

Yukoterre Resources Inc.

FINANCIAL STATEMENTS

For the years ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Yukoterre Resources Inc.

Opinion

We have audited the financial statements of Yukoterre Resources Inc. (the "Company"), which comprise the statements of financial position as at October 31, 2019 and 2018, and the statements of loss and comprehensive loss, statements of changes in shareholders' 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 October 31, 2019 and 2018, and its financial performance and its cash flows for 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss during the year ended October 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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 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 judgement 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 risks 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.

McGovern Hurley

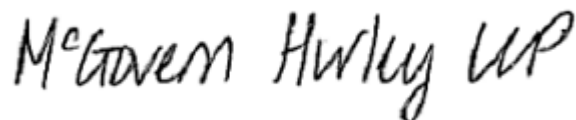
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we 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 of the audit resulting in this independent auditor's report is Glen McFarland.

McGovern Hurley LLP

A handwritten signature in black ink that reads "McGovern Hurley LLP". The signature is written in a cursive, flowing style.

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
February 20, 2020

Yukoterre Resources Inc.

Statements of Financial Position

(Expressed in Canadian dollars)

As at:	October 31, 2019	October 31, 2018
ASSETS		
Current		
Cash	\$ 85,392	\$ 1,060
Amounts receivable (Note 5)	24,842	1,250
Total current assets	110,234	2,310
Non-current		
Exploration and evaluation asset (Note 6)	424,707	329,679
Total assets	\$ 534,941	\$ 331,989
LIABILITIES		
Current		
Trade payables and accrued liabilities (Note 7)	\$ 84,620	\$ 23,166
Loans payable (Note 8)	-	165,790
Total current liabilities	84,620	188,956
EQUITY		
Share capital (Note 9(b))	676,957	246,000
Contributed surplus (Note 10)	91,176	-
Deficit	(317,812)	(102,967)
Shareholders equity	450,321	143,033
Total liabilities and equity	\$ 534,941	\$ 331,989

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 14)

APPROVED ON BEHALF OF THE BOARD

Signed "Rene Bharti", DIRECTOR

Signed "Fred Leigh", DIRECTOR

See accompanying notes to the financial statements

Yukoterre Resources Inc.

Statements of Loss and Comprehensive Loss (Expressed in Canadian dollars)

For the years ended	October 31, 2019	October 31, 2018
Expenses		
Consulting and management fees (Note 13)	\$ 25,569	\$ 40,744
Professional fees	79,081	9,855
General office expenses	26,686	2,097
Stock based compensation (Note 10)	78,245	-
Foreign exchange (gain) loss	-	(2)
Loss before interest expense	209,581	52,694
Interest expense (Note 8)	5,264	8,790
Loss and comprehensive loss for the year	\$ 214,845	\$ 61,484
Basic and diluted loss per share	\$ 0.03	\$ 0.01
Weighted average number of common shares outstanding - basic and diluted (Note 12)	6,690,502	4,920,000

See accompanying notes to the financial statements

Yukoterre Resources Inc.

Statements of Shareholders' Equity (Expressed in Canadian dollars)

	Common Shares		Contributed Surplus	Accumulated Deficit	Equity
	#	\$	\$	\$	\$
Balance, October 31, 2018	4,920,000	246,000	-	(102,967)	143,033
Shares for debt (Note 9(b))	2,100,541	210,054	-	-	210,054
Private placement (Note 9(b))	3,500,000	350,000	-	-	350,000
Share issue costs (Note 9(b))	-	(129,097)	-	-	(129,097)
Options granted (Note 10)	-	-	91,176	-	91,176
Loss and comprehensive loss for the year	-	-	-	(214,845)	(214,845)
Balance, October 31, 2019	10,520,541	676,957	91,176	(317,812)	450,321
Balance, October 31, 2017	4,920,000	246,000	-	(41,483)	204,517
Loss and comprehensive loss for the year	-	-	-	(61,484)	(61,484)
Balance, October 31, 2018	4,920,000	246,000	-	(102,967)	143,033

See accompanying notes to the financial statements

Yukoterre Resources Inc.

Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended	October 31, 2019	October 31, 2018
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	\$ (214,845)	\$ (61,484)
Items not involving cash:		
Share-based compensation (Note 10)	78,245	-
Accrued interest on loans payable (Note 8)	5,264	8,790
	(131,336)	(52,694)
Net change in non-cash working capital	(11,144)	12,913
Net cash flows (used in) operating activities	(142,480)	(39,781)
FINANCING ACTIVITIES		
Private placement (Note 9(b))	350,000	-
Share issue costs (Note 9(b))	(116,166)	-
Loan proceeds (Note 8)	63,300	157,000
Loan repayments (Note 8)	(24,300)	-
Net cash flows provided by financing activities	272,834	157,000
INVESTING ACTIVITIES		
Exploration and evaluation asset (Note 6)	(46,022)	(125,004)
Net cash flow (used in) investing activities	(46,022)	(125,004)
CHANGE IN CASH DURING THE YEAR	84,332	(7,785)
CASH, beginning of the year	1,060	8,845
CASH, end of the year	\$ 85,392	\$ 1,060
Non-cash activities		
Finder's options issued (Note 10)	\$ 12,931	\$ -
Changes in accrued property expenditures	\$ 49,006	\$ -
Shares issued for debt settlement (Note 8)	\$ 210,054	\$ -

See accompanying notes to the financial statements

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Yukoterre Resources Inc. (formerly 2560344 Ontario Inc.) (the "Company") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation, dated February 8, 2017, and on October 25, 2017 was renamed Yukoterre Resources Inc. The principal activity of the Company is the exploration and evaluation of coal. Common shares of the Company were approved for listing on the Canadian Securities Exchange on September 20, 2019 and trade under the symbol YT.

The Company's head office is located at 65 Queen Street West, 8th floor, Toronto, Ontario, M5H 2M5, Canada.

Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The business of exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable coal operations. The Company's continued existence is dependent upon the acquisition of properties, preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

The Company does not have any operating assets that generate revenues, does not have proven reserves and incurred a net loss of \$214,845 during the year ended October 31, 2019 (October 31, 2018 - \$61,484). As at October 31, 2019, the Company had a working capital surplus of \$25,614 (October 31, 2018 – deficit of \$186,646) and an accumulated deficit of \$317,812 (October 31, 2018 - \$102,967). These conditions indicate the existence of material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. The Company's ability as a going concern is dependent on the Company's ability to obtain additional financing if, as and when required, and, ultimately, the attainment of profitable operations or the profitable sale of the Company's exploration interests.

These financial statements do not give effect to adjustments that would be necessary and could be material to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

The following is a summary of significant accounting policies used in the preparation of these financial statements.

Statement of compliance

These financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") effective for the Company's reporting for the year ended October 31, 2019.

Basis of presentation

The 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. These financial statements were approved and authorized by the Board of Directors of the Company on February 20, 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these financial statements for the year end October 31, 2019 and have been approved by the Audit Committee of the Company.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

The presentation currency and functional currency of the Company is the Canadian dollar. Transactions in foreign currencies are recorded in the functional currency at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit and loss.

Provisions

General

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of operations.

Decommissioning obligations

The Company records a liability for the fair value of legal or constructive obligations associated with the decommissioning of long-lived tangible assets in the period in which they are incurred. The decommissioning liability is recognized at the present value of the estimated future cash flow associated with the decommissioning of the applicable assets or properties. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time using the discount rate, with the interest charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

As at October 31, 2019 and 2018, the Company did not have any material decommissioning obligations.

Cash

Cash includes cash on hand and deposits held with banks that have a maturity of less than three months at the date they are acquired. The Company did not have any cash equivalents as at October 31, 2019 and 2018.

Amounts receivable

Amounts receivable are amounts that are due from others in the normal course of business. If collection is expected in one year or less, they are classified as current assets; if not, they are presented as non-current assets and discounted accordingly. Accounts receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method less any provision for impairment.

Exploration and evaluation assets

Exploration and evaluation assets include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves. Costs incurred before the Company has obtained the legal right to explore an area are recognized in profit and loss.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

Exploration and evaluation costs relating to the acquisition of, exploration for and development of mineral properties are capitalized and include, but are not restricted to: drilling, trenching, sampling, surveying and gathering exploration data; calculation and definition of mineral resource; test work on geology, metallurgy, mining, geotechnical and geophysical; and conducting geological, geophysical, engineering, environmental, marketing and financial studies.

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation activities involve the search for mineral resources/reserves, the assessment of technical and operational feasibility and the determination of an identified mineral reserve's commercial viability. Once the legal right to explore has been acquired, exploration and evaluation expenditures less recoveries are capitalized by property.

