**PRISMO METALS INC.**

**(An exploration-stage company)**

# Financial statements

Years ended December 31, 2020 and 2019

(Expressed in Canadian dollars – unless otherwise indicated)

Suite 1100 – 1111 Melville Street
Vancouver, BC
Canada V6E 3V6

**PRISMO METALS INC.**

## Management's responsibility for financial reporting

The preparation and presentation of the accompanying financial statements are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, Davidson & Company LLP, Chartered Professional Accountants, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

"*Peter Craig Gibson*" *(signed)*

Peter Craig Gibson
President and Chief Executive Officer

"Salvador Miranda" *(signed)*

Salvador Miranda
Chief Financial Officer

April 21, 2021

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Prismo Metals Inc.

***Opinion***

We have audited the accompanying financial statements of Prismo Metals Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficiency) for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("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 in our audits is sufficient and appropriate to provide a basis for our opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 of the financial statements, which indicates that the Company has incurred losses since inception and, as of December 31, 2020 the Company's current liabilities exceeded its current assets by $43,620. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes 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 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 Peter Maloff.

Davidson & Company LLP

Chartered Professional Accountants

Vancouver, Canada

April 21, 2021

# Prismo Metals Inc.

(an exploration-stage company)

## STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

| As at | Note | **December 31, 2020** $ | December 31, 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | **101,643** | 175,581 |
| Receivables | | **9,510** | 1,897 |
| Prepaid expenses and deposits | | **803** | - |
| | | **111,956** | 177,478 |
| Exploration and evaluation assets | 7 | **874,539** | 453,041 |
| | | **986,495** | 630,519 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 4 | **123,485** | 56,037 |
| Due to related parties | 6 | **32,091** | 7,261 |
| | | **155,576** | 63,298 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 5 | **1,020,745** | 533,949 |
| Contributed surplus | 5(c,d) | **280,994** | 122,732 |
| Deficit | | **(470,820)** | (89,460) |
| | | **830,919** | 567,221 |
| | | **986,495** | 630,519 |

| | |
|---|---|
| Nature of operations and going concern uncertainty | 1 |
| Subsequent event | 11 |

*The accompanying notes are integral part of these financial statements*

Approved by the board of directors and authorized for issue on April 21, 2021

*"Peter Craig Gibson" (Signed)*
Director

*"Jean François Meilleur" (Signed)*
Director

## Prismo Metals Inc.

(an exploration-stage company)

**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

| | | Year ended December 31 | |
|---|---|---|---|
| | | **2020** | 2019 |
| | Note | **$** | $ |
| **EXPENSES** | | | |
| Administration and accounting | 6 | **24,968** | 10,832 |
| Audit and legal | | **151,860** | 66,843 |
| Filing and transfer agent fees | | **36,904** | - |
| Office and sundry | | **2,025** | 1,380 |
| Travelling | | **3,855** | - |
| Investor relations | | **25,952** | 4,228 |
| Share-based payments | 5(d) | **133,910** | - |
| Foreign exchange loss | | **1,886** | 1,811 |
| **Loss and comprehensive loss for the year** | | **(381,360)** | (85,094) |
| **Loss per share (basic and diluted)** | | **(0.03)** | (0.01) |
| **Weighted average number of shares outstanding (basic and diluted)** | | **13,888,907** | 5,934,951 |

*The accompanying notes are integral part of these financial statements*

# Prismo Metals Inc.

(an exploration-stage company)

## STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

| | | Year ended December 31 | |
|---|---|---|---|
| | | **2020** | **2019** |
| | **Note** | **$** | $ |
| **Operating activities** | | | |
| Loss for the year | | **(381,360)** | (85,094) |
| Adjustments for items not involving cash: | | | |
| - Share-based payments | | **133,910** | - |
| Changes in non-cash working capital items: | | | |
| - Receivables | | **(7,613)** | (1,897) |
| - Prepaid expenses and deposits | | **(803)** | - |
| - Accounts payable and accrued liabilities | 4 | **29,487** | 50,161 |
| - Due to related parties | 6 | **24,830** | 7,261 |
| Cash used in operating activities | | **(201,549)** | (29,569) |
| **Cash flows used in investing activities** | | | |
| Investment in exploration and evaluation assets | 7 | **(373,167)** | (105,309) |
| Cash used in investment activities | | **(373,167)** | (105,309) |
| **Cash flows from financing activities** | | | |
| Shares issued for cash | 5 (b) | **596,563** | 319,793 |
| Share issuance costs | 5 (b) | **(95,785)** | (9,334) |
| Cash generated from financing activities | | **500,778** | 310,459 |
| **Net change in cash** | | **(73,938)** | 175,581 |
| Cash, beginning of the year | | **175,581** | - |
| **Cash, end of the year** | | **101,643** | 175,581 |
| **Supplementary information with respect to cash flows** | | | |
| Non-cash financing activities: | | | |
| Share issuance costs incurred through accounts payable and accrued liabilities | 5 (b) | **(2,732)** | (1,510) |
| Share issuance costs settled through issuance of shares | 5 (b) | **(42,500)** | - |
| Fair value of options outstanding granted to agent as part of IPO | 5 (b) | **11,249** | - |
| Non-cash investing activities: | | | |
| Exploration and evaluation assets acquired through accounts payable and accrued liabilities | | **(35,227)** | - |
| Shares issued for exploration and evaluation assets | 5 (b) | **-** | 225,000 |
| Warrants issued for exploration and evaluation assets | 5 (c) | **(13,103)** | 122,732 |

*The accompanying notes are integral part of these financial statements*

# Prismo Metals Inc.

(an exploration-stage company)

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Expressed in Canadian Dollars)

| | | Share capital | | | | |
|---|---|---|---|---|---|---|
| | Note | Amount | Value | Contributed surplus | Deficit | Total |
| | | # | $ | $ | $ | $ |
| Balance, December 31, 2018 | | 1 | - | - | (4,366) | (4,366) |
| Shares issued for cash | 5(b) | 8,110,866 | 319,793 | - | - | 319,793 |
| Units issued for property acquisition | 5(b,c) | 4,000,000 | 200,000 | 122,732 | - | 322,732 |
| Shares issued as payment for exploration and evaluation assets | 5(b) | 500,000 | 25,000 | - | - | 25,000 |
| Share issuance costs | 5(b) | - | (10,844) | - | - | (10,844) |
| Loss for the year | | - | - | - | (85,094) | (85,094) |
| Balance, December 31, 2019 | | 12,610,867 | 533,949 | 122,732 | (89,460) | 567,221 |
| Shares issued for cash | 5(b) | 4,600,000 | 575,000 | - | - | 575,000 |
| Shares issued as corporate finance fee | 5(b) | 40,000 | 5,000 | - | - | 5,000 |
| Shares issued in settlement of debt | 5(b) | 300,000 | 37,500 | - | - | 37,500 |
| Warrants issued for exploration and evaluation assets | | - | - | 13,103 | - | 13,103 |
| Granting of agent's option | 5(b) | - | - | 22,498 | - | 22,498 |
| Share issuance costs | 5(b) | - | (163,516) | - | - | (163,516) |
| Exercise of agent's options | 5(b) | 172,500 | 32,812 | (11,249) | - | 21,563 |
| Share-based payments | 5(d) | - | - | 133,910 | - | 133,910 |
| Loss for the year | | - | - | - | (381,360) | (381,360) |
| **Balance, December 31, 2020** | | **17,723,367** | **1,020,745** | **280,994** | **(470,820)** | **830,919** |

*The accompanying notes are integral part of these financial statements*

## 1. Nature of operations and going concern uncertainty

Prismo Metals Inc. (the "Company") was incorporated under the provisions of the Canada Business Corporations Act ("CBCA") on October 17, 2018, as 11047612 Canada Inc., renamed as Prismo Metals Inc. on November 1, 2018, and registered as an extra-provincial corporation under the laws of British Columbia on November 6, 2018. The addresses of the Company's offices are:

- Administration: Suite 1100 – 1111 Melville St., Vancouver, BC V6E 3V6, Canada.
- Registry and Records: 800 Victoria Square, Suite 3700, Montreal, Quebec, H4Z 1E9.

The Company is in the business of acquisition and exploration of mineral properties, and is in one operating segment, namely mineral exploration in Mexico.

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

On September 30, 2020, the Company closed its initial public offering (the "IPO") by way of a long-form prospectus through an engagement with Haywood Securities Inc. ("Haywood") and filed on SEDAR on September 8, 2020 (the "Prospectus").

The closing of the IPO provided the Company gross proceeds of $575,000. Please refer to Note 5 for a detailed disclosure of the IPO.

On October 1, 2020, the Company's shares started trading on the Canadian Securities Exchange (the "CSE") under the trading symbol PRIZ.

