Holly Street Capital Ltd.
(A Capital Pool Company)

FINANCIAL STATEMENTS

For year ended September 30, 2020

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charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of:
Holly Street Capital Ltd.

Opinion

We have audited the financial statements of Holly Street Capital Ltd. (the "Company"), which comprise the statements of financial position as at September 30, 2020 and 2019 and the statements of loss and comprehensive loss, cash flows, and changes in equity for the year ended September 30, 2020 and the period from incorporation on July 31, 2019 to September 30, 2019, 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 September 30, 2020 and 2019, and its financial performance and its cash flows for the year ended September 30, 2020 and the period from incorporation on July 31, 2019 to September 30, 2019 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with 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 of $140,671 during the year ended September 30, 2020 and, as of that date, the Company's total deficit was $156,545. The Company has not generated revenue from operations, and there is no assurance that the Company will identify a qualifying transaction under the policies of the TSX Venture Exchange. As stated in Note 1, these events and conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management 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. 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 to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional 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 the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Melyssa Charlton.

Charlton & Company

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

January 11, 2021

Holly Street Capital Ltd.
(A CAPITAL POOL COMPANY)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	September 30, 2020	September 30, 2019
	$	$
ASSETS		
Cash	353,022	76,529
Prepaid expense	-	20,500
Total assets	353,022	97,029
LIABILITIES		
Accounts payable and accrued liabilities	31,545	12,903
Total liabilities	31,545	12,903
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	425,022	100,000
Reserves (Note 5)	53,000	-
Deficit	(156,545)	(15,874)
Total shareholders' equity	321,477	84,126
Total liabilities and shareholders' equity	353,022	97,029

Nature of operations and going concern (Note 1)

Approved by the Board of Directors on January 12, 2021:

"Trumbull Fisher"
Director

"Joel Freudman"
Director

(Expressed in Canadian dollars)

	For the year ended September 30, 2020	From July 31, 2019 (date of incorporation) to September 30, 2019
	$	**$**
Expenses		
Accounting and audit fees	7,226	5,125
Bank charges	830	346
Legal fees	79,828	10,403
Office and administrative	601	-
Regulatory and filing	12,186	-
Share-based compensation (Notes 5 and 8)	40,000	-
Loss and comprehensive loss for the period	(140,671)	(15,874)
Loss per share		
Basic and diluted	(0.06)	-
Weighted average number of common shares outstanding (basic and diluted) (Note 5)	2,312,623	-

(Expressed in Canadian dollars unless otherwise stated)

	Number of outstanding shares	Share capital	Reserves	Deficit	Total shareholders' equity
		$	$	$	$
Balance, July 31, 2019 (date of incorporation)	**1**	**1**	**-**	**-**	**1**
Repurchase of incorporation share	(1)	(1)	-	-	(1)
Founder seed shares issued for cash	2,000,000	100,000	-	-	100,000
Loss for the period	-	-	-	(15,874)	(15,874)
Balance, September 30, 2019	**2,000,000**	**100,000**	**-**	**(15,874)**	**84,126**
Initial public offering	2,500,000	250,000	-	-	250,000
Private placement	3,010,000	150,500	-	-	150,500
Share issuance costs	-	(62,478)	-	-	(62,478)
Finders fee – agent options	-	(13,000)	13,000	-	-
Share-based compensation	-	-	40,000	-	40,000
Loss for the year	-	-	-	(140,671)	(140,671)
Balance, September 30, 2020	**7,510,000**	**425,022**	**53,000**	**(156,545)**	**321,477**

(Expressed in Canadian dollars)

	For the year ended September 30, 2020	From July 31, 2019 (date of incorporation) to September 30, 2019
	$	$
Cash provided by (used in)		
Operating activities		
Loss for the period	(140,671)	(15,874)
Items not affecting cash:		
Share-based compensation	40,000	-
Changes in non-cash working capital items:		
Prepaid expense	20,500	(20,500)
Accounts payable and accrued liabilities	8,642	12,903
Net cash used in operating activities	(71,529)	(23,471)
Financing activities		
Proceeds from issuance of shares	400,500	100,000
Share issuance costs	(52,478)	-
Net cash provided by financing activities	348,022	100,000
Change in cash, for the period	276,493	76,529
Cash - beginning of period	76,529	-
Cash - end of period	353,022	76,529

During the year ended September 30, 2020, the Company issued agents options with a fair value of $13,000, which are recorded as finders' fees and $10,000 in share issuance costs were outstanding in accounts payable and accrued liabilities. There were no non-cash financing or investing activities for the period from July 31, 2019 (date of incorporation) to September 30, 2019.