Capitalized exploration and evaluation assets for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation assets are transferred to mine development costs. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves and/or a decision to commence construction of a mine; however, this determination may be impacted by management's assessment of certain modifying factors including: legal, environmental, social and governmental factors. All subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within mine development costs.

All capitalized exploration and evaluation assets are monitored for indications of impairment. Indicators of impairment may include, but are not limited to:

- the period for which the right to explore is less than one year;
- further exploration expenditures are not anticipated;
- a decision to discontinue activities in a specific area; and
- the existence of sufficient data indicating that the carrying amount of an exploration and evaluation asset is unlikely to be recovered from the development or sale of the asset.

Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that mine development assets are not expected to be recovered, they are charged to profit and loss.

Impairment of non-financial assets

The carrying values of exploration and evaluation assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

For exploration and evaluation assets, indicators of impairment would include expiration of a right to explore, no budgeted or planned material expenditures in an area or a decision to discontinue exploration in a specific area. Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets. This generally results in the Company evaluating its non-financial assets on a geographical basis. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of loss so as to reduce the carrying amount to its recoverable amount.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of loss.

Financial Instruments

Accounting policy under IFRS 9 applicable from November 1, 2018

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 fair value either through profit or loss ("FVPL") or through fair value of other comprehensive income ("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. 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. The EIR amortization is included in finance income in the statements of loss and comprehensive loss.

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 and comprehensive 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 loss and 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.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 assets subject to impairment are amounts receivable, which are 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, amounts 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.

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 trade payables and accrued liabilities and loans payable which are each measured at amortized cost. All financial liabilities are recognized initially at fair value.

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 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 liabilities at FVPL

Financial liabilities measured at FVPL include any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial liabilities 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 and comprehensive loss.

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 and comprehensive loss.

Accounting policy under IAS 39 Applicable prior to November 1, 2018

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities was similar to the accounting policy adopted in 2018, with the following exceptions:

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivable - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies its cash and amounts receivable as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive (loss) / income and recognized through profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method and includes accounts payable and accrued liabilities.

Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Interest income

Interest income is reported on an accrual basis using the effective interest method.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock-based compensation

The Company records compensation cost associated with equity-settled share-based awards based on the fair value of the equity instrument at the date of grant. The fair value of stock options and compensation options is determined using the Black-Scholes option pricing model. The compensation expense is recognized on a straight-line basis over the vesting period, if any, based on the estimate of equity instruments expected to vest. The estimate of options expected to vest is revised at the end of each reporting period. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

When options are exercised, the proceeds received, together with any related amount in the option reserves within equity, is credited to share capital. On expiry, any amount related to the initial value of the stock option or compensation option is recorded to deficit.

Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is calculated by assuming that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would be anti-dilutive.

New accounting standards

During the year ended October 31, 2019, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 2 and IFRIC 22. These new standards and changes did not have any material impact on the Company's financial statements.

Effective November 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at November 1, 2018. There were no effects on opening balances at November 1, 2018 with respect to the adoption of this policy.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9, Financial Instruments

IFRS 9 replaces International Accounting Standard (“IAS”) 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVPL”) or through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company’s financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Trades payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended October 31, 2018 was accounted for in accordance with the Company’s previous accounting policy under IAS 39. Significant accounting policies outline the current and previous accounting policies pertaining to financial instruments.

Standards issued but not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2019 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 16, Leases (“IFRS 16”) was issued in January 2016. It replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

Yukoterre Resources Inc.

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

4. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results could differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets’ carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets and goodwill. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company’s assets, costs to sell the assets and the appropriate discount rate.

Reductions in coal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company’s exploration and evaluation assets.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company’s provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company’s income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company’s interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based payment transactions

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

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

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4. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (continued)

Contingencies and provisions

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not wholly within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against us or un-asserted claims, that may result in such proceedings or regulatory or government actions that may negatively impact our business or operations, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or un-asserted claims or actions as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or assessing the impact on the carrying value of assets. Contingent assets are not recognized in the financial statements.

5. AMOUNTS RECEIVABLE

The amounts receivable balance as at October 31, 2019 and 2018, consisted of amounts receivable from the Government of Canada for Harmonized Sales Taxes (HST).

