

**SILVER PHOENIX RESOURCES INC.**

(An Exploration Stage Company)

Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2020 and 2019

# **SILVER PHOENIX RESOURCES INC.**

(An Exploration Stage Company)

(the “Company” or “Silver Phoenix”)

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

**As at and for the nine months ended September 30, 2020**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Management of Silver Phoenix Resources Inc. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company’s auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

**SILVER PHOENIX RESOURCES INC.**

## Condensed Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current Assets		
Cash	\$ 2,265	\$ 8,724
Amounts receivable	6,238	19,652
Marketable securities (Note 4)	1	1
	<b>8,504</b>	<b>28,377</b>
Non-current Assets		
Exploration and evaluation assets (Note 6)	1	1
Equipment (Note 5)	-	-
<b>Total Assets</b>	<b>\$ 8,505</b>	<b>\$ 28,378</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 164,832	\$ 62,769
Loan payable (Note 7)	5,000	-
	<b>169,832</b>	<b>62,769</b>
<b>Equity (Deficiency)</b>		
Share capital (Note 8)	3,010,579	3,010,579
Equity reserve (Note 8)	363,699	363,699
Deficit	(3,535,605)	(3,408,669)
	<b>(161,327)</b>	<b>(34,391)</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,505</b>	<b>\$ 28,378</b>

Nature and continuance of operations (Note 1)

Commitments (Note 13)

Approved on Behalf of the Board on November 23, 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.**

## Condensed Interim Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
<b>Expenses</b>				
Bank charges	\$ 44	\$ 18	\$ 638	\$ 163
Finance expense (Note 7)	118	-	118	-
General and administrative	-	-	43	490
Management fees	36,000	36,000	108,000	108,000
Professional fees	3,500	(2,743)	3,500	21,888
Transfer agent and filing fees	5,695	5,562	14,637	35,787
Travel	-	-	-	131
<b>Loss before other items</b>	<b>(45,357)</b>	<b>(38,837)</b>	<b>(126,936)</b>	<b>(166,459)</b>
<b>Other items:</b>				
Expense recoveries	-	-	-	59,322
<b>Net loss and comprehensive loss</b>	<b>\$ (45,357)</b>	<b>\$ (38,837)</b>	<b>\$ (126,936)</b>	<b>\$ (107,137)</b>
<b>Weighted average number of common shares outstanding</b>	<b>38,557,844</b>	<b>38,557,844</b>	<b>38,557,844</b>	<b>33,226,962</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

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

**SILVER PHOENIX RESOURCES INC.**

## Condensed Interim Statements of Changes in Equity (Deficiency)

(Unaudited – Prepared by Management)

(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, 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	-	-	-	-	(107,137)	(107,137)
<b>Balance, September 30, 2019</b>	<b>38,557,844</b>	<b>\$ 3,010,579</b>	<b>\$ -</b>	<b>\$ 363,699</b>	<b>\$ (3,393,293)</b>	<b>\$ (19,015)</b>
<b>Balance, December 31, 2019</b>	38,557,844	\$ 3,010,579	\$ -	\$ 363,699	\$ (3,408,669)	\$ (34,391)
Net loss and comprehensive loss	-	-	-	-	(126,936)	(126,936)
<b>Balance, September 30, 2020</b>	<b>38,557,844</b>	<b>\$ 3,010,579</b>	<b>\$ -</b>	<b>\$ 363,699</b>	<b>\$ (3,535,605)</b>	<b>\$ (161,327)</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.**

## Condensed Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	For the nine months ended September 30,	
	2020	2019
<b>Cash (used in) provided by:</b>		
<b>Operating Activities</b>		
(Loss)/income for the period	\$ (126,936)	\$ (107,137)
Changes in non-cash working capital items:		
Amounts receivable	13,414	(7,767)
Accounts payable and accrued liabilities	102,063	(276,112)
	(11,459)	(391,016)
<b>Financing Activities</b>		
Loan from credit facility (Note 7)	5,000	-
Shares issued for cash	-	1,250,000
Share subscriptions received	-	(1,250,000)
	5,000	-
<b>Change in cash for the period</b>	<b>(6,459)</b>	<b>(391,016)</b>
Cash, beginning of the period	8,724	429,297
<b>Cash, end of the period</b>	<b>\$ 2,265</b>	<b>\$ 38,281</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 Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**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 September 30, 2020, 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 \$161,328 and an accumulated deficit of \$3,535,605 at September 30, 2020. 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 Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**2. BASIS OF PRESENTATION**

The condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. Accordingly, these condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent audited annual financial statements of the Company as at and for the year ended December 31, 2019. The Board of Directors authorized these condensed interim financial statements for issue on November 23, 2020.

