past in raising funds for operations by issuing shares but there is no assurance that it will be able to continue to do so in the future.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.



**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**2. BASIS OF PRESENTATION**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB"). The financial statements have been prepared on an accrual basis and are based on historical costs, modified for specific financial instruments at fair value where applicable. These financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

The Company's financial statements were authorized for issue by the Board of Directors on April 27, 2020.

**3. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES**

The preparation of these financial statements in conformity of IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously 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. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements is described below:

Exploration and Evaluation Expenditure

The application of the Company's accounting policy for deferred development expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumption about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**3. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES (CONTINUED)**Share-based Compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Recovery of Deferred Tax Assets

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimate of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operations could limit the ability of the Company to obtain tax deductions in future periods.

**4. SIGNIFICANT ACCOUNTING POLICIES****a. Cash and equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

**b. Marketable securities**

Investments in shares of public companies traded on an active market over which the Company does not have control or exercises significant influence are classified as available-for-sale and accounted for at fair market value, based upon quote market share prices at the balance sheet date. Unrealized gains or losses on these investments are recorded as other comprehensive income or loss, unless a decline in value is considered to be other than temporary. Purchases and sales of investment are measured on a settlement date basis.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## c. Measurement basis

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 4(l). All amounts are expressed in Canadian dollars unless otherwise stated.

## d. Exploration and evaluation assets

All expenditures related to the cost of exploration and evaluation of mineral resources including acquisition costs for interests in mineral claims are capitalized as mineral properties exploration and classified as intangible assets. General exploration costs not related to specific mineral properties are expensed as incurred. When shares are issued as part of mineral property exploration costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determined.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Impairment is assessed at the level of cash generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full be development or sale.

The recoverability of mineral properties and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

Mineral properties are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized, however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount. Payments on mineral property Option Agreements are made at the discretion of the Company and, accordingly, are recorded on a cash basis.

e. Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any 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 the 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.

When 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.

f. Government assistance

B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property. Until such time that there is significant uncertainty with regard to collections and assessments, the Company will record any recovered tax credits at the time of receipt. No gain or loss is realized during the exploration stage until all carrying costs of the specific interest have been offset.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## g. Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is recorded over the estimated useful life of the equipment using the declining balance method at the following annual rates (one-half of these rates is applied in the year of acquisition):

Computer equipment	30%
Equipment	20%

## h. Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As at December 31, 2019, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

## i. Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

## j. Flow-through shares

Canadian tax legislation permits a company to issue flow-through instruments whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the company.

Flow-through shares are recognized in share capital based on the fair value attributed to common shares without a flow-through feature on the date the Company and the investors agree to the transaction. The difference ("premium") between the amount recognized in common shares and the amount the investors pay for the flow-through shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represents the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****k. Share-based payment**

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

**l. Loss per share**

The Company presents basic and diluted loss per share data 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 does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

**m. Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets – Classification**

The Company classifies its financial assets in the following categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income ("OCI"), or through profit or loss), and
- Those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 - Unadjusted quoted prices 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 or indirectly; and

Level 3 - Inputs for the asset or liability that are not based upon observable market data.

Cash and marketable securities are carried at fair value using a level 1 fair value measurement.

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.

Financial assets - Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest method.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- Fair value through OCI ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Statement of Loss and Comprehensive Loss in the period in which it arises.

Cash and marketable securities are measured at FVTPL. The Company has not designated any financial assets as amortized cost and FVOCI.

Financial liabilities

The Company classifies its financial liabilities into the following categories:

- Financial liabilities at FVTPL; and
- Amortized cost.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of the change in the fair value is presented in profit or loss.

The Company does not designate any financial liabilities at FVTPL. The Company has designated its accounts payable at amortized cost.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.



**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## n. Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. 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 year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities and are expected to reverse using tax rates and laws enacted or substantively enacted at the balance sheet date which are expected to apply in the period of reversal.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction.

## o. Adoption of New Accounting Pronouncements

The adoption of the following new or revised accounting standards did not have a material impact on the Company's financial statements:

- IFRS 16 "Leases"

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**5. MARKETABLE SECURITIES**

As at December 31, 2019, the Company owns 475,000 common shares (2018 - 475,000 shares) of Armadillo Resources Ltd. During the year ended December 31, 2013, the shares of Armadillo Resources Ltd. were halted from trading. As a result, the marketable securities were written down to \$1.