In March 2020, the World Health Organization declared the coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, as well as financial markets globally, potentially leading to an economic downturn. Efforts to contain the virus has severely limited the mobility of people and businesses, which in turn impacted the Company's abilities to continue with any exploration program or raise the necessary funds. However, it is not possible for the Company at this time to predict the duration or magnitude of the impact towards the Company's business or results from its operations.

The Company has incurred losses since inception and had a working capital deficiency of $43,620 as at December 31, 2020 (2019 – working capital of $114,180). Continued operations of the Company are dependent on the Company's ability to obtain private and/or public equity financing or to receive continued financial support from its controlling shareholders and other investors. There can be no assurance the Company will be successful in achieving these goals and, accordingly, there is a material uncertainty casting significant doubt about the Company's ability to continue as a going concern.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

## 2. Basis of preparation

(a) Statement of compliance

These financial statements are 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").

These financial statements were approved by the Board of Directors for issue on April 21, 2021.

(b) Bases of measurement

These financial statements have been prepared on the historical cost basis except for financial instruments classified as financial instruments at fair value through profit and loss which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash-flow information.

(c) Functional and presentation currency

In management's judgement the functional currency of the Company is the Canadian dollar. The presentation currency used in preparing the financial statements of the Company is the Canadian dollar.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates.

*Critical accounting estimates:*

i. Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Because the Company's warrants have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

**2. Basis of preparation** (cont'd…)

*Critical accounting judgments:*

i. The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. Management has assessed these indicators and does not believe an impairment provision is required.

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

iii. The determination of deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences"), and losses carried forward. The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

**3. Significant accounting policies**

These financial statements have been prepared within the framework of the significant accounting policies provided as follows:

(a) Foreign currencies

*Determination of functional currency*

In determining the functional currency of the Company in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the following was considered:

- the currency that mainly influences the cost of labour, materials, service and other costs of exploration and evaluation activities; and
- the currency used to maintain the amounts charged by operating activities.

*Foreign currency translation*

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 3. Significant accounting policies (cont'd…)

(b) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per share are the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

(c) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Any tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for taxable temporary differences except investments in subsidiaries and joint ventures where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3. Significant accounting policies (cont'd…)

(d) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options (including any estimated forfeitures). The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded-vesting basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

(e) Exploration and evaluation assets

The exploration and evaluation phase of a mineral project is assumed to commence at the time the Company obtains the legal right to explore a property. Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs related to activities occurring before the exploration and evaluation of a project are expensed in the period in which they occur. Costs incurred during the exploration and evaluation phase are initially capitalized 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. Under this method, all amounts shown as exploration and evaluation assets represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

## 3. **Significant accounting policies** (cont'd…)

(e) Exploration and evaluation assets (cont'd…)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to the statement of loss and comprehensive loss. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property or cost recoveries when the payments are made or received.

(f) Provisions

Environmental rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of comprehensive loss. The Company had no significant rehabilitation obligations as at December 31, 2020 and 2019.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

**3. Significant accounting policies** (cont'd…)

(g) Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(h) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCI.

The Company's accounting policy for each of the categories is as follows:

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of loss and comprehensive loss in the period.

**Financial assets at FVTOCI:** Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in which they arise.

**Financial assets at amortized cost:** A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date, and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

## 3. Significant accounting policies (cont'd…)

(h) Financial assets (cont'd…)

**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.

The following table shows the classification of the Company's financial assets under IFRS 9:

| Financial asset | IFRS 9 Classification |
|---|---|
| Cash | Amortized cost |
| Receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Due to related parties | Amortized cost |

(i) Financial liabilities

Financial liabilities are carried at amortized cost and include accounts payable and accrued liabilities and due to related parties. They are initially recognized at the amount required to be paid, and subsequently measured at amortized cost using the effective interest rate method with gains or losses recorded in the statement of loss and comprehensive loss.