	<u>October 31, 2019</u>	<u>October 31, 2018</u>
Government of Canada HST	\$ 24,842	\$ 1,250
Total	\$ 24,842	\$ 1,250

6. EXPLORATION AND EVALUATION ASSET

<u>Incurring during the years ended:</u>	<u>October 31, 2019</u>	<u>October 31, 2018</u>
Description		
Consulting and technical	\$ 34,562	\$ 19,159
Permits	-	6,551
Travel	39,390	11,330
Reports	605	11,000
Drilling and assay	20,471	76,964
Total exploration and evaluation asset	\$ 95,028	\$ 125,004
Balance as at October 31, 2017	\$ 204,675	
Capitalized expenditures during the year	125,004	
Balance as at October 31, 2018	\$ 329,679	
Capitalized expenditures during the year	95,028	
Balance as at October 31, 2019	\$ 424,707	

7. TRADE PAYABLES AND ACCRUED LIABILITIES

<u>As at:</u>	<u>October 31, 2019</u>	<u>October 31, 2018</u>
Trade payables	\$ 73,120	\$ 8,166
Accrued liabilities	11,500	15,000
Total trade payable and accrued liabilities	\$ 84,620	\$ 23,166

Trade payables and accrued liabilities are generally unsecured and non-interest bearing and are expected to be settled on 30 to 60-day terms.

Yukoterre Resources Inc.

Notes to the Financial Statements

For the years ended October 31, 2019 and 2018

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8. LOANS PAYABLE

The Company entered into various loan agreements with 2227929 Ontario Inc. between December 2017 and January 2019. Pursuant to the terms of the loans, 2227929 Ontario Inc. agreed to lend the Company \$196,000 at an interest rate of 12%. On February 27, 2019, the Company issued 2,100,541 common shares at \$0.10 per share to settle the loans and interest totaling \$210,054 to 2227929 Ontario Inc. (See Note 9(b)). 2227929 Ontario Inc. loaned a further \$14,300 in unsecured loans to the Company from March 8, 2019 to May 10, 2019. These loans were unsecured and had no interest accruing and were paid on September 24, 2019 with the proceeds from the Initial Public Offering ("IPO").

On December 13, 2018, the Company entered into a loan agreement with Sulliden Mining Capital Inc. for \$10,000. The loan was interest free with no specific maturity date. This loan was paid on September 24, 2019.

9. CAPITAL STOCK

a. Authorized

Unlimited number of common shares, without par value

b. Common shares issued

	Number of shares	Stated value \$
Balance as of October 31, 2017 and October 31, 2018	4,920,000	\$ 246,000
Shares for debt settlement	2,100,541	210,054
Private placement	3,500,000	350,000
Share issue costs	-	(129,097)
Balance as of October 31, 2019	10,520,541	\$ 676,957

On February 27, 2019, the Company issued 2,100,541 common shares at \$0.10 per share to settle the loans with 2227929 Ontario Inc. in the amount of \$210,054.

Pursuant to an escrow agreement (the "Escrow Agreement") made as of June 26, 2019, among the Company, the Escrow Agent and certain Principals of the Company, the Principals agreed to deposit in escrow their 2,560,541 common shares (the "Escrowed Securities") with the Escrow Agent. The Escrow Agreement provides that 10% of the Escrowed Securities will be released from escrow upon the Listing Date and that, where there are no changes to the Common Shares initially deposited and no additional Escrow Securities, the remaining Escrowed Securities will be released in equal tranches of 15% every 6 month interval thereafter, over a period of 36 months.

On September 24, 2019, the Company completed its Initial Public Offering ("IPO") and issued 3,500,000 common shares at \$0.10 per common share for gross proceeds of \$350,000. In connection with the financing, the Company paid PI Financial Corp., a commission and corporate finance fee of \$78,413. The Company also issued 245,000 compensation options to PI Financial Corp. with a grant date fair value of \$12,931 (see Note 10) with an exercise price of \$0.10 and expiry date of September 24, 2021. There was also \$37,753 of professional fees incurred for the IPO.

10. OPTIONS

The Company has a stock option plan whereby it may grant options for the purchase of common shares to any director, officer or consultant of the Company. The aggregate number of shares that may be issuable pursuant to options granted under the Company's stock option plan will not exceed 10% of the issued common shares of the Company (the "Shares") at the date of grant. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options will be determined by the board at the time of grant, but in the event that the Shares are traded on the Canadian Security Exchange or any other stock exchange (the "Exchange"), may not be less than the closing price of the Shares on the Exchange on the trading date immediately preceding the date of grant, subject to all applicable regulatory requirements.