**6. EQUIPMENT**

	Cost	Accumulated Depreciation	Net Book value December 30, 2019	Net Book value December 31, 2018
	\$	\$	\$	\$
Computer equipment	6,748	6,748	-	193
Equipment	2,877	2,877	-	199
<b>Total</b>	<b>9,625</b>	<b>9,625</b>	<b>-</b>	<b>392</b>

During the year ended December 31, 2019, there were no equipment additions.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**7. EXPLORATION AND EVALUATION ASSETS**

<b>December 31, 2019</b>	Big Showing	Waverley Tangier	River Jordan	Total
	\$	\$	\$	\$
Acquisition costs:				
Opening balance, January 1, 2019	1	1	1	3
Write-down	-	(1)	(1)	(2)
<b>Balance, December 31, 2019</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

<b>December 31, 2018</b>	Big Showing	Waverley Tangier	River Jordan	Tolstoi/ Lichens	Total
	\$	\$	\$	\$	\$
Acquisition costs:					
Opening balance, January 1, 2018	1	1	3,001	85,750	88,753
Write-down	-	-	(3,000)	(85,750)	(88,750)
	1	1	1	-	3
Exploration and evaluation costs:					
Opening balance, January 1, 2018	82,488	86,622	383,463	114,523	667,096
Geologist fees and assays	-	-	-	14,506	14,506
Write-down	(82,488)	(86,622)	(383,463)	(129,029)	(681,602)
	-	-	-	-	-
Tangible equipment:					
Opening balance, January 1, 2018	-	-	-	(1,746)	(1,746)
Write-down	-	-	-	1,746	1,746
	-	-	-	-	-
<b>Balance, December 31, 2018</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>3</b>

## **SILVER PHOENIX RESOURCES INC.**

### Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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## **7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

The Company's mineral properties are described as follows:

### Big Showing Property, British Columbia

On February 14, 2003, the Company entered into an agreement to acquire a 100% interest in the Big Showing property for mineral claims for a total area of 1,000 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the former President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006.

During the year ended December 31, 2018, due to a lack of available funding, the Company temporarily ceased exploration of the Big Showing Property and considered to instead explore opportunities to sell the property. Accordingly, the Company wrote the property down to \$1 by recording an impairment charge of \$82,488 against the carrying value of the property.

The Company continues to actively pursue opportunities to sell the property, and, dependent upon the availability of funding, is also considering plans to recommence further exploration activities. During the year ended December 31, 2019, the Company made a payment instead of exploration and development work of \$2,855 to the Ministry of Finance in order to keep the claims in good standing, and this amount is included in expenses in net loss.

### Waverley-Tangier Property, British Columbia

On March 15, 2004, the Company entered into an agreement to acquire a 100% interest in the Waverley-Tangier Property for mineral claims for a total area of 5,675 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the former President and director of the Company and 10% from an individual who became a director of the Company on November 1, 2006. As at December 31, 2018, the mineral claims were held for the Company in trust by the former President of the Company.

During the year ended December 31, 2018, due to a lack of available funding, the Company temporarily ceased exploration of the Waverley-Tangier Property and considered to instead explore opportunities to sell the property. Accordingly, the Company wrote the property down to \$1 by recording an impairment charge of \$86,622 against the carrying value of the property. On October 17, 2019, the Company transferred ownership of this property to the former President of the Company as part of a debt-settlement agreement. See Note 10.

### River Jordan Property, British Columbia

On March 16, 2006, the Company entered into an agreement to acquire a 100% interest in the River Jordan Property for mineral claims for a total area of 649 hectares in the Revelstoke Mining Division of British Columbia. The Company acquired 90% of the property from the former President and

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**7. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

director of the Company and 10% from an individual who became a director of the Company on November 1, 2006. As at December 31, 2018, the mineral claims were held for the Company in trust by the former President of the Company.

During the year ended December 31, 2018, due to a lack of available funding, the Company temporarily ceased exploration of the River Jordan Property and considered to instead sell the property. Accordingly, the Company wrote the property down to \$1 by recording an impairment charge of \$386,463 against the carrying value of the property. On October 17, 2019, the Company transferred ownership of this property to the former President of the Company as part of a debt-settlement agreement. See Note 10.

Tolstoi and Lichens Properties, Alaska, USA

On October 6, 2014, the Company entered into purchase agreement with Alaska Ventures Inc., a company controlled by the former President of the Company, to acquire a 100% interest in two mineral property claim groups located in the Alaska Mining Division, USA known as the Tolstoi and Lichens properties by issuing 8,500,000 common shares. These shares were issued on October 16, 2014 and were valued at \$85,000 based upon the stock price on issuance. During the year ended December 31, 2018, the Company had discontinued its exploration and activities with the Tolstoi and Lichens Properties and retains no ownership. Accordingly, the Company wrote the property down to \$nil by recording an impairment charge of \$213,033 against the carrying value of the property.

**8. SHARE CAPITAL****(a) Authorized**

Unlimited common shares without par value

**(b) Shares issued**

On February 28, 2019, pursuant to a non-brokered private placement, the Company issued 25,000,000 units at \$0.05 per unit for gross proceeds of \$1,250,000. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.075 per common share until February 28, 2024. The Company collected the proceeds during the year ended December 31, 2018.

