Prophecy Potash Corp.

Financial Statements
For the year ended September 30, 2020
(Expressed in Canadian Dollars)

DeVISSER GRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

401-905 West Pender St
Vancouver BC V6C 1L6
www.devissergray.com
t 604.687.5447
f 604.687.6737

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prophecy Potash Corp.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Prophecy Potash Corp., which comprise the statements of financial position as at September 30, 2020 and September 30, 2019, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for each of 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 Prophecy Potash Corp. as at September 30, 2020 and September 30, 2019 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 Prophecy Potash Corp. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in "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 IFRS, 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 Prophecy Potash Corp.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Prophecy Potash Corp. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Prophecy Potash Corp.'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 skepticism 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 Prophecy Potash Corp.'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 Prophecy Potash Corp.'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 Prophecy Potash Corp. 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 James D. Gray.

De Visser Gray LLP

Chartered Professional Accountants
Vancouver, BC, Canada
January 28, 2021

PROPHECY POTASH CORP.
Statements of Financial Position
(Expressed in Canadian Dollars)

	As at September 30, 2020	**As at September 30, 2019**
	$	**$**
ASSETS		
Current		
Cash	337,432	557,735
GST receivable	5,919	-
	343,351	557,735
Non-Current		
Exploration and evaluation asset (Note 3)	181,664	163,369
TOTAL ASSETS	525,015	721,104
LIABILITIES		
Current		
Accounts payable and accrued liabilities	11,720	77,488
SHAREHOLDERS' EQUITY		
Reserves (Note 4)	62,000	62,000
Share capital (Note 4)	1,267,920	1,267,920
Deficit	(816,625)	(686,304)
	513,295	643,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	525,015	721,104

Nature of operations (Note 1)

These financial statements are authorized for issuance by the Board of Directors on January 28, 2021.

On behalf of the Board of Directors:

"Shawn Smith"
Director

"Ian McDonald"
Director

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

PROPHECY POTASH CORP.
Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended September 30, 2020	For the year ended September 30, 2019
	$	$
Expenses		
Consulting fees	15,929	-
Marketing and investor relations	-	8,048
Office and administrative	19,436	7,230
Professional fees	68,791	77,754
Regulatory and filing	20,175	34,769
Stock-based compensation	-	39,000
Travel	5,990	-
	(130,321)	(166,801)
Loss and comprehensive loss for the year	(130,321)	(166,801)
Basic and diluted loss per share	(0.01)	(0.01)
Weighted average number of common shares outstanding	21,773,399	16,983,536

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

PROPHECY POTASH CORP.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended September 30, 2020	For the year ended September 30, 2019
	$	$
Cash flows used in operating activities		
Net loss for the year	(130,321)	(166,801)
Adjustment for non-cash item:		
Stock-based compensation	-	39,000
Changes in non-cash working capital item:		
GST receivable	(5,919)	-
Accounts payable and accrued liabilities	(26,114)	18,119
	(162,354)	(109,682)
Cash flows to investing activity		
Exploration and evaluation asset	(57,949)	(93,715)
Cash flows from financing activities		
Proceeds from shares issued	-	550,000
Share issue costs	-	(77,750)
	-	472,250
Net change in cash	(220,303)	268,853
Cash, beginning of the year	557,735	288,882
Cash, end of the year	337,432	557,735

Supplementary Cash Flow Information:

At September 30, 2020, the Company had $nil (2019 - $39,654) in accounts payable and accrued liabilities related to exploration and evaluation assets.

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

PROPHECY POTASH CORP.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Shares Issued	Share Capital	Reserves	Deficit	Total Shareholders' Equity
		$	$	$	$
Balance at September 30, 2018	**16,173,399**	**808,670**	**-**	**(519,503)**	**289,167**
Initial public offering:					
Gross proceeds	5,500,000	550,000	-	-	550,000
Broker warrants	-	(23,000)	23,000	-	-
Cash issue costs	-	(77,750)	-	-	(77,750)
Mineral property	100,000	10,000	-	-	10,000
Stock-based compensation	-	-	39,000	-	39,000
Net loss for the year	-	-	-	(166,801)	(166,801)
Balance at September 30, 2019	**21,773,399**	**1,267,920**	**62,000**	**(686,304)**	**643,616**
Net loss for the year	-	-	-	(130,321)	(130,321)
Balance at September 30, 2020	**21,773,399**	**1,267,920**	**62,000**	**(816,625)**	**513,295**

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

1. NATURE OF OPERATIONS

Prophecy Potash Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on March 29, 2019. The Company is in the business mineral property exploration and was listed on the Canadian Securities Exchange ("CSE") on August 9, 2019 after completing its initial public offering pursuant to a prospectus dated May 10, 2019. The Company's stock symbol is "NUGT".

