GRAYCLIFF EXPLORATION LIMITED
Annual Audited Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Graycliff Exploration Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Graycliff Exploration Limited (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the financial statements, which indicates that the Company incurred a comprehensive loss of $1,890,911 during the year ended December 31, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the financial statements and our auditor's report thereon.

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 audit of the financial statements, our responsibility is to read the other information 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, 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, 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 relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
February 25, 2020

GRAYCLIFF EXPLORATION LIMITED

Statements of Financial Position

As at December 31, 2020 and 2019

Expressed in Canadian dollars

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	**$ 1,026,220**	$ 425,782
Amounts receivable	**61,364**	3,743
Prepaid expenses	**41,406**	42,529
	$ 1,128,990	$ 472,054
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 185,461**	$ 32,784
Flow-through share premium liability (Note 6)	**24,753**	---
	210,214	32,784
Non-Current liabilities		
Convertible debenture *(Note 7)*	**432,396**	---
Total liabilities	**642,610**	32,784
Shareholders' equity		
Share capital *(Note 8)*	**2,206,479**	733,767
Contributed surplus	**311,850**	---
Equity component of convertible debenture *(Note 7)*	**114,221**	---
Warrants	**39,238**	---
Deficit	**(2,185,408)**	(294,497)
	486,380	439,270
	$ 1,128,990	$ 472,054

Nature of Operations and Going Concern *(Note 1)*
Subsequent Events *(Note 15)*

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

On behalf of the Board,

"Signed"
Samuel Hardy
Samuel Hardy
Director

"Signed"
James Macintosh
James Macintosh
Director

GRAYCLIFF EXPLORATION LIMITED

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2020 and 2019

Expressed in Canadian dollars

	2020	2019
Expenses		
Property acquisition costs *(Note 12)*	**$ 828,750**	$ ---
Stock option compensation (*Note 11*)	**311,850**	---
Exploration and evaluation (*Note 12*)	**235,395**	20,000
Corporate advisory *(Note 11)*	**10,250**	151,750
Management fees *(Note 11)*	**115,250**	36,300
General administrative	**279,081**	24,194
Consulting fees *(Note 11)*	**---**	38,000
Professional fees	**118,557**	17,478
Interest income	**(1,774)**	---
Loss and comprehensive loss before taxes	**1,897,359**	287,722
Deferred income tax recovery (Note 14)	**(6,448)**	---
Loss and comprehensive loss for the year	**$ 1,890,911**	$ 287,722
Basic and diluted loss per common share *(Note 13)*	**$ (0.12)**	$ (0.03)
Weighted average number of shares outstanding during the year - basic and diluted	**15,606,357**	9,092,459

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

GRAYCLIFF EXPLORATION LIMITED
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020 and 2019
Expressed in Canadian dollars

	Shares Outstanding	Share Capital	Warrants	Contributed Surplus	Equity Component of Convertible Debenture	Deficit	Total
	(##)	($$)	($$)	($$)	($$)	($$)	($$)
Balance at December 31, 2018	**12,125,000**	**---**	**---**	**---**	**---**	**(6,775)**	**(6,775)**
Issue of share capital - proposed transaction *(Note 8)*	1,000,000	---	---	---	---	---	---
Shares cancelled *(Note 8)*	(12,114,451)	---	---	---	---	---	---
Issue of share capital - private placements *(Note 8)*	12,144,333	689,767	---	---	---	---	689,767
Issued for trade debt *(Note 8)*	2,200,000	44,000	---	---	---	---	44,000
Net loss for the year	---	---	---	---	---	(287,722)	(287,722)
Balance at December 31, 2019	**15,354,882**	**733,767**	**---**	**---**	**---**	**(294,497)**	**439,270**
Vesting of share-based compensation	**---**	**---**	**---**	**311,850**	**---**	**---**	**311,850**
Equity component of convertible debentures	**---**	**---**	**---**	**---**	**114,221**	**---**	**114,221**
Issue of share capital - private placements *(Note 8)*	**1,560,000**	**643,962**	**39,238**	**---**	**---**	**---**	**683,200**
Issue of share capital - acquisition of mining claims *(Note 8)*	**975,000**	**828,750**	**---**	**---**	**---**	**---**	**828,750**
Net loss for the year	**---**	**---**	**---**	**---**	**---**	**(1,890,911)**	**(1,890,911)**
Balance at December 31, 2020	**17,889,882**	**2,206,479**	**39,238**	**311,850**	**114,221**	**(2,185,408)**	**486,380**