On March 12, 2018, the Company closed a non-brokered private placement of 68,966 units of the Company at the price of \$0.29 per unit for gross proceeds of \$20,000. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase an additional common share at \$0.36 per share until March 12, 2023. The fair value of the warrants was calculated to be \$10,575 based on the residual method and was recorded in equity reserves.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**8. SHARE CAPITAL (CONTINUED)**

	Number of Common shares
Balance as at December 31, 2017	13,488,878
Private placement	68,966
Balance as at December 31, 2018	13,557,844
Private placement	25,000,000
<b>Balance as at December 31, 2019</b>	<b>38,557,844</b>

**(c) Share consolidation**

On February 28, 2019, the Company completed a consolidation of the Company's shares on a 1.45 for 1 new share basis. All share and per share information has been retroactively adjusted to reflect the share consolidation.

**(d) Stock options**

The Company has a stock option plan whereby the maximum number of shares subject to the plan, in the aggregate, shall not exceed 10% of the Company's issued and outstanding shares. The maximum term of any option will be five years and the vesting is at the direction of the board, however, options granted to consultants performing "investor relations' activities" must at a minimum vest in stages over a period of not less than twelve months, with no more than ¼ of the options vesting in any three month period or such longer period as the board determines. The exercise price shall be no less than the discount market price as determined in accordance with stock exchange on which the common shares are listed.

On December 14, 2018, the Company granted 1,310,344 stock options to directors, officers and a consultant of the Company. The stock options have an exercise price of \$0.145 and a life of five years. The stock options vested immediately upon grant. The fair value of the options of \$247,000 was estimated using the Black-Scholes option-pricing model assuming an expected life of 5 years, grant date share price of \$0.13, dividend rate of 0.00%, a risk-free interest rate of 2.04% and an expected volatility of 351%.

A summary of the Company's stock option activity is as follow:

	Number of stock options	Weighted average exercise price
<b>Balance, December 31, 2017</b>	-	\$ -
Granted	1,310,344	0.145
<b>Balance as at December 31, 2018 and 2019</b>	<b>1,310,344</b>	<b>\$ 0.145</b>

As at December 31, 2019, outstanding and exercisable options were as follows:

Grant Date	Number of Options	Exercise Price	Expiry date	Weighted average contractual life (years)
December 14, 2018	1,310,444	\$ 0.145	December 14, 2023	3.96

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**8. SHARE CAPITAL (CONTINUED)****(e) Warrants**

On February 28, 2019, all prior outstanding share purchase warrants were cancelled by mutual agreement.

On February 28, 2019, as part of a non-brokered private placement the Company issued 25,000,000 share purchase warrants, with each warrant entitling the holder to acquire one common share at a price of \$0.075 per share until February 28, 2024.

On March 12, 2018, as part of the Company's non-brokered private placement, the Company issued 68,966 share purchase warrants with each warrant entitling the holder to purchase an additional common share at the price of \$0.36 until March 12, 2023.

A summary of the Company's share purchase warrant activity is as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance as at December 31, 2017</b>	<b>2,017,241</b>	<b>\$0.25</b>
Issued	68,966	\$0.36
<b>Balance as at December 31, 2018</b>	<b>2,086,207</b>	<b>\$ 0.25</b>
Warrants cancelled	(2,086,207)	\$ 0.25
Issued with private placement	25,000,000	\$ 0.075
<b>Balance as at December 31, 2019</b>	<b>25,000,000</b>	<b>\$ 0.075</b>

As at December 31, 2019, the following share purchase warrants were issued and outstanding:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted Average contractual life (years)</b>
25,000,000	\$ 0.075	February 28, 2024	4.33

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**9. FLOW-THROUGH PREMIUM**

During the year ended December 31, 2015, the Company issued 1,724,138 flow-through units and recognized a deferred flow-through premium of \$62,500 as the difference between the amounts recognized in common shares and the amounts the investors paid for the units. During 2015, the Company recognized \$39,375 as amortization of the deferred flow-through premium liability to other income based on the amount of eligible expenditures spent as at December 31, 2015.

The Company was unable to renounce, to the flow-through subscriber, resource expenses in an equal amount to the flow-through funds and accordingly, there was a shortfall of \$93,212 calculated as the amount of flow-through funds less the amount of resource expenses renounced to the subscriber by the Company. The Company and the flow-through subscriber agreed to an amendment to the flow-through agreement, and the subscriber agreed to refile its return and covenanted not to claim the shortfall in the future.

The amendment to the flow through agreement was accounted for in 2019 with the original flow-through premium liability of \$23,125 eliminated and adjusted to share capital because it is considered to be capital in nature based on the initial transaction which was the issuance of shares. The accrued expense liability for interest and penalties in the amount of \$49,722 is also eliminated; however it is recorded within expense recoveries in net loss because it was originally recorded as an expense provision. Therefore, in accordance with the amendment to the flow-through agreement the deferred flow-through premium and penalty provision is \$Nil as at December 31, 2019.