Yukoterre Resources Inc.

Notes to the Financial Statements

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10. OPTIONS (continued)

Information relating to share options outstanding as at October 31, 2019 and 2018 is as follows:

	Number of Options	Weighted average exercise price
Balance, October 31, 2018	-	\$ -
Granted	1,295,000	0.10
Balance, October 31, 2019	1,295,000	\$ 0.10

Date of expiry	Options outstanding	Options exercisable	Exercise price	Grant date fair value vested	Remaining life in years
September 24, 2021	245,000	245,000	\$0.10	\$ 12,931	1.90
September 25, 2024	1,050,000	1,050,000	\$0.10	78,245	4.91
	1,295,000	1,295,000		\$ 91,176	3.40

In relation to the IPO, on September 24, 2019, the Company granted 245,000 compensation options to PI Financial Corp. with exercise price of \$0.10 per common share. The fair market value of the options was estimated to be \$12,931 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 1.52%, expected volatility of 100%, an estimated life of 2 years and an expected dividend yield of 0%.

On September 25, 2019, the Company granted 1,050,000 options to directors, officers and consultants of the Company with exercise price of \$0.10 per common share. The fair market value of the options was estimated to be \$78,245 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 1.34%, expected volatility of 100%, an estimated life of 5 years and an expected dividend yield of 0%.

11. INCOME TAXES

a. Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018 – 26.5%) were as follows:

	2019 \$	2018 \$
(Loss) before income taxes	(214,845)	(61,484)
Expected income tax recovery based on statutory rate	(57,000)	(16,000)
Adjustment to expected income tax benefit:		
Stock based compensation	21,000	-
Change in benefit of tax assets not recognized	36,000	16,000
Deferred income tax provision (recovery)	-	-

Yukoterre Resources Inc.

Notes to the Financial Statements

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11. INCOME TAXES (continued)

b. Deferred income tax balances

Deferred tax assets have not been recognized in respect of the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can use the benefits.

	2019	2018
	\$	\$
Non-capital loss carry-forwards	263,000	103,000
Share issue costs	93,000	-
Total	356,000	103,000

As at October 31, 2019, the Company had estimated non-capital loss for Canadian income tax purposes of approximately \$262,000 available to use against future taxable income. The non-capital tax losses expire after 20 years.

2037	\$	41,000
2038		61,000
2039		160,000
	\$	262,000

12. NET LOSS PER SHARE

The number of shares used to calculate the basic and diluted net loss per share for the year ended October 31, 2019 and 2018 included the weighted average number of common shares outstanding of 6,690,502 and 4,920,000. Outstanding options were antidilutive and excluded from the diluted loss per share calculation.

13. RELATED PARTY DISCLOSURES

Key management personnel compensation

In addition to their contracted fees, directors and officers also participate in the Company's share option program. Certain executive officers are subject to termination notices of 24 months and change of control contingent provisions (Note 14). Key management personnel compensation comprised:

<u>For the years ended:</u>	<u>October 31, 2019</u>	<u>October 31, 2018</u>
Directors and officers' compensation	\$ 5,300	\$ -
Share-based payments	51,418	-
	\$ 56,718	\$ -

The Company entered into loan agreements with 2227929 Ontario Inc., and Sulliden Mining Capital Inc. 2227929 Ontario Inc. is a company wholly owned by Fred Leigh, who has been a director of the Company since January 14, 2019. Deborah Battiston is a director and officer of Sulliden Mining Capital Inc. On September 23, 2019, there were loans to the Company in the amount of \$14,300 from 2227929 Ontario Inc. and \$10,000 from Sulliden Mining Capital Inc. These loans were paid on September 24, 2019 with the proceeds from the IPO (See Note 9). Refer to Note 8 for debt settlement of loan for common shares with 2227929 Ontario Inc in the amount of \$210,054 of which \$196,000 was principal and \$14,054 was interest.

Yukoterre Resources Inc.

Notes to the Financial Statements

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14. COMMITMENTS AND CONTINGENCIES

Management contracts

The Company is party to certain management contracts. Currently, these contracts require payments of \$190,800 as at October 31, 2019 (October 31, 2018 - \$Nil) to be made upon the occurrence of a change in control to the officers of the Company. The Company is also committed to payments upon termination of approximately \$141,300 (October 31, 2018 - \$9,600) pursuant to the terms of these contracts. As a triggering event has not taken place, these amounts have not been recorded in these financial statements.