1. Nature of operations and going concern

Nature of operations

Holly Street Capital Ltd. (the "Company" or "Holly") was incorporated under the British Columbia Corporations Act on July 31, 2019. The Company is intending to be classified as a Capital Pool Company as defined in the TSX Venture Exchange (the "Exchange") Policy 2.4. The principal business of the Company is the identification and evaluation of a Qualifying Transaction ("QT") and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

On December 17, 2019, the Company completed its Initial Public Offering ("IPO") on the Exchange raising gross proceeds of $250,000 through the issuance of 2,500,000 common shares at $0.10 per share. The Company's common shares were approved for listing on the Exchange and commenced trading effective December 19, 2019 under the symbol "HSC.P".

The head office, principal address and registered office of the Company are located at Suite 1500 - 1055 West Georgia St., P.O. Box 11117, Vancouver, B.C., V6E 4N7.

Going concern

These financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has not generated revenues from operations, and there is no assurance that the Company will identify a QT under the policies of the Exchange. If a QT is not completed, the Company will need to identify other sources of financing to remain as a going concern. As at September 30, 2020, the Company has a working capital surplus of $321,477 (2019 - $84,126). The Company has incurred losses from inception. During the year ended September 30, 2020, the Company recorded a loss of $140,671 (2019 - $15,874) and has a deficit of $156,545 (2019 - $15,874). These circumstances have resulted in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

2. Basis of presentation and significant accounting policies

Statement of Compliance

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

Basis of Presentation

These financial statements have been prepared on a historical cost basis, except for any financial assets and liabilities held at fair value, as explained in the accounting policies set out below. These financial statements are presented in Canadian Dollars, which is also the Company's functional currency.

2. Basis of presentation and significant accounting policies (continued)

Significant accounting policies

Financial instruments

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

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

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

Measurement

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

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Statement of Loss and Comprehensive Loss in the period in which it arises.

At present, the Company's cash is measured as FVTPL and its accounts payable and accrued liabilities are measured at amortized cost.

2. Basis of presentation and significant accounting policies (continued)

Financial instruments (continued)

Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses of 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 the twelve month expected credit losses. The Company shall recognize in the statements of 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.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss.

Loss per share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

The Company has 2,000,000 common shares outstanding as of September 30, 2020 and 2019 which are contingently cancellable and are excluded from the calculation of the weighted average number of common shares outstanding.

Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used are those that are substantively enacted by the end of the reporting date.

Deferred income tax is calculated based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting. The change in the net deferred income tax asset or liability is included in income except for deferred income tax relating to equity items which is recognized directly in equity. The income tax effects of differences in the periods when revenue and expenses are recognized, in accordance with Company's accounting practices, and the periods they are recognized for income tax purposes are reflected as deferred income tax assets or liabilities. Deferred income tax assets and liabilities are measured using the substantively enacted statutory income tax rates which are expected to apply to taxable income in the years in which the assets are realized or the liabilities settled. A valuation allowance is recorded against any deferred tax asset if it is not probable to be utilized against future taxable profit.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity and are intended to be settled on a net basis.

The determination of current and deferred taxes requires interpretations of tax legislation, estimates of expected timing of reversal of deferred tax assets and liabilities, and estimates of future earnings.

2. Basis of presentation and significant accounting policies (continued)

Related party transactions

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

Share capital and share issuance costs

The Company's common shares and any future offerings of share warrants and options are classified as equity instruments. Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to profit or loss if the shares are not issued.

Share-based compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee. The Company accounts for share-based payments using the fair value method. 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.

The fair value of the share-based compensation awards is determined at the date of grant using the Black-Scholes option pricing model. The fair value of the award is charged to profit or loss, unless they are considered to be share issuance costs in which case they are booked as a reduction to share capital, and credited to reserves rateably over the vesting period, after adjusting for the number of awards that are expected to vest. Expenses recognized for forfeited awards are reversed. For awards that are cancelled, any expense not yet recognized is recognized immediately in profit or loss. Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment arrangement as measured at the date of modification, over the remainder of the vesting period.

Warrants

Warrants issued to agents in connection with a financing are recorded at fair value using the Black-Scholes option pricing model and charged as share issuance costs associated with the offering with an offsetting credit to Share-based payment and warrants reserve.

