# KARAM MINERALS INC.

**Financial Statements**
**For the years ended June 30, 2019 and 2018**
**(Expressed in Canadian Dollars)**

Smythe CPA

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF KARAM MINERALS INC.

*Opinion*
We have audited the financial statements of Karam Minerals Inc. (the "Company"), which comprise the statements of financial position as at June 30, 2019 and 2018, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

*Basis for Opinion*
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 in the financial statements, which indicates that the Company incurred a net loss of $327,925 during the year ended June 30, 2019 and, as of that date, the Company has a deficit of $417,785. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Other Information*
Management is responsible for the other information. The other information comprises of 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 audits of the financial statements, our responsibility is to read the other information identified above 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 auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this, we are required to report that fact. We have nothing to report in this regard.



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*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.

*Auditors' 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 auditors' 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 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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- 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 auditors' report is Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 21, 2019



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**KARAM MINERALS INC.**
**Statements of Financial Position**
**(Expressed in Canadian Dollars)**

| As at June 30 | | 2019 | | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | 211,622 | $ | 252,097 |
| Receivables (note 4) | | 38,785 | | 8,883 |
| Prepaid expenses and deposits | | - | | 2,338 |
| | | 250,407 | | 263,318 |
| Mineral property (note 4) | | 1 | | 1 |
| | $ | 250,408 | $ | 263,319 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (note 7) | $ | 57,951 | $ | 66,311 |
| **Shareholders' Equity** | | | | |
| **Common shares** (note 5) | | 522,964 | | 286,868 |
| **Reserve** (note 5) | | 87,278 | | - |
| **Deficit** | | (417,785) | | (89,860) |
| | | 192,457 | | 197,008 |
| | $ | 250,408 | $ | 263,319 |

Approved on behalf of the Board:

| *"Michael Sadhra" (signed)* | *"Desmond Balakrishnan" (signed)* |
|---|---|
| Director | Director |

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

## KARAM MINERALS INC.
**Statements of Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| For the years ended June 30 | | 2019 | | 2018 |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Accounting and audit fees | $ | 18,704 | $ | - |
| Consulting fees | | - | | 8,000 |
| Corporate administration | | 200 | | 1,400 |
| Exploration and evaluation costs (note 4) | | 58,612 | | 79,930 |
| Interest and bank charges | | 448 | | 106 |
| Legal fees (note 7) | | 84,361 | | 505 |
| Management fees (note 7) | | 54,000 | | 10,500 |
| Office service and supplies | | 26 | | 189 |
| Share-based compensation (note 7) | | 74,613 | | - |
| Shareholder communications | | 3,258 | | - |
| Transfer agent and filing fees | | 33,703 | | - |
| | | (327,925) | | (100,630) |
| **Other item** | | | | |
| Recovery on flow-through premium liability (note 5) | | - | | 14,000 |
| **Net loss and comprehensive loss for the year** | $ | (327,925) | $ | (86,630) |
| **Basic and diluted loss per share** | $ | (0.02) | $ | (0.03) |
| **Weighted average number of common shares outstanding** | | 14,901,685 | | 3,086,890 |

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

**KARAM MINERALS INC.**
**Statements of Changes in Shareholders' Equity**
**(Expressed in Canadian Dollars)**
**For the years ended June 30, 2019 and 2018**

| | Common Shares | | | | |
|---|---|---|---|---|---|
| | **Number Outstanding** | **Amount $** | **Reserve $** | **Deficit $** | **Total Shareholders' Equity $** |
| **Balance, June 30, 2017** | 1,000 | 10 | - | (3,230) | (3,220) |
| Private placement – flow–through shares (note 5) | 2,800,000 | 56,000 | - | - | 56,000 |
| Private placement – non flow–through shares (note 5) | 11,550,000 | 239,250 | - | - | 239,250 |
| Share issuance costs (note 5) | - | (8,392) | - | - | (8,392) |
| Net loss for the year | - | - | - | (86,630) | (86,630) |
| **Balance, June 30, 2018** | 14,351,000 | 286,868 | - | (89,860) | 197,008 |
| Initial public offering (note 5) | 3,000,000 | 300,000 | - | - | 300,000 |
| Share issuance costs (note 5) | - | (63,904) | 12,665 | - | (51,239) |
| Share-based compensation (notes 5 and 7) | - | - | 74,613 | - | 74,613 |
| Net loss for the year | - | - | - | (327,925) | (327,925) |
| **Balance, June 30, 2019** | 17,351,000 | 522,964 | 87,278 | (417,785) | 192,457 |

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

**KARAM MINERALS INC.**
**Statements of Cash Flows**
**(Expressed in Canadian Dollars)**

| For the years ended June 30 | | 2019 | | 2018 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net loss for the year | $ | (327,925) | $ | (86,630) |
| Items not affecting cash: | | | | |
| Share-based compensation | | 74,613 | | - |
| Recovery on flow-through premium liability | | - | | (14,000) |
| Change in working capital balances: | | | | |
| Receivables | | (29,902) | | (8,874) |
| Prepaid expenses and deposits | | 2,338 | | (2,338) |
| Accounts payable and accrued liabilities | | (8,360) | | 63,081 |
| **Cash used in operating activities** | | (289,236) | | (48,761) |
| **Investing activity** | | | | |
| Mineral property acquisition cost | | - | | (1) |
| **Cash used in investing activity** | | - | | (1) |
| **Financing activities** | | | | |
| Proceeds from common share issuance | | 300,000 | | 309,250 |
| Share issue costs | | (51,239) | | (8,392) |
| **Cash provided by financing activities** | | 248,761 | | 300,858 |
| **Change in cash during the year** | | (40,475) | | 252,096 |
| **Cash, beginning of the year** | | 252,097 | | 1 |
| **Cash, end of the year** | $ | 211,622 | $ | 252,097 |
| **Supplemental Cash Flow Information** | | | | |
| Interest paid | $ | - | $ | - |
| Taxes paid | | - | | - |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Karam Minerals Inc. (the "Company") was incorporated under the *BC Business Corporations Act* on December 14, 2016. The principal business of the Company is the acquisition, exploration and evaluation of resource properties.