(Expressed in Canadian dollars except where indicated)

## 4. Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are as follows:

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Trade payables | **104,585** | 36,037 |
| Accrued liabilities and provisions | **18,900** | 20,000 |
| Total | **123,485** | 56,037 |

## 5. Share capital

a) Authorized:

the Company is authorized to issue an unlimited number of common shares without par value. There are no restrictions on transfers.

b) Issued and outstanding:

As indicated in Note 1, on September 30, 2020, the Company closed an IPO through Haywood, after having filed a long-form Prospectus on September 8, 2020. The Company raised gross proceeds of $575,000 through the issuance of 4,600,000 common shares at a price per share of $0.125. Pursuant to the engagement with Haywood, the Company paid Haywood an agent's commission of 7.5% in cash ($43,125) and 7.5% through an agent's option consisting of 345,000 options with an exercise price of $0.125 for a period of two years. The fair value of the agent's options were calculated at $22,498 using the Black-Scholes option pricing model with the following parameters: expected volatility of 100%, risk-free interest rate of 0.36%, dividend rate of 0% and expected life of 2 years, and was charged to share issuance costs. On October 15. 2020, 172,500 (50%) of these agent's options were exercised, providing the Company with an additional $21,563 in cash.

In addition, the Company paid Haywood a corporate finance fee of $25,000 of which $20,000 was paid in cash and the remaining $5,000 through the issuance of 40,000 common shares at the IPO price. In addition, the Company reimbursed Haywood expenses for $30,978.

Other share issuance cost totalled $41,915.

The following table details the share capital of the Company from incorporation on October 17, 2018 and up to December 31, 2020:

(Expressed in Canadian dollars except where indicated)

| Issuance | Date of issuance | Number of shares # | Price per share $ | Cash proceeds $ | Non-cash value $ |
|---|---|---|---|---|---|
| Share issued on incorporation | Oct 17, 2018 | 1 | 0.005 | - | - |
| Non-brokered private placement (founders of Company) (i) | Feb 15, 2019 | 3,600,000 | 0.005 | 18,000 | - |
| Non brokered private placement (ii) | Aug 12, 2019 | 2,985,866 | 0.05 | 149,293 | - |
| Shares issued for property acquisiton (iii) | Aug 12, 2019 | 2,000,000 | 0.05 | - | 100,000 |
| Shares issued as payment for work done on mineral property (iv) | Aug 12, 2019 | 500,000 | 0.05 | - | 25,000 |
| Shares issued for property acquisiton (v) | Oct 11, 2019 | 2,000,000 | 0.05 | - | 100,000 |
| Non brokered private placement (vi) | Nov 07, 2019 | 1,525,000 | 0.10 | 152,500 | - |
| Other share issue costs | | | | (9,334) | (1,510) |
| **Balance, December 31, 2019** | | **12,610,867** | | **310,459** | **223,490** |
| Initial public offering (vii) | Sep 30, 2020 | 4,600,000 | 0.125 | 575,000 | - |
| Agent's Corporate Finance Fee (vii) | Sep 30, 2020 | 40,000 | 0.125 | - | 5,000 |
| Shares issued in settlement of debt (viii) | Sep 30, 2020 | 300,000 | 0.125 | - | 37,500 |
| Exercise of agent's options (ix) | Oct 15, 2020 | 172,500 | 0.125 | 21,563 | 11,249 |
| Other share issue costs | to date | - | - | (95,785) | (67,731) |
| **Balance, December 31, 2020** | | **17,723,367** | | **811,237** | **209,508** |

**5. Share capital** (cont'd…)

b) Issued and outstanding (cont'd):

(i) This issuance consisted of 3,600,000 units, with each unit consisting of one common share and one share purchase warrant; each warrant entitling its holder to purchase a common share at an exercise price of $0.10 per share until October 17, 2023 (five years after incorporation). Of the founders' units 450,000 were subscribed by a director of the Company for cash proceeds of $2,250 and are held in escrow.

(ii) Of the non brokered private placement at a price of $0.05 per share, 224,000 shares were issued to directors of the Company for cash process of $11,200 and remain in escrow.

(iii) 2,000,000 units with a fair value of $0.05 per unit for a total value of $100,000 were issued to Prospección y Desarrollo Minero del Norte, S.A. de C.V. ("ProDeMin") for the acquisition of a mineral property (notes 6 and 7). Each unit consists of one common share and one share purchase warrant, with each warrant entitling its holder to acquire one common share at an exercise price of $0.10 per share for a period of five years from the date of issuance. The $0.05 fair value of these units was determined based on the most recent closing, on August 12, 2019, of a cash private placement at that price. These units remain in escrow.

(iv) 500,000 shares with a fair value of $0.05 per share for a total value of $25,000 were issued to ProDeMin as payment for work completed on a mineral property (notes 6 and 7). The $0.05 fair value of these shares was determined based on the most recent closing, on August 12, 2019, of a cash private placement at that price. These shares remain in escrow.

