

Holly Street Capital Ltd.
(A Capital Pool Company)

FINANCIAL STATEMENTS

For six months ended March 31, 2021

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim financial statements, they must be accompanied by a notice indicating that these condensed interim financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for review of condensed interim financial statements by an entity's auditor

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	March 31, 2021	September 30, 2020
	\$	\$
ASSETS		
Cash	281,723	353,022
Total assets	281,723	353,022
LIABILITIES		
Accounts payable and accrued liabilities	5,314	31,545
Total liabilities	5,314	31,545
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	425,022	425,022
Reserves (Note 5)	53,000	53,000
Deficit	(201,613)	(156,545)
Total shareholders' equity	276,409	321,477
Total liabilities and shareholders' equity	281,723	353,022

Nature of operations and going concern (Note 1)

Subsequent events (Note 9)

Approved by the Board of Directors on May 3, 2021:

"Trumbull Fisher"

Director

"Joel Freudman"

Director

The accompanying notes form an integral part of these interim financial statements.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

	For the three months ended March 31, 2021	For the three months ended March 31, 2020	For the six months ended March 31, 2021	For the six months ended March 31, 2020
	\$		\$	
Expenses				
Accounting and audit fees	314	-	314	2,225
Bank charges	459	218	889	323
Legal fees	25,494	-	27,789	44,319
Office and administrative	1,429	409	2,523	409
Regulatory and filing	11,120	10,134	13,553	10,134
Share-based compensation (Notes 5 and 8)	-	-	-	40,000
Loss and comprehensive loss for the period	(38,816)	(10,761)	(45,068)	(97,410)
Loss per share				
Basic and diluted	(0.01)	(0.00)	(0.01)	(0.07)
Weighted average number of common shares outstanding (basic and diluted) (Note 5)	5,510,000	2,500,000	5,510,000	1,434,326

The accompanying notes form an integral part of these interim financial statements.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars unless otherwise stated)

	Number of outstanding shares	Share capital	Reserves	Deficit	Total shareholders' equity
		\$	\$	\$	\$
Balance, September 30, 2019	2,000,000	100,000	-	(15,874)	84,126
Initial public offering	2,500,000	250,000	-	-	250,000
IPO agent – cash commission	-	(25,000)	-	-	(25,000)
IPO agent– agent options	-	(13,000)	13,000	-	-
Share issuance costs	-	(27,478)	-	-	(27,478)
Stock-based compensation	-	-	40,000	-	40,000
Net loss for the period	-	-	-	(97,410)	(97,410)
Balance, March 31, 2020	4,500,000	284,522	53,000	(113,284)	224,238
Balance, September 30, 2020	7,510,000	425,022	53,000	(156,545)	321,477
Loss for the period	-	-	-	(45,068)	(45,068)
Balance, March 31, 2021	7,510,000	425,022	53,000	(201,613)	276,409

The accompanying notes form an integral part of these interim financial statements.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

CONDENSED INTERIM STATEMENTS OF CASH FLOW

(Expressed in Canadian dollars)

	For the six months ended March 31, 2021	For the six months ended March 31, 2020
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the period	(45,068)	(97,410)
Items not affecting cash:		
Share-based compensation	-	40,000
Changes in non-cash working capital items:		
Prepaid expense	-	20,500
Accounts payable and accrued liabilities	(26,231)	(12,903)
Net cash used in operating activities	(71,299)	(49,813)
Financing activities		
Proceeds from issuance of shares	-	250,000
IPO agent compensation		(25,000)
Share issuance costs	-	(27,478)
Net cash provided by financing activities	-	197,522
Change in cash, for the period	(71,299)	147,709
Cash - beginning of period	353,022	76,529
Cash - end of period	281,723	224,238

The accompanying notes form an integral part of these interim financial statements.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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 March 31, 2021, the Company has a working capital surplus of \$276,409 (2020 - \$321,477). The Company has incurred losses from inception. During the period ended March 31, 2021, the Company recorded a loss of \$45,068 (2020 - \$97,410) and has a deficit of \$201,613 (2020 - \$156,545). 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 condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34, 'Interim Financial Reporting' using accounting policies consistent 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").

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.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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 March 31, 2021 and September 30, 2020 which are contingently cancellable and are excluded from the calculation of the weighted average number of common shares outstanding (Note 5).

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.

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(A CAPITAL POOL COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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 consisted 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.

Holly Street Capital Ltd.

(A CAPITAL POOL COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

4. Qualifying Transaction (continued)

The LOI contemplated that the Company and Southern Sky would negotiate and enter into a definitive agreement in respect of a Proposed Transaction (the “Definitive Agreement”), pursuant to which it was anticipated that the Company would 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 would have consolidated 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 would have approximately 3,755,000 Holly Shares issued and outstanding. It was intended that Holly Shares would 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.

On February 5, 2021, the Company entered into the Definitive Agreement with Southern Sky, however on April 15, 2021, the Definitive Agreement was terminated.

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 period ended March 31, 2021

There were no issuances during this period.

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.

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.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian dollars unless otherwise stated)

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 March 31, 2021 is 0.72 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 March 31, 2021 is 8.72 years.

Escrow Shares

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 March 31, 2021, the founders shares remain in escrow and are contingently returnable, thus have been excluded from the weighted average number of shares outstanding.

6. Financial Instruments

As at March 31, 2021, 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 March 31, 2021.

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 March 31, 2021, the Company's exposure to credit risk is minimal.

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(Expressed in Canadian dollars unless otherwise stated)

6. Financial Instruments (continued)

(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.

(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 period ended March 31, 2021, the Company recognized \$NIL (2020- \$40,000) in share-based compensation.

9. Subsequent Events

See Note 4 regarding termination of Proposed Transaction with Southern Sky.