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Summary of expenses incurred:

Type of Service	Nature of Relationship	For the year ended	
		December 31, 2019	2018
Management fees	To William Murray (former President) and Roxann Murray (former CFO) of the Company	\$ -	\$ 92,401
<b>Total</b>		<b>\$ -</b>	<b>\$ 92,401</b>

Accounts payable includes the amounts due to related parties as follows:

	December 31, 2019	December 31, 2018
Amounts payable to former President	\$ -	\$ 40,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 40,000</b>



## **SILVER PHOENIX RESOURCES INC.**

### **Notes to the Financial Statements**

**For the years ended December 31, 2019 and 2018**

**(Expressed in Canadian dollars)**

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## **10. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

The balances payable to related parties were unsecured, non-interest bearing, and due on demand. On October 17, 2019, pursuant to a debt settlement agreement between the Company and its former President, in consideration of final and full settlement of indebtedness owed to the former President in an aggregate amount of \$40,000, the former President accepted full and sole ownership of the Waverly-Tangier and River Jordan properties, along with the \$10,000 property bond held by the Company in connection with the properties, and all related property data and records. Accordingly, the Company recorded a gain of \$29,998 on the debt settlement.

## **11. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises all the components of shareholders' equity.

The Company manages the 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. The Company's investment policy is to invest its cash in financial instruments of high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

## **12. FINANCIAL INSTRUMENTS**

The fair value of the Company's amounts receivable, marketable securities and accounts payable approximate their carrying values due to the short-term nature of the instruments. The Company's other financial instrument, being cash, is classified as FVTPL.

### **Financial Risk Factors**

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

(i) *Currency risk*

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

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**12. FINANCIAL INSTRUMENTS (CONTINUED)***(iii) Credit risk*

Credit risk is the risk that one party to a financial instrument will not fulfill some or all of its obligations, thereby causing the Company to sustain a financial loss. As at December 31, 2019, the Company had \$19,652 (December 31, 2018 - \$9,982) in receivables due from the Government of Canada and as such the Company considers its credit risk to be low.

*(iv) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company has a working capital deficit of \$28,377 and requires additional funds to meet its current obligations. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at December 31, 2019, the Company has no sources of revenue to fund its operating expenditures or fund any identified business acquisition and as such requires additional financing to accomplish the Company's long-term strategic objectives. Future funding may be obtained by means of issuing share capital, or debt financing. If the Company is unable to continue to finance itself through these means, it is possible that the Company will be unable to continue as a going concern as disclosed in Note 1. Consequently, the Company is currently exposed to a significant level of liquidity risk.

*(v) 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 equity prices.

*i. Interest rate risk*

The Company considers itself to have minimal exposure to interest rate risk as it currently has no interest-bearing investments or debt.

*ii. Price risk*

The Company is exposed to price risk with respect to 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. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

**13. INCOME TAXES**

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment and concluding the deferred tax assets were not realized.

	<b>2019</b>	<b>2018</b>
Canadian statutory income tax rate	27%	27%
	\$	\$
Income tax recovery at statutory rate	(33,000)	(330,000)
Non taxable/ deductible items	(18,000)	77,000
Effect of change in income tax rates	-	(9,000)
Change in unrecognized deferred tax assets	51,000	262,000
<b>Income taxes recoverable</b>	-	-

The nature and effect of the Company's deferred tax assets is as follows:

	<b>2019</b>	<b>2018</b>
	\$	\$
Non capital losses carried forward	646,000	600,000
Mineral properties	101,000	97,000
Marketable securities	17,000	17,000
Equipment	3,000	2,000
	767,000	716,000
Deferred tax assets not recognized	(767,000)	(716,000)
<b>Net deferred tax asset</b>	-	-

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Financial Statements

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(Expressed in Canadian dollars)

**13. INCOME TAXES (CONTINUED)**

As at December 31, 2019, the Company had non-capital losses carried forward of approximately \$2,394,000 (2018 - \$2,222,000) which may be applied to reduce future years' taxable income, expiring as follows:

2026	\$	53,000
2027		116,000
2028		202,000
2029		227,000
2030		217,000
2031		153,000
2032		189,000
2033		188,000
2034		156,000
2035		149,000
2036		211,000
2037		156,000
2038		205,000
2039		172,000
		<hr/>
		\$ 2,394,000

**14. COMMITMENTS**

On November 30, 2018, the Company entered into to a management services agreement with Emprise Management Services Corp. The agreement requires payments of \$12,000 per month. The contract is payable monthly and may be terminated by both parties by giving six months' notice.