(v) 2,000,000 units with a fair value of $0.05 per unit for a total value of $100,000 were issued to Minera Cascabel, S.A. de C.V. ("Cascabel", a company incorporated under the laws of Mexico and carrying mineral exploration contracting) for the acquisition of a mineral property (notes 6 and 7). Each unit consists of one common share and one share purchase warrant, with each warrant entitling its holder to acquire one common share at an exercise price of $0.10 per share for a period of five years from the date of issuance. The $0.05 fair value of these units was determined based on the most recent closing, on August 12, 2019, of a cash private placement at that price. These units remain in escrow.

(vi) 1,525,000 common shares with a fair value of $0.10 per share were issued for gross cash proceeds of $152,500.

(vii) Issuance of 4,600,000 common shares at a price of $0.125 per share pursuant to the IPO as described at the beginning of this Note 5(b). Additionally, 40,000 common shares at the same price per share were issued to Haywood in payment of $5,000 of its corporate finance fee.

(viii) 300,000 common shares issued at a fair value of $0.125 per share were issued to a consultant in settlement of consulting fees of $37,500 incurred in connection to the IPO and charged as share issuance costs.

(ix) On October 15, Haywood exercised 172,500 of its options for cash proceeds of $21,563. In addition to the cash proceeds, $11,249 of the options fair value was allocated to share capital.

As at December 31, 2020, and as mentioned above for each instance, an aggregate of 5,174,001 common shares and 4,450,000 share purchase warrants remain in escrow.

(Expressed in Canadian dollars except where indicated)

**5. Share capital** (cont'd…)

c) Warrants:

The following warrants have been issued:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of Warrants | Exercise Price | Number of Warrants | Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of year | 7,600,000 | 0.10 | - | - |
| Issued for cash | - | - | 3,600,000 | 0.10 |
| Isued for exploration and evaluaton assets | 100,000 | 0.35 | 4,000,000 | 0.10 |
| Balance, end of the year | 7,700,000 | 0.10 | 7,600,000 | 0.10 |

As at December 31, 2020, the following share purchase warrants are outstanding:

| Issue date | Warrants issued for | Expiry date | Exercise price | Warrants outstanding |
|---|---|---|---|---|
| | | | $ | # |
| February 15, 2019 | Cash | October 17, 2023 | 0.10 | 3,600,000 |
| August 12, 2019 | Exploration & evaluaton assets | August 12, 2024 | 0.10 | 2,000,000 |
| October 11, 2019 | Exploration & evaluaton assets | October 11, 2024 | 0.10 | 2,000,000 |
| December 3, 2020 | Exploration & evaluaton assets | December 3, 2022 | 0.35 | 100,000 |
| | | | 0.10 | 7,700,000 |

The fair value of the 3,600,000 warrants issued as part of the founders' units was $nil.

The fair value of the 2,000,000 warrants issued on August 12, 2019 was $61,249, and $61,483 for the 2,000,000 warrants issued on October 11, 2019. These fair values were calculated using the Black-Scholes option pricing model and charged as Exploration and Evaluation assets. The parameters used were as follows: risk-free interest rate: 1.26% and 1.58%, respectively; expected share price volatility: 100%; expected live of the warrants in years: 4.5; and expected dividend yield: 0% for both sets of warrants. An aggregate of 4,450,000 warrants remain in escrow.

On December 3, 2020, the Company issued 100,000 warrants in connection with the option agreement for the acquisition of the remaining 25% of the Palos Verdes mineral property (note 7(b)). Each warrant will entitle its holder to purchase a common share of the Company at an exercise price of $0.35 per share for a period of two years from the date of issuance. The fair value of the warrants was calculated at $13,103 using the Black-Scholes option pricing model with the following parameters: expected volatility of 100%, risk-free rate of 0.27%, dividend yield of 0% and expected life of two years. The amount was charged to exploration and evaluation assets as part of the project acquisition cost.

(Expressed in Canadian dollars except where indicated)

**5. Share capital** (cont'd…)

d) Stock options:

On September 8, 2020, the Company adopted its stock option plan (the "Plan") Stock option plan whereby the directors of the Company can grant stock options to directors, officers and certain consultants. The aggregate number of options granted cannot exceed 10% of the issued and outstanding shares of the Company, and options granted within a one-year period cannot exceed 10% of the number of common shares issued and outstanding, and 5% to a single optionee, without first asking for disinterested shareholder approval, pursuant to policies of the Canadian Securities Exchange.