The accounting policies applied in these condensed interim financial statements are the same as those applied in the Company’s most recent audited annual financial statements as at and for the year ended December 31, 2019.

**3. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Measurement**

These condensed unaudited interim financial statements of the Company have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, the financial statements have been prepared using the accrual basis of accounting, except for the statements of cash flows.

**(b) Critical Accounting Estimates, Judgment and Assumptions**

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 Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

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**3. SIGNIFICANT ACCOUNTING POLICIES (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. MARKETABLE SECURITIES**

As at September 30, 2020, the Company owns 475,000 common shares (2019 - 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.

**5. EQUIPMENT**

	Cost	Accumulated Depreciation	Net Book Value September 30, 2020	Net Book Value December 31, 2019
	\$	\$	\$	\$
Computer equipment	6,748	6,748	-	-
Equipment	2,877	2,877	-	-
<b>Total</b>	<b>9,625</b>	<b>9,625</b>	<b>-</b>	<b>-</b>

During the year ended December 31, 2019, and the nine months ended September 30, 2020, there were no equipment additions.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**6. EXPLORATION AND EVALUATION ASSETS**

<b>September 30, 2020</b>	<b>Big Showing</b>	<b>Total</b>
	\$	\$
Acquisition costs:		
Opening balance, January 1, 2020	1	1
<b>Balance, September 30, 2020</b>	<b>1</b>	<b>1</b>

<b>December 31, 2019</b>	<b>Big Showing</b>	<b>Waverley Tangier</b>	<b>River Jordan</b>	<b>Total</b>
	\$	\$	\$	\$
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>

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. In the current period, the Company made a payment of \$2,871 to the Ministry of Finance to keep the claims in good standing.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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

**7. LOAN PAYABLE**

On July 6, 2020, the Company entered into a credit facility agreement with The Emprise Special Opportunities Fund 2017 Limited Partnership ("LP2017") whereby LP2017 agreed to lend up to an aggregate principal amount of \$100,000. Any amounts advanced under this credit facility accrue interest at a rate of 10% per annum, compounded monthly, and are due on demand.

On July 6, 2020, the Company utilized \$5,000 of the credit facility. Interest expense for the period ended September 30, 2020 was \$118 (2019 - \$nil).

As at September 30, 2020, a total of \$118 (December 31, 2019 - \$nil) has been recorded as interest payable which is included in accounts payable and accrued liabilities.

**SILVER PHOENIX RESOURCES INC.**

## Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**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.

	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 and September 30, 2020</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.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**8. SHARE CAPITAL (CONTINUED)****(d) Stock options (continued)**

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 follows:

	Number of stock options	Weighted average exercise price
<b>Balance as at December 31, 2018 and 2019, and September 30, 2020</b>	<b>1,310,344</b>	<b>\$ 0.145</b>

As at September 30, 2020, 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	3.21

**(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.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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

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 and September 30, 2020</b>	<b>25,000,000</b>	<b>\$ 0.075</b>

As at September 30, 2020, 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	3.58

**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.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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**10. RELATED PARTY TRANSACTIONS AND BALANCES**

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.

A transaction is considered to be a related party transaction when there is a transfer of resources on obligations between related parties.

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.

The Company has secured a credit facility with a related party; LP2017 is a shareholder of the Company. See Note 7 for details relating to this credit facility.

**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, accounts payable and accrued liabilities, and loan 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.

**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

**12. FINANCIAL INSTRUMENTS (CONTINUED)****Financial Risk Factors**

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

*(i) 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 September 30, 2020, the Company had \$6,238 (December 31, 2019 - \$19,652) in receivables due from the Government of Canada and as such the Company considers its credit risk to be low.

*(ii) 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 September 30, 2020, the Company has a working capital deficit of \$161,328 (December 31, 2019, working capital deficit of \$34,392) 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 September 30, 2020, 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.

*(iii) 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*

As of September 30, 2020, the Company did not have any investments in investment-grade short-term deposit certificates, and interest exposure with respect to its cash balances is minimal.

As at September 30, 2020, the Company had a loan bearing interest at a fixed rate of 10% and as such is not exposed to interest rate fluctuations.



**SILVER PHOENIX RESOURCES INC.**

Notes to the Condensed Interim Financial Statements

For the nine months ended September 30, 2020 and 2019

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

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**12. FINANCIAL INSTRUMENTS (CONTINUED)****Financial Risk Factors (continued)***(iii) Market risk (continued)***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.

**iii. 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.

**13. 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.