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

GRAYCLIFF EXPLORATION LIMITED

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

Expressed in Canadian dollars

	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	**$ (1,890,911)**	$ (287,722)
Items not affecting cash:		
Common shares issued for services	**---**	44,000
Vesting of stock-based compensation	**311,850**	---
Common shares issued for mining claims	**828,750**	---
Deferred income tax recovery	**(6,447)**	---
Accrued interest on convertible debenture	**7,041**	---
Loan accretion on convertible debenture	**13,026**	---
Net change in non-cash working capital balances:		
Amounts receivable	**(57,620)**	(3,337)
Prepaid expenses	**1,123**	(42,529)
Accounts payable and accrued liabilities	**152,677**	25,603
Net cash flows used in operating activities	**(640,512)**	(263,985)
FINANCING ACTIVITIES		
Issue of share capital – private placements, net of issuance costs	**714,400**	689,767
Convertible debenture, net of issuance costs	**526,550**	---
Net cash flows from operating activities	**1,240,950**	689,767
Net increase in cash	**600,438**	425,782
Cash, beginning of the year	**425,782**	---
Cash, end of the year	**$ 1,026,220**	$ 425,782

Supplemental cash flow information:

	2020	2019
Shares issued in settlement of debt *(Note 7)*	**$ ---**	$ 44,000

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

1. Nature of Operations and Going Concern

Graycliff Exploration Limited (formerly 1093683 B.C. Ltd.), a company incorporated under the laws of British Columbia, Canada (the "**Company**" or "**Graycliff**") is engaged in the acquisition, exploration, development and extraction of natural resources, specifically precious metals.

Its head office is located at 890-1140 West Pender Street, Vancouver, BC, V6E 4G1, Canada. The Company is listed on the Canadian Securities Exchange, trading under the symbol "GRAY" and effective December 16, 2020, it begin trading on the OTCQB Venture Marketplace ("OTCQB") under the symbol "GRYCF"

Mineral exploration projects, even when successful, require large amounts of exploration investment to prove mineable reserves, generally over long periods of time, prior to commencement of production. The ability of the Company to continue as a going concern is dependent upon, among other things, being able to obtain additional financing, the continued support of its existing shareholders, and the outlining and development of commercial deposits of metals at its project to generate positive cash flows from operations. While the Company has been successful in securing financing in 2020 and identifying suitable properties to date, there is no assurance that the Company will continue to be successful in achieving these objectives.

The Company incurred a net loss of $1,890,911 during the year ended December 31, 2020 (December 31, 2019 - $287,722) and had an accumulated deficit of $2,185,408 at December 31, 2020 (December 31, 2019 - $294,497). Given the Company's need to raise capital to fund ongoing operations, these conditions indicate that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern.

The ability of the Company to realize the costs it has incurred to date on its properties is dependent upon the Company being able to identify economically recoverable reserves, to finance their development costs and to resolve any environmental, regulatory or other constraints, which may hinder the successful development of the reserves. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development activities and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, and non-compliance with regulatory and environmental requirements.

The accompanying annual financial statements have been prepared using International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. It would, in this situation, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying Financial Statements. Such adjustments could be material.

In March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and the Company's financial position cannot be reasonably estimated at this time. The Company is monitoring developments and will adapt its business plans accordingly. The actual and threatened spread of COVID-19 globally could adversely impact the Company's ability to carry out its plans and raise capital.

2. Basis of Presentation

Statement of compliance:

The financial statements for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

The policies applied in these Financial Statements are based on the IFRS issued and outstanding as of February 25, 2021, being the date the Board of Directors approved the Financial Statements

Basis of Measurement:

The financial statements have been prepared on a historical cost basis, with the exception of certain financial assets and liabilities which are measured at fair-value, as explained in the accounting policies.

Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is also the functional currency of the corporate offices located in Canada.

Use of Estimates and Judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the financial statements are disclosed in Note 4.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been adopted for the years ended December 31, 2020 and 2019 and have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

a) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

b) Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues using the effective interest method. Finance income is considered an operating activity for cash flow purposes.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized using the effective interest method. Finance costs are considered an operating activity for cash flow purposes.