On September 30, 2020, the Company granted an aggregate of 1,450,000 stock options to its directors, officers and some consultant. Each option is exercisable into one common share of the Company at a price of $0.125 per share for a period of five years. The fair value of these options, charged as share-based compensation, was calculated at $133,910 using the Black-Scholes option pricing model with the following parameters: expected volatility of 100%, risk-free interest rate of 0.36%, dividend rate of 0% and expected life of 5 years.

The following stock options have been granted:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Number of Options | Exercise Price | Number of Options | Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of year | - | - | - | - |
| Granted to agent | 345,000 | 0.125 | - | - |
| Granted to directors, officers and consultants | 1,450,000 | 0.125 | - | - |
| Agent's options exercised | (172,500) | 0.125 | - | - |
| Outstanding and exercisable, end of year | 1,622,500 | 0.125 | - | - |

As at December 31, 2020, the following stock options were outstanding:

| Issue date | Expiry date | Exercise Price | Outstanding and exercisable |
|---|---|---|---|
| | | $ | # |
| September 30, 2020 | September 30, 2022 | 0.125 | 172,500 |
| September 30, 2020 | September 30, 2025 | 0.125 | 1,450,000 |
| | | 0.125 | 1,622,500 |

(Expressed in Canadian dollars except where indicated)

## 6. Transactions with related parties and key management personnel

Key management personnel comprise the Chief Executive Officer, the Chief Financial Officer & Corporate Secretary and the Directors of the Company.

The following transactions took place with key management personnel and other related parties of the Company:

| Year ended December 31: | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Consulting fees paid to the president of the Company for supervision of drilling program | **15,367** | - |
| Management fees paid to a company controlled by the Chief Financial Officer of the Company: | **24,968** | 10,832 |
| Fees paid to ProDeMin, a company controlled by a director of the Company, under the ProDeMin Option (note 7): | **31,113** | 33,545 |
| Shares subscribed by directors or officers through private placements (note 5(b)): | **-** | 13,450 |
| Units issued to ProDeMin for acquisition of mineral property under the ProDeMin Option (notes 5(b) and 7): | **-** | 100,000 |
| Warrants component of units issued to ProdeMin for acquisition of property under the ProDeMin Option (notes 5(c) and 7): | **-** | 61,249 |
| Shares issued to ProDeMin as payment for work completed on mineral property under the ProDeMin Option (notes 5(c) and 7): | **-** | 25,000 |
| Units issued to Cascabel for acquisition of mineral property under the Cascabel Option (notes 5(b) and 7): | **-** | 100,000 |
| Warrants component of units issued to Cascabel for acquisition of property under the Cascabel Option (notes 5(c) and 7): | **-** | 61,483 |
| Share-based payments related to options granted to directors and officers of the Company | **55,411** | - |
| Share-based payments related to options granted to companies controlled or related to directors of the Company | **46,176** | - |

In addition to the above transactions, both the ProDeMin Option (notes 5(b)(iii) and 7(a)) and the Cascabel Option (notes 5(b)(v), 5(c) and 7(b)) are related party transactions, as ProDeMin is controlled by a director of the Company, and two directors of the Company have an interest in the project related to the Cascabel option.

As at December 31, 2020, an amount of $32,091 (2019 - $7,261) remained payable to related parties for administration and accounting services and/or for reimbursable expenses, and paid subsequently.

(Expressed in Canadian dollars except where indicated)

## 7. Exploration and evaluation assets

a) ProDeMin Option

On May 7, 2019, the Company entered into an Option Agreement with ProDeMin, a company incorporated under the laws of Mexico and carrying mineral exploration contracting activities and controlled by a director of the Company) (the “ProDeMin Option”). Pursuant to the terms of the ProDeMin Option, ProDeMin granted the Company an option to earn up to 75% interest in the Palos Verdes property, located in the state of Sinaloa, Mexico, over a period of five years, as follows:

- on May 10, 2019, the Company paid ProDeMin US $25,000 in cash (paid);
- on August 12, 2019, the Company issued ProDeMin 2,000,000 units with a fair value of $0.05 per unit; each unit consisted of one common share and one share purchase warrant of the Company; each warrant being exercisable at a price of $0.10 per share, expiring of the fifth anniversary of the date of issuance of these units (issued);
- on August 12, 2019, the Company reimbursed ProDeMin for expenditures already incurred in the amount of $25,000 by the issuance of 500,000 common shares with a fair value of $0.05 per share (issued) these units and shares are held in escrow; and
- the Company is required to incur US $1,500,000 in exploration expenses over the five-year period of the ProDeMin Option, pay an additional US $46,823 and issue ProDeMin an additional 2,000,000 common shares, as follows:
  - pay ProDeMin an amount of US $21,823 on the date of the Company’s closing of its first financing following the listing of its common shares on a recognized Canadian stock exchange;
  - incur a minimum of $100,000 in exploration expenditures within the first two years of the date of the ProDeMin Option, and by paying all fees and duties required to maintain the mineral concessions in good standing;
  - pay US $25,000 to ProDeMin and incurring a minimum of US $100,000 in exploration expenditures on the property for each of the third and fourth year following the date of the ProDeMin Option, and also paying during such period all fees and duties required to maintain the mineral concession in good standing;
  - Issue to ProDeMin, or as directed by ProDeMin, 2,000,000 common shares and incurring a minimum of US $500,000 in expenditures on the Property in the fifth year following the date of the ProDeMin Option, and also paying during such period all fees and duties required to maintain the mineral concession in good standing; and
  - the following payments are to be made:

| | USD<br>$ |
|---|---|
| On or before May 20, 2019 (paid) | 15,000 |
| 6 months from the above date (paid) | 25,000 |
| 12 months from the above date (paid) | 25,000 |
| 18 months from the above date (paid) | 25,000 |
| 24months from the above date | 25,000 |
| 30 months from the above date | 25,000 |
| 36 months from the above date | 50,000 |
| 42 months from the above date | 50,000 |
| Total payments | 240,000 |

(Expressed in Canadian dollars except where indicated)

## 7. Exploration and evaluation assets (cont'd…)

b) Option for remaining 25% stake in Palos Verdes

On November 30, 2020, the Company entered into an option agreement with the underlying owner of the remaining 25% of the Palos Verdes property (the "Palos Verdes 25% Agreement"), thus securing the possibility of earning up to 100% interest in the property. Under the terms of the Palos Verdes 25% Agreement, the Company will make aggregate payments of US $250,000 over a period of four years (US $30,000 paid) and issued 100,000 share purchase warrants with an exercise price of $0.35 and valid for two years (Note 5(c)). The schedule of cash payments is as follows:

| | USD<br>$ |
|---|---|
| On or before November 30, 2020 (paid) | 30,000 |
| 6 months from the above date | 15,000 |
| 12 months from the above date | 15,000 |
| 18 months from the above date | 15,000 |
| 24months from the above date | 15,000 |
| 30 months from the above date | 25,000 |
| 36 months from the above date | 25,000 |
| 42 months from the above date | 50,000 |
| 48 months from the above date | 60,000 |
| Total payments | 250,000 |

c) Cascabel Option

On October 11, 2019, the Company entered into an Option Agreement with Cascabel (the "Cascabel Option"). Pursuant to the terms of the Cascabel Option, Cascabel grants the Company an option to earn up to 100% in the Los Pavitos concession, located in the state of Sonora, Mexico, over a period of five years, as follows:

- on October 11, 2019, the Company issued Cascabel 2,000,000 units with a fair value of $0.05 per unit; each unit consisting of one common share and one share purchase warrant of the Company; each warrant being exercisable at a price of $0.10 per share, expiring of the fifth anniversary of the date of issuance of these units (issued); these units are held in escrow;

b) the Company is required to maintain the Los Pavitos concession in good standing. During the year ended December 31, 2020, the Company reimbursed Cascabel for $137,796 for concession dues that were due for 2019 and 2020. The Company is temporarily delinquent for payment of mineral concession dues corresponding to the first semester of 2021 of approximately $35,000 for working capital preservation;

- 

(Expressed in Canadian dollars except where indicated)

**7. Exploration and evaluation assets** (cont'd…)

c) Cascabel Option (cont'd…)

- for the exercise of the option, the Company will be required to incur US $1,500,000 in exploration expenses over the five-year period of the Cascabel Option, pay an additional US $500,000 and issue Cascabel an additional 2,000,000 common shares. The yearly minimum expenditures, payments and issuance of shares to Cascabel are as follows:

| Period | Work Commitment | Cash Payment | Shares issued | Other requirements |
|---|---|---|---|---|
| First two years, cumulative | $75,000 | Nil | Nil | Deliver technical report to NI 43-101 standards |
| Each of third and fourth years | $100,000 | US $100,000 | Nil | Nil |
| Fifth year | $500,000 | US $300,000 | 2,000,000 shares | Drilling program of at least 2,500 metres |

- Prismo will perform sufficient assessment work to satisfy the applicable government work commitment costs on the Property through the end of each tax period; and
- Prismo will maintain the mineral concessions in good standing.