Contingencies

Coal operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company's operations may require licenses and permits from various governmental authorities in the countries in which it operates. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

Environmental

The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The Company's financial instruments as at October 31, 2019, consisted of cash, amounts receivable and trade payables and accrued liabilities and the amounts reflected in the statement of financial position approximate fair value due to the short-term maturity of these instruments.

Financial instruments recorded at the reporting date at fair value are classified into one of three levels based upon the fair value hierarchy. Items are categorized based on inputs used to derive fair value based on:

Level 1 - quoted prices that are unadjusted in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in level 1 that are observable for the asset/liability either directly or indirectly; and

Level 3 - inputs for the instruments are not based on any observable market data.

Risk management overview

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. This note provides information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Yukoterre Resources Inc.

Notes to the Financial Statements

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables.

The carrying amount of amounts receivable represents the maximum credit exposure. As at October 31, 2019, the Company's total receivable was \$24,842 (October 31, 2018 – 1,250) from the Government of Canada for Harmonized Sales Taxes (HST). There were no derivative instruments held at October 31, 2019 and October 31, 2018.

Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, interest rates, and foreign exchange rates, will affect the Company's net income 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 the Company's returns.

(i) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for coal are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. Lower commodity prices can also reduce the Company's ability to raise capital. As the Company is not generating revenues, commodity price risk does not directly impact the Company's financial results.

(ii) Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates.

As at October 31, 2019 and 2018, the Company had the following asset denominated in foreign currency:

October 31, 2019	USD\$
Cash at bank	20
	20

October 31, 2018	USD\$
Cash at bank	20
	20

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of trade payables and accrued liabilities and loans payable. As at October 31, 2019 and 2018, the Company had a cash balance of \$85,392 (2018 - \$1,060) to settle current liabilities of \$84,620 (2018 - \$188,956). Most of the Company's financial liabilities have maturities of less than 30 days and are subject to normal trade terms.

The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Financial modeling is used to provide economic outlooks and the Company utilizes authorizations for expenditures on projects to monitor capital expenditures.

Trade payables consists of invoices payable to trade suppliers for administration expenditures. The Company processes invoices within a normal payment period. Trade payables have contractual maturities of less than one year.

Yukoterre Resources Inc.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Sensitivity analysis

The Company has, for accounting purposes, designated its cash and amounts receivable at amortized cost. Trade payables and accrued liabilities and loans payable are classified for accounting purposes at amortized cost. As of October 31, 2019, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the short term maturity of these instruments.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Financial instrument classification	Carrying amount		Fair value	
		2019	2018	2019	2018
Financial assets:					
Cash	Amortized cost	\$ 85,392	\$ 1,060	\$ 85,392	\$ 1,060
Amounts receivable	Amortized cost	24,842	1,250	24,842	1,250
Financial liabilities:					
Trade payables and accrued liabilities	Amortized cost	84,620	23,166	84,620	23,166
Loans payable	Amortized cost	\$ -	\$ 165,790	\$ -	\$ 165,790

The sensitivity analysis shown in the notes below may differ materially from actual results. Based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

- (i) Cash is subject to floating interest rates. As at October 31, 2019, if interest rates had decreased/increased by 1% with all other variables held constant, there would not have been a material impact to the loss for the year ended October 31, 2019 given the low level of cash on hand throughout the year.
- (ii) Cash, accounts payable and provisions denominated in US dollars are subject to foreign currency risk. As at October 31, 2019, had the US dollar weakened/strengthened by 5% against the Canadian dollar with all other variables held constant, there would have been a change of approximately \$1 (2018 - \$1) in the Company's net loss.

16. CAPITAL MANAGEMENT

The Company considers the aggregate of its common shares, contributed surplus and deficit as capital. The Company's objective, when managing capital, is to ensure sufficient resources are available to meet day to day operating requirements and to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

At October 31, 2019, the Company has no cash-generating operations; therefore, the only source of cash flow is generated from financing activities or loans. The Company's officers and senior management are in the process of searching for additional business opportunities. Potential business activities are appropriately evaluated by senior management and a formal review and approval process has been established at the Board of Directors' level. The Company may enter into new financing arrangements to meet its objectives for managing capital, until such time as a viable business activity is operational and the Company can thereby internally generate sufficient capital to cover its operational requirements.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.