3. Summary of Significant Accounting Policies (Cont'd)

c) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

i) Current Income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if where the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

iii) Deferred Tax Liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled, and it is probable that the difference will not reverse in the foreseeable future;
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes;
- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

d) Loss Per Share

Basic Loss Per Share is calculated by dividing total loss from continuing operations attributable to owners of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of shares) is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted Loss Per Share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted Loss Per Share. All options are considered anti-dilutive when the Company is in a loss position.

3. Summary of Significant Accounting Policies (Cont'd)

e) Cash and cash equivalents

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

f) Mineral properties

The Company charges to operations all mineral property acquisition costs and exploration and evaluation expenses incurred prior to the determination of economically recoverable reserve. These costs would also include periodic fees such as license and maintenance fees. Mineral property acquisition costs include cash consideration and the fair value of common shares issued for mineral property interests, pursuant to the terms of the relevant agreement.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry practice for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

g) Share-based compensation transactions

Shared-based compensation transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based compensation transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, such as share-based payments to employees, they are measured at fair value of the share-based payment. Share-based payments to employees of the subsidiaries are recognized as cash settled share-based compensation transactions.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in "equity settled share-based payments reserve".

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options (if any) is reflected as additional dilution in the computation of loss per share.

3. Summary of Significant Accounting Policies (Cont'd)

h) Financial assets and liabilities

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Cash and amounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of loss. The Company does not measure any financial assets at FVPL.

Subsequent measurement – Financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of loss when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial asset subject to impairment is HST/GST receivable, which is measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

3. Summary of Significant Accounting Policies (Cont'd)

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of loss.

(i) Restoration, rehabilitation and environmental provisions

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by exploration and evaluation activities by the Company. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged to the statements of comprehensive loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided.

The Company had no provisions at December 31, 2020 and 2019.

(j) Flow-through shares

Flow-through shares are a unique Canadian tax incentive. Using IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*', the Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A flow-through share premium liability is recognized for the premium paid by the investors and is then recognized in the statement of comprehensive loss in the period expenditure requirements are met.

(k) Compound instruments - convertible debenture

The components of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the market interest rate then in effect for a similar non-convertible instrument. This amount is recorded as a liability, at amortized cost, using the effective interest rate method until its expiry at the time of conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component of the total fair value of the compound instrument. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured.

3. Summary of Significant Accounting Policies (Cont'd)

(k) Compound instruments - convertible debenture (cont'd)

Transaction costs related to the issuance of the convertible debenture are allocated to the liability and equity components in proportion to their initial carrying amounts. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debenture using the effective interest method. Interest and accretion expense are recognized as a finance cost in the consolidated statements of comprehensive loss.

4. Critical Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 year. 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.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statement are discussed below:

Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company title. Such properties may be subject to prior agreement or transfers and titles may be affected by undetected defects.

Valuation allowance for deferred income tax assets

Each year, the Company evaluates the likelihood of whether some portion of deferred tax assets, if any, will not be realized. This evaluation is based on historic and future expected levels of taxable income, the timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, tax planning initiative, and deferred tax rates.

Going concern

The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its exploration projects and working capital requirements.

Use of estimates

The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows. Significant estimates include the valuation of common share purchase warrants using the Black-Scholes pricing model, the valuation of the components of convertible debentures and the measurement of common shares issued for non-cash consideration and flow-through share premium liability.

Expressed in Canadian dollars unless otherwise indicated

5. Amounts Receivable

On January 15, 2020, the Company advanced $50,000 to Venex Capital ("Venex"), a Company controlled by one of Graycliff's former directors, in the form of an unsecured demand loan bearing interest at 5% per annum. On February 13, 2020, the Company advanced a further $25,000 to Venex in the form of an unsecured demand loan bearing interest at 5% per annum. On June 30, 2020, Venex repaid $25,000 of the initial $50,000 demand loan, resulting in a balance of $50,000 plus accrued interest of $1,612 included in Advances Receivable at June 30, 2020. On July 13, 2020, July 21, 2020 and July 29, 2020, Venex repaid a further $7,500, $22,500 and $20,000, respectively, of the demand loan receivable leaving only accrued interest of $1,774 outstanding as of December 31, 2020.

6. Flow-through Share Premium Liability

The flow-through common shares issued in the financing completed on December 23, 2020 were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers. The flow-through premium was calculated to be $31,200.

The flow-through premium is derecognized through income as the eligible expenditures are incurred. For the year ended December 31, 2020, the Company satisfied $161,182 of its $780,000 flow-through expenditure commitment by incurring eligible expenditures and as a result the flow-through premium was reduced to $24,753.