During the years ended December 31, 2020 and 2019, the Company incurred the following exploration and evaluation investments:

| | CAD $ |
|---|---|
| Balance, December 31, 2018 | - |
| ProDeMin option - cash | 33,545 |
| ProDeMin option - shares | 125,000 |
| ProDeMin option - warrants | 61,249 |
| Concession payments under the ProDeMin Option | 51,675 |
| Cascabel option - shares | 100,000 |
| Cascabel option - warrants | 61,483 |
| Work towards preparation of NI 43-101 report | 16,206 |
| Assays and laboratory | 310 |
| Other | 3,573 |
| Balance, December 31, 2019 | 453,041 |
| ProDeMin Option - cash | 68,939 |
| Palos verdes remaining 25% option - cash | 40,545 |
| Palos verdes remaining 25% option - warrants | 13,103 |
| Concession payments under the ProDeMin Option - cash | 604 |
| Concession payments under the Cascabel Option - cash | 137,796 |
| Drilling | 132,008 |
| Assays and laboratory | 3,137 |
| Technical reports | 9,901 |
| Other | 15,465 |
| Balance, December 31, 2020 | 874,539 |

## 8. Financial instruments

The Company classifies cash, receivables, accounts payable and accrued liabilities, and due to related parties at amortized cost. At present, the Company does not have any FVTPL or FVTOCI financial assets.

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (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 or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

*Currency Risk*

As at December 31, 2020, all of the Company's cash was held either in Canadian dollars or US dollars. The Company incurs expenditures in Canada and Mexico, and as such is exposed to currency risk associated with these costs. However, at this stage, the Company believes that the currency risks are immaterial.

*Interest rate and credit risk*

The Company has no loans and is therefore not subject to interest rate or credit risk.

*Liquidity risk*

The Company will depend on the advances provided by public and/or private investors. The liquidity risk relates to the low cash position and the dependence on these investments. See Note 1 for further discussion regarding liquidity risks.

## 9. Capital disclosures

The Company's objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. Capital is comprised of the Company's shareholders' equity. The Company's main source of funds is from the funds received from private and or public investors (Notes 1 and 5).

The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash to include amounts held in banks. The Company will place its cash with institutions of high credit worthiness. On December 31, 2020, the Company had cash of $101,643 (December 31, 2019 – $175,581)

The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars except where indicated)

## 10. Income Taxes

The reconciliation of income tax attributable to operations computed at the statutory tax rate to income tax expense (recovery), using a 27% statutory tax rate, at December 31, 2020 and 2019 is as follows:

| | **December 31 2020 $** | December 31 2019 $ |
|---|---|---|
| Earnings (loss) for the year | **(381,360)** | (85,094) |
| Expected income tax (recovery) | **(103,000)** | (23,000) |
| Permanent differences | **35,000** | - |
| Share issue cost | **(44,000)** | (3,000) |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | **4,000** | - |
| Change in unrecognized deductible temporary differences | **108,000** | 26,000 |
| **Total income tax expense (recovery)** | **-** | - |

Future income tax benefits which may arise as a result of non-capital losses and unclaimed foreign exploration and development expenditures have not been recognized in these financial statements as their realization is uncertain.

The significant components of the Company's future income tax assets are as follows:

| | **December 31 2020 $** | December 31 2019 $ |
|---|---|---|
| Deferred tax assets: | | |
| Share issue costs | **137,000** | 9,000 |
| Non-capital losses available for future period | **360,000** | 92,000 |
| | **497,000** | 101,000 |
| Unrecognized deferred tax assets | **(497,000)** | (101,000) |
| **Net deferred tax assets** | **-** | **-** |

As at December 31, 2020, the Company has Canadian federal net operating loss carry forwards of approximately as follows:

| Expiry year | $ |
|---|---|
| 2038 | 4,366 |
| 2039 | 74,149 |
| 2040 | 281,379 |
| | **359,894** |

## 11. Subsequent event

Subsequent to December 31, 2020, an aggregate of 138,690 agent's options were exercised at a price of $0.125 for cash proceeds of $17,336.

* * * * *