The Company has an option agreement to earn an interest in a mineral property located near Fort St. James, British Columbia (Note 3) and has not yet determined whether this property contains reserves that are economically recoverable. The recoverability of amounts from the property is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying property, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under the property option agreement and to complete the development of the property and upon future profitable production or proceeds for the sale thereof.

The Company's head office, principal address and registered and records office is located at 725 Granville street, Suite 400, Vancouver, British Columbia, Canada, V7Y 1G5.

The Company's ongoing operations are ultimately dependent upon the success of its business activities and its ability to attain profitable operations and generate funds therefrom and/or to raise equity capital or borrowings sufficient to meet current and future obligations. Management expects to finance operating costs over the next twelve months with public and private financing endeavors.

The Company has no source of operating revenue, has incurred net losses since inception and as at September 30, 2020 has a deficit of $816,625 (2019 - $686,304). Its continued existence will be dependent on the receipt of related party debt or equity financing on terms which are acceptable to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

These financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The classification and measurement of the Company's financial instruments is set out below:

Financial assets

(a) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(b) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVTOCI") or measured at fair value through profit or loss ("FVTPL").

(i) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets measured at FVTPL

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Financial assets measured at FVTOCI

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

(c) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the statement of comprehensive loss.

However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

(a) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(b) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss ("FVTPL").

(i) Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

The Company's accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost.

(ii) Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company does not have any liabilities classified as financial liabilities measured at fair value through profit or loss.

(c) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of comprehensive loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the statement of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares are classified as equity and measured at the fair value of consideration received or services rendered. Cash consideration received for common shares issued to non-related parties is considered to be the most accurate reflection of fair value; concurrent issuances to related parties at lower prices would accordingly be considered to reflect a component of non-monetary compensation. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

New and future accounting standards

Adoption of Accounting Policy

IFRS 16 – Leases

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being October 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedients allowing a) the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application, and b) the measuring the right-of-use asset on transition as being equal to the amount of the lease liability initial recognized on transition. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

As the Company currently does not have any lease commitments, the adoption of IFRS 16 did not have any material impact to the Company's financial statements.

3. EXPLORATION AND EVALUTION ASSET

Indata Property, British Columbia, Canada

The Company has entered into an agreement with Eastfield Resources Ltd. ("Eastfield") whereby it obtained the option to acquire an undivided 60% interest in Eastfield's 91.2% - owned Indata copper-gold property ("Indata Property") located 120 kilometres northwest of the community of Fort St. James, British Columbia. The Indata Property comprises 16 mineral claims totaling 3,189 hectares. The residual 8.8% interest in the Indata Property is held by Imperial Metals Corporation. Eastfield and the Company have a director in common. Refer also to Note 5.

To earn the 60% interest, the Company is required to complete $2,000,000 in exploration work, make cash payments of $250,000 ($40,000 paid in cash and 71,684 shares valued at $20,000 issued subsequent to September 30, 2020) and issue common shares at an aggregate value of $150,000 (171,685 shares valued at $30,000 issued, of which 71,685 shares were issued subsequent to September 30, 2020) over a five-year term. An aggregate $2,000,000 exploration program is required to be completed over a five-year term.

	Indata Property
	$
Balance at September 30, 2018	**20,000**
Acquisition costs	32,942
Geological	110,427
Balance at September 30, 2019	**163,369**
Geological	18,295
Balance at September 30, 2020	**181,664**

(Expressed in Canadian Dollars)

4. SHARE CAPITAL

Authorized Share Capital

Unlimited number of common shares without par value.

Issued Shares

There were no share transactions for the year ended September 30, 2020.

On August 8, 2019, the Company completed its initial public offering of 5,500,000 common shares at a price of $0.10 per share for gross proceeds of $550,000. A cash commission of 6% of the gross proceeds of the offering was paid as a finder's fee in addition to a corporate finance fee of $35,000, and 440,000 broker warrants with exercise price of $0.10 per share exercisable until August 8, 2021.

Escrowed Shares

Upon listing on the CSE, an escrow agreement (the "Escrow Agreement") between the Company and certain shareholders of the Company was entered into resulting in 7,519,999 common shares (the "Escrowed Shares") being deposited into escrow. Pursuant to the Escrow Agreement, 10% of the Escrowed Shares were released upon listing on the CSE (the "Initial Release") and an additional 15% will be released on the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. These Escrowed Shares may not be transferred, assigned or otherwise dealt without the consent of the regulatory authorities.