The Company's registered and records office address is 1500 – 1055 West Georgia Street, Vancouver, BC, V6E 4N7. Its principal place of business address is 915 – 700 West Pender Street, Vancouver, BC, V6C 1G8.

On April 24, 2019, the Company completed its initial public offering ("IPO") pursuant to a prospectus dated February 13, 2019 (the "Prospectus") filed with the British Columbia, Alberta and Ontario Securities Commissions. Effective at the opening of the market on April 25, 2019, the Company's common shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "KMI".

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At present, the Company has no current operating income. As at June 30, 2019, the Company has a deficit of $417,785 (2018 - $89,860) and for the year then ended, incurred a net loss of $327,925 (2018 - $86,630). Without additional financing, the Company may not be able to fund its ongoing operations and complete exploration and development activities. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. The Company will need to raise sufficient working capital to maintain operations. These financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

(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").

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) Basis of presentation

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

(c) Approval of the financial statements

These financial statements were authorized for issue by the Audit Committee and Board of Directors on October 21, 2019.

## 3. SIGNIFICANT ACCOUNTING POLICIES

(a) Mineral property

(i) Exploration and evaluation

Staking costs, property option payments, and other costs associated with acquiring exploration and evaluation assets are capitalized and classified as intangible assets, whereas exploration and evaluation expenditures are recognized as expenses as they are incurred during the period. Exploration and evaluation expenditures include costs of conducting geological and geophysical surveys, equipment rental, geochemical analysis, mapping and interpretation, and costs to obtain legal rights to explore an area.

Management reviews the carrying value of capitalized exploration costs annually. The review is based on the Company's intentions for development of the undeveloped property.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

(ii) Development

Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation assets are transferred to and classified as mineral property acquisition and development costs. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management, are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as a component of property, plant and equipment.

(iii) Impairment

The carrying value of all categories of mineral property and exploration are reviewed at least annually by management for indicators the recoverable amount may be less than the carrying value. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

Value-in-use is based on estimates of discounted future cash flows expected to be recovered from an asset through their use. Estimated future cash flows are calculated using estimates of future recoverable reserves and resources, future commodity prices and expected future operating and capital costs. Once calculated, 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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

(a) Mineral property (continued)

(iii) Impairment (continued)

Fair value less costs to sell is the amount obtainable from either quotes from an active market or the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis. Impairment losses are recognized in other expenses. Assumptions, such as commodity prices, discount rate, and expenditures, underlying the fair value estimates are subject to risks uncertainties. Impairment charges are recorded in the reporting period in which determination of impairment is made by management.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion or amortization, if no impairment loss had been recognized.

(iv) Provision for environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

(b) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchase the shares.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Flow-through shares (continued)

At the time of closing a financing involving flow-through shares, the Company allocates proceeds received first to common shares based on the market trading price of the common shares at the time the flow-through shares are priced, and any excess is allocated to flow-through premium liability.

At the time of closing a financing involving flow-through units consisting of common shares and warrants, the Company allocates proceeds received as follows:

- Common shares – the market trading price of the common share;
- Warrant reserve – based on the valuation derived using the Black-Scholes option pricing model; and
- Flow-through premium – any excess, recorded as a liability.

Thereafter, as qualifying resource expenditures are incurred, these costs are expensed as exploration and evaluation costs and the flow-through premium, if any, is amortized to profit or loss.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule in accordance with Government of Canada flow-through regulations. When applicable, this flow-through share tax expense is accrued and recorded in profit or loss.

(c) Mining exploration tax recoveries

The Company recognizes mining exploration tax recoveries in the period in which there is reasonable expectation, based on management's estimate, of receiving a refund. The amount of tax credit receivable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) Financial instruments

(i) Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss or fair value through other comprehensive income. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and iii) is not designated as fair value through profit or loss or through other comprehensive income.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets measured at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statements of comprehensive loss. The Company classifies cash as fair value through profit or loss.

*Financial assets measured at amortized cost*

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

*Financial assets measured at fair value through other comprehensive income ("FVTOCI")*
A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to deficit when the financial instrument is derecognized or its fair value substantially decreases.

There are no financial assets classified as measured at FVTOCI.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) Financial instruments (continued)

(ii) Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(iii) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable. The Company's financial liabilities include accounts payable and accrued liabilities and classified as financial liabilities subsequently measured at amortized cost.

(iv) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Inputs for assets or liabilities that are not based on observable market data.

The Company's financial instruments classified as Level 1 in the fair value hierarchy are cash and accounts payable and accrued liabilities. Their carrying values approximate the fair values due to short-term maturity of these instruments.

(e) Common shares

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted earnings (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.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(g) Share-based compensation

The fair value of stock options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behavior. Dividends were not taken into consideration as the Company does not expect to pay dividends. Management also makes an estimate of the number of options that will forfeit, and the rate is adjusted to reflect the actual number of options that actually vest. Consideration received on the exercise of stock options is recorded as common shares and the related amount originally recorded in reserve is transferred to common shares. For those unexercised options or warrants that expire, the recorded value is transferred to deficit.

(h) Income taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities, arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets, as well as in the amounts