As at December 31, 2020, the Company was committed to spend $618,818 in eligible flow-through expenditures by December 31, 2021.

7. Convertible Debenture

On September 24, 2020 Graycliff closed a $530,000 non-brokered private placement offering of 5% unsecured convertible debentures (the "Debenture") at an issue price of $1,000 per Debenture. The Debenture has a maturity of twenty-four months and will bear interest at a rate of 5% per annum, payable at maturity in cash or common shares of the Company ("Common Shares") at $0.60 per common share. Each Debenture may be converted at the option of the holder into 1,667 Common Shares. The conversion price for the Common Shares is equal to $0.60 per share and the Debentures are subject to a four-month hold period.

The fair value of the liability was recorded at $415,031, discounted at an effective interest rate of 18%. The $114,969 residual value of the Debenture is allocated to the conversion feature. The Company incurred transaction costs of $3,450 which was allocated pro-rata on the value of the conversion feature and the liability component.

During the year ended December 31, 2020, the Company recorded accretion expense of $13,026 and interest expense of $7,042 as finance interest expense in profit and loss.

Principal amount	$ 530,000
Equity allocation – conversion feature	(114,969)
Transaction costs	(3,450)
Transaction costs allocated to equity	747
Interest expense	7,042
Accretion expense	13,026
Balance, December 31, 2020	**$ 432,396**

Expressed in Canadian dollars unless otherwise indicated

8. Share Capital

Authorized

Unlimited number of common shares

Common Shares Issued:

	Number of Shares	Amount
Balance, December 31, 2018	**12,125,000**	**$ ---**
Issued as part of proposed transaction	1,000,000	---
Shares cancelled	(12,114,451)	---
Issued on private placements	12,144,333	689,767
Issued for trade debt	2,200,000	44,000
Balance, December 31, 2019	**15,354,882**	**$ 733,767**
Acquisition of mining claims	975,000	828,750
Issued on private placements	1,560,000	780,000
Cash share issue costs	---	(65,600)
Finders warrants	---	(39,238)
Flow-through share premium	---	(31,200)
Balance, December 31, 2020	**17,889,882**	**$ 2,206,479**

On August 1, 2018, Monterey completed a plan of arrangement whereby it issued 1,010,549 common shares of the Company to Monterey shareholders for $NIL consideration (see Note 1).

Also on August 1, 2018, the Company issued 11,114,451 common shares to various shareholders as part of a Letter of Intent ("LOI") to execute an acquisition and public listing transaction. An additional 1,000,000 common shares were issued on May 6, 2019. The LOI was assigned a $NIL value by management. This proposed transaction was never completed, and the associated common shares were cancelled: 7,614,451 on May 6, 2019 and the remaining 4,500,000 on October 7, 2019.

On October 1, 2019, the Company closed a non-brokered private placement totaling $50,667 priced at $0.02 per common share, resulting in the issuance of 2,533,333 common shares. As part of this closing, 633,333 common shares were issued for cash proceeds of $12,667 and 1,900,000 common shares were issued to settle $38,000 of trade debt.

.On October 24, 2019, the Company closed a non-brokered private placement totaling $162,000 priced at $0.02 per common share, resulting in the issuance of 8,100,000 common shares. In connection with this financing, 300,000 common shares were issued to settle trade debt of $6,000 (see Note 9).

On November 8, 2019, the Company issued 322,500 common shares at $0.10 per share for proceeds of $32,250.

On November 28, 2019, the Company issued 388,500 common shares at $0.10 per share for proceeds of $38,850.

On December 17, 2019, the Company issued 3,000,000 common shares at $0.15 per share for proceeds of $450,000.

On October 15, 2020, the Company announced the acquisition of additional mining claims comprising approximately 330 hectares at the Company's Shakespeare Gold Project. Under the terms of the acquisition, Graycliff issued 975,000 common shares for the new claims, resulting in a cost of $828,750, recorded as projection acquisition costs in operations.

On December 23, 2020 the Company closed a non-brokered flow-through private placement totaling $780,000 priced at $0.50 per common share, resulting in the issuance of 1,560,000 flow-through common shares. In connection with this financing, the Company paid finder's fee commissions of $61,200 cash and 113,600 broker warrants.

Expressed in Canadian dollars unless otherwise indicated

8. Share Capital (Cont'd)

Warrants

In connection with the December 23, 2020 financing, the company issued 113,600 broker warrants, with each warrant having an exercise price of $0.50 per share and an expiry two years from the date of issuance.