As at September 30, 2020, 4,511,998 common shares remained in escrow.

Stock Option Plan

On August 8, 2019, the Company granted 560,000 stock options to directors and officers. These options have a fair value of $39,000 using the Black Scholes model with the following inputs: i) exercise price: $0.14; ii) share price: $0.10; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 1.23%. These are the only options outstanding as at September 30, 2020 and have a weighted average life remaining of 3.86 years.

Warrants

The continuity of share purchase warrants for the period ended September 30, 2020 is as follows:

	Number of Warrants	Weighted Average Exercise Price
		$
Balance, September 30, 2018	15,615,999	0.05
Granted	440,000	0.10
Balance, September 30, 2020 and 2019	16,055,999	0.05

The following share purchase warrants were outstanding as at September 30, 2020:

Expiry date	Number of warrants	Exercise price	Remaining contractual life (years)
		$	
August 8, 2021	440,000	0.10	0.85
June 25, 2022	15,615,999	0.05	1.73
	16,055,999	**0.05**	**1.71**

(Expressed in Canadian Dollars)

4. SHARE CAPITAL (continued)

Warrants (continued)

Concurrent with the completed initial public offering on August 8, 2019, the Company granted 440,000 broker warrants exercisable at $0.10 per share until August 8, 2021. These warrants have a fair value of $23,000 using the Black Scholes model with the following inputs: i) exercise price: $0.10; ii) share price: $0.10; iii) term: 2 years; iv) volatility: 100%; v) discount rate: 2.04%.

The Company extended the term of 15,615,999 warrants, exercisable at a price of $0.05 per share, from an expiry date of June 25, 2020 to June 25, 2022.

5. RELATED PARTY TRANSACTIONS AND BALANCES

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. The Company has identified its directors and officers as its key management personnel.

During the year ended September 30, 2020, the Company entered into the following transactions with related parties, not disclosed elsewhere in these financial statements:

- Paid or incurred exploration and evaluation asset expenses of $Nil (2019 - $58,646) to a company controlled by a director of the Company.
- Paid or incurred exploration and evaluation asset expenses of $18,295 (2019 - $84,723) to a company controlled by a director of the Company. As at September 30, 2020, $Nil (2019 - $39,654) was included in accounts payable and accrued liabilities owing to this company.
- Incurred share-based payments of $Nil (2019 - $39,000) to officers, directors and a former director of the Company.
- Incurred consulting fees of $15,929 (2019 - $Nil) to a company controlled by the CEO of the Company.

All related party amounts were incurred in the normal course of operations, bear no interest and have no fixed terms of repayment.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

	Level	September 30, 2020	September 30, 2019
		$	$
Cash	1	337,432	557,735

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying values.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Company's financial instrument measured at FVTPL, being cash, is measured using Level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company has deposited the cash with a high credit quality financial institution as determined by rating agencies. The risk of loss is low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Accrued liabilities are due within the current operating period. The Company has a sufficient cash balance to settle current liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is not exposed to market risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk, from time to time, on its cash balances. Surplus cash, if any, is placed on call with financial institutions and management actively negotiates favorable market related interest rates.

7. CAPITAL DISCLOSURES AND MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its projects. The Company is not subject to any externally imposed capital requirements.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, enter into joint venture arrangements, borrow, acquire or dispose of assets.

(Expressed in Canadian Dollars)

8. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	September 30, 2020	**September 30, 2019**
	$	**$**
Loss before income taxes	(130,300)	(166,800)
Total expected income tax recovery at statutory rates	(35,200)	(45,000)
Net effect of non-deductible amounts	100	(10,500)
Unrecognized benefit of income tax losses	35,100	55,500
Actual income tax recovery	-	-

As at September 30, 2020 and 2019 the amounts of deductible temporary differences for which no deferred tax assets were recognized, were as follows:

	2020	**2019**
	$	$
Non-capital loss carry forward	339,800	194,400
Share issue costs	46,700	62,200
	386,500	256,600

This potential future tax benefit has been offset entirely by a valuation allowance and has not been recognized in these financial statements. The non-capital loss carry forward expires according to the following schedule:

	Non-capital Losses
	$
2038	51,000
2039	143,400
2040	145,500
	339,990

The deferred tax assets have not been recognized because at this stage of the Company’s development it is not determinable that future taxable profit will be available against which the Company cannot utilize such deferred tax assets.