Proceeds of the exercise of these warrants are credited to share capital together with the corresponding amount, if any, of the original warrant charge included in Share-based payment and warrants reserve.

2. Basis of presentation and significant accounting policies (continued)

Changes in accounting standards

New accounting standards adopted during the year

IFRS 16 – Leases

The Company has adopted IFRS 16, Leases ("IFRS 16") which is effective for annual periods beginning on or after January 1, 2019. The IASB issued IFRS 16, Leases, in January 2016, which replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets.

The Company adopted this standard effective October 1, 2019 and it did not have any material impacts on the financial statements upon adopting the standard.

3. Significant Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. Management believes the estimates and assumptions used in these financial statements are reasonable; however, actual results could differ from those estimates and could have a material impact on future results of the Company's financial statements.

The Company's significant accounting judgments and estimates have been applied in these financial statements:

Judgments

The evaluation of the Company's ability to continue as a going concern

Estimations

The measurement of deferred income tax assets and liabilities; and

The inputs used in accounting for share-based compensation expense and for agents' options recorded in share capital and reserves.

4. Qualifying Transaction

On June 2, 2020, the Company and Wolf Acquisition Corp. ("WOLF.P") entered into a binding letter of intent ("LOI") with Jasper Studios Inc. in respect of a proposed business combination. The LOI was terminated on July 15, 2020 by the Company and WOLF.P to focus on identifying another transaction which would constitute a QT in accordance with Policy 2.4 – Capital Pool Companies of the Exchange.

On September 10, 2020, the Company entered in a binding LOI with Southern Sky Resources Corp. ("Southern Sky") in respect of a proposed business combination which would constitute a QT (the "Proposed Transaction"). Southern Sky is a private company existing under the laws of Ontario and is based in Toronto, Ontario.

Southern Sky's material assets consist of an option to acquire a 75% interest in a mineral exploration project located in western Colombia pursuant to an option agreement dated June 12, 2020 with a private Colombian company and a 100% interest in an exploration property located in the Cuyuni Mining District, Guyana.

4. Qualifying Transaction (continued)

The LOI contemplates that the Company and Southern Sky will negotiate and enter into a definitive agreement in respect of the Proposed Transaction (the "Definitive Agreement"), pursuant to which it is anticipated that the Company will acquire all of the issued and outstanding Southern Sky Shares in exchange for the Company's post-consolidated common shares (the "Holly Shares"), resulting in a reverse takeover of Holly by Southern Sky.

Prior to the closing of the Proposed Transaction, Holly will consolidate its outstanding Holly Shares on the basis of one (1) new Holly Share for each two (2) old Holly Shares (the "Consolidation"), such that, prior to closing of the Proposed Transaction, Holly will have approximately 3,755,000 Holly Shares issued and outstanding. It is intended that Holly Shares will be issued to holders of Southern Sky Shares on the basis of one (1) post-Consolidation Holly Share for every one (1) Southern Sky Share, resulting in the issuance of an aggregate 20,500,000 post-Consolidation Holly Shares to the shareholders of Southern Sky.

5. Share Capital and Reserves

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Share issuances

For the year ended September 30, 2020

On August 19, 2020 the Company completed a non-brokered private placement through the issuance of 3,010,000 common shares at a price of $0.05 per share for gross proceeds of $150,500.

The Company completed its IPO of 2,500,000 common shares at $0.10 per share for gross proceeds of $250,000 pursuant to a prospectus dated November 29, 2019 filed with the British Columbia, Alberta and Ontario Securities Commissions. Pursuant to the IPO, the Company paid a cash commission of $25,000, paid corporate finance fee of $20,500, incurred an additional $16,978 in share issuance costs, and granted 250,000 agent options with a fair value of $13,000.

For the period ended September 30, 2019

On July 31, 2019, the Company issued 1 incorporation common share at a price of $0.01 per share. This share was repurchased by the Company and cancelled on July 31, 2019.

On July 31, 2019, the Company issued 2,000,000 common shares to the founders of the Company at a price of $0.05 per share for gross proceeds of $100,000. As at September 30, 2020, the founders shares remain in escrow and are contingently returnable, thus have been excluded from the weighted average number of shares outstanding.

Stock option plan

The Company has a stock option plan whereby the Company may grant options with a maximum term of ten years, for up to 10% of the Company's issued and outstanding common shares, to directors, officers, employees and consultants at exercise prices to be determined by the market value on the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Incentive stock options issued have an immediate vesting term, unless vesting is imposed by the Company's Board of Directors.