The $39,238 value of these options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: share price - $0.48; risk free rate of return – 0.22%; expected volatility - 154%; expected life - 2 years; expected dividend yield - 0%.

Stock Options

On December 4, 2019, the Company issued a total of 800,000 stock options directors, officers, employees and consultants. These options have a five-year life, and an exercise price of $0.15 and vest when the Company's shares begin trading on a public stock exchange. The $55,200 value of these options was calculated using the Black-Scholes option pricing model under the following weighted average assumptions: share price – $0.10; risk free rate of return – 1.40% expected volatility – 100%; expected life – 5 years; expected dividend yield – 0%. The Company recognized stock-based compensation of $55,200 during the year ended December 31, 2020 on vesting conditions being satisfied, being attainment of the CSE public listing.

On August 13, 2020, the Company issued a total of 50,000 stock options to a consultant. These options have a five-year life, and an exercise price of $0.38 and vested immediately. The $14,045 value of these options was calculated with the Black-Scholes option pricing model under the following weighted average assumptions: share price - $0.38; risk free rate of return - 0.40%; expected volatility - 100%; expected life - 5 years; expected dividend yield - 0%.

On September 3, 2020, the Company issued a total of 300,000 stock options to consultants. These options have a five-year life, and an exercise price of $0.56 and vested immediately. The $124,170 value of these options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: share price - $0.38; risk free rate of return - 0.40%; expected volatility - 100%; expected life - 5 years; expected dividend yield - 0%.

On October 13, 2020, the Company granted 200,000 options, vesting immediately, to purchase common shares at an exercise price of $0.85 per share for a period of five years from the date of granting to Directors of the Company. The $118,435 value of these options was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: share price - $0.82; risk free rate of return - 0.36%; expected volatility - 98%; expected life - 5 years; expected dividend yield - 0%.

The movement in the Company's share options for the years ended December 31, 2020 and 2019 are as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2018	---	$ ---
Granted	800,000	0.15
Balance, December 31, 2019	800,000	0.15
Granted	50,000	0.38
Granted	300,000	0.56
Granted	200,000	0.85
Balance, December 31, 2020	1,350,000	$ 0.35

At December 31, 2020, the Company has outstanding share purchase options enabling holders to acquire common shares of the company as follows:

Expressed in Canadian dollars unless otherwise indicated

8. Share Capital (Cont'd)

Stock Options (Cont'd)

Grant Date	Options Outstanding	Options Vested	Weighted Average Remaining Life (Years)	Exercise Price ($)	Expiry Date
December 4, 2019	800,000	800,000	3.93	0.15	December 4, 2024
August 13, 2020	50,000	50,000	4.62	0.38	August 13, 2025
September 3, 2020	300,000	300,000	4.68	0.56	September 3, 2025
October 13, 2020	200,000	200,000	4.79	0.85	October 13, 2025
	1,350,000	1,350,000	4.25	0.35	

9. Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying natural resource properties. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Company considers its capital structure to include cash and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net cash and working capital.

The Company is not subject to externally imposed capital requirements.

10. Financial Instruments and Risk Management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

Fair values

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Expressed in Canadian dollars unless otherwise indicated

10. Financial Instruments and Risk Management (Cont'd)

Categories of Financial Instruments	December 31, 2020	December 31, 2019
Financial Assets—amortized cost		
Cash	**$ 1,026,220**	$ 425,782
Amounts receivable	**61,363**	3,743
Financial Liabilities—amortized cost		
Accounts payable and accrued liabilities	**$ 185,461**	$ 32,784

The fair values of all the Company's financial instruments approximate the carrying value due to the short-term nature of the financial instruments. The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (currency fluctuations, interest rates and commodity prices). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer is unable to meet its contractual obligations and arises principally from the Company's accounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As the Company's industry is very capital intensive, the majority of its spending is related to its capital programs. The Company prepares periodic capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates and commodity and equity prices will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity and equity risk

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Equity price risk is the potential adverse impact on the Company's comprehensive earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of certain precious and base metals. Precious and base metal prices have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals are produced in the future, a profitable market will exist for them.

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11. Related Party Transactions

Related parties include the Board of Directors, close family members, other key management individuals and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the fair value and approved by the Board of Directors in strict adherence to conflict of interest law and regulations.

The Company incurred the following charges with directors and/or officers of the Company and/or companies controlled by them for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	($)	($)
Consulting – President and CEO	**42,500**	7,000
Consulting - CFO	**29,750**	5,500
Consulting – Venex Capital (controlled by a director)	**10,250**	155,535
Stock-based compensation – Directors	**118,435**	---
Consulting – Directors	**---**	14,155
	200,935	182,190

In the December 2020 financing, the Company's President and CEO purchased 20,000 common shares for $10,000.

On October 1, 2019, 1,900,000 of common shares were issued to settle liabilities of $38,000. Included in this amount are $3,750 of fees that were owed to Venex Capital and $10,155 of fees owed to a former director. Both amounts are included in the table above.

On October 24, 2019, 300,000 of common shares were issued to settle management fees of $6,000 payable to each of the Company's CEO, CFO and Director.

As at December 31, 2020, included in accounts payable and accrued liabilities is $NIL (December 31, 2019 - $1,081) due to the Company's President and CEO.

12. Mineral Property Interests

On August 23, 2019, the Company signed an option agreement to acquire the Shakespeare Property in Ontario. Pursuant to this agreement, the Company allotted 500,000 common shares to the individuals from whom this property was optioned. These shares were subscribed and paid for as part of the October 24, 2019 financing – see Note 8.

The following are share and exploration expenditure commitments under the option agreement:

Share commitments:

- 500,000 shares within 24 months from the closing date of the option agreement (completed).

Exploration commitments:

- Incur exploration expenditures of $100,000 within 12 months of the regulatory body approval of the transaction (completed).
- Incur additional exploration expenditures of $200,000 within 24 months from the closing date of the option agreement; and an additional 500,000 shares.

On October 15, 2020, the Company announced the acquisition of 15 additional mining claims comprising approximately 330 hectares at the Company's Shakespeare Gold Project. Under the terms of the acquisition, Graycliff issued 975,000 common shares for the new claims.

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13. Loss Per Share

The calculation of basic loss per share for the years ended December 31, 2020 and 2019 was based on total loss attributable to common shareholders of $1,890,911 (2019 - $287,722) and a weighted average number of common shares outstanding of 15,606,357 (2019 – 9,092,459).

Diluted loss per share equals basic loss per share as all outstanding options and warrants were anti-dilutive for all periods presented.

14. Income Taxes

a) Provision for income tax

The reported recovery of income taxes differs from amounts computed by applying the statutory income tax rates to the reported loss before income taxes due to the following:

	Year ended December 31, 2020	2019
Loss before income taxes	**$ (1,890,912)**	$ (287,722)
Combined statutory income tax rate	**26.50%**	12.50%
Expected Income tax recovery	**$ (501,092)**	$ (35,965)
Adjustments to expected income tax benefit:		
Share issue costs recorded directly to equity	**(17,384)**	---
Non-deductible share based payment expense	**82,640**	---
Other permanent differences	**23,459**	71
Differences in current and deferred tax rates	**---**	(40,281)
Benefit of tax losses not recognized	**405,930**	76,175
Deferred income tax recovery	**$ (6,448)**	$ ---

b) Deferred income taxes

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying values of assets and liabilities. The temporary differences and unused tax losses that give rise to deferred income tax assets and liabilities are presented below:

	Year ended December 31, 2020	2019
Non-capital losses carried forward	**203,296**	72,670
Exploration and evaluation expenditures	**287,299**	5,300
Convertible debentures	**(27,731)**	---
Share issue costs and other	**21,040**	---
	483,904	77,970
Less: valuation allowance	**(483,904)**	(77,970)
Total unrecognized deferred tax assets	**---**	---

Expressed in Canadian dollars unless otherwise indicated

14. Income Taxes (Cont'd)

c) Loss and tax credit carry-forwards

At December 31, 2020, the Company has non-capital losses, expiring as follows:

2038	$ 6,775
2039	267,453
2040	492,928
	$ 767,156

15. Subsequent Events

On January 20, 2021, Graycliff reported the completion of a non-brokered private placement offering of 400,000 units (each a "Unit") of the Company, issued at a price of $0.50 per unit for gross proceeds of $200,000. Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant is exercisable to acquire one Common Share for a period of 24 months following the closing of the Unit offering at an exercise price of $0.60 per Share. The Company paid finder's fee commissions of $9,200 cash and 18,400 finder's warrants on the Financing. Each finder's warrant has a strike price of $0.50 per share and an expiry two years from the closing.