5. Share Capital and Reserves (continued)

Agents' Options

Concurrent with the completion of the IPO, the Company granted 250,000 agent options exercisable at a price of $0.10 per share expiring two years from the listing date of December 19, 2019. The fair value of these agents' options granted was determined to be $13,000 using the Black-Scholes valuation model and the following inputs: exercise price of $0.10, stock price of $0.10, volatility of 100%, risk free rate of 1%, and a term of two years. The fair market value of these agents' options has been included as a reduction against share capital. The remaining life of the agents' options as at September 30, 2020 is 1.22 years.

Stock Options

Concurrent with the completion of the IPO, the Company granted 450,000 stock options to officers and directors exercisable at a price of $0.10 per share expiring ten years from the listing date of December 19, 2019. The fair value of these stock options granted was determined to be $40,000 using the Black-Scholes valuation model and the following inputs: exercise price of $0.10, stock price of $0.10, volatility of 100%, risk free rate of 1% and a term of ten years. The fair market value of these stock options has been included as in share-based compensation. The remaining life of the stock options as at September 30, 2020 is 9.22 years.

6. Financial Instruments

As at September 30, 2020, the Company's financial instruments consist of cash and accounts payable and accrued liabilities. The Company believes that the carrying values of cash, and accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

The Company's cash is considered to be Level 1 within the fair value hierarchy (as discussed below).

Level 1– fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during the period ended September 30, 2020.

The risk exposure arising from these financial instruments is summarized as follows:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. As the Company's cash is held in one bank, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As of September 30, 2020, the Company's exposure to credit risk is minimal.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's ability to continue to meet its liabilities when due, beyond the current cash balance, is dependent on future support of shareholders through equity offerings. There is no assurance of continued access to significant equity funding.

6. Financial Instruments (continued)

(c) 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 value of its holdings or financial instruments. The Company's activities have only been transacted in Canadian dollars since incorporation; in addition, the Company carries no interest-bearing debt. As such, the Company has minimal market risks facing it at present.

7. Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the identification and evaluation of a QT and continue as a going concern. The Company considers capital to be all accounts in equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Additional funds may be required to finance the Company's QT. In accordance with Policy 2.4 of the Exchange, the proceeds raised from the sale of securities may only be used to identify and evaluate assets or businesses, and obtain shareholder approval for a QT, with the exception that up to the lesser of 30% of the gross proceeds realized by the Company in respect of the sale of its securities, or $210,000, may be used for purposes other than such identification and evaluation of businesses or assets. These restrictions apply until completion of a QT by the Company as defined under Policy 2.4 of the Exchange. The Company is required to complete its QT on or before two years from the date the Company receives regulatory approval to list its shares on the Exchange.

8. Related Party Transactions

Key management personnel are the persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly, including entities controlled by such persons. The key management personnel include the Company's executive management team and the Board of Directors.

During the year ended September 30, 2020, the Company recognized $40,000 (2019 - $nil) in share-based compensation expense relating to its December 19, 2019 grant of options to directors and officers (Note 5).

9. Income Taxes

A reconciliation of income taxes at statutory rates with the reported tax is as follows:

		2020		**2019**
Loss for the period	$	(140,671)	$	(15,874)
Expected income tax recovery		(38,000)		(4,000)
Share issuance costs		(17,000)		-
Permanent differences		11,000		-
Change in unrecognized deductible temporary differences		44,000		4,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

(Expressed in Canadian dollars unless otherwise stated)

9. Income Taxes (continued)

The significant components of the Company's unrecorded deferred tax assets are as follows:

		2020		2019
Deferred tax assets				
Share issuance costs	$	13,000	$	-
Non-capital losses available for future period		35,000		4,000
		48,000		4,000
Unrecognized deferred tax assets		(48,000)		(4,000)
Net deferred tax assets	**$**	**-**	**$**	**-**

Deferred tax assets have not been recognized in respect of the above for the year ended September 30, 2020 and the period from July 31, 2019 (date of incorporation) to September 30, 2019 because the amount of future taxable profit that will be available to realize such assets is not probable.

The significant components of the Company's unused temporary differences and tax losses are as follows:

		2020		2019
Temporary differences				
Share issuance costs	50,000	2040	-	-
Non-capital losses available for future periods	129,000	2039 to 2040	16,000	2039

Tax attributes are subject to review, and potential adjustment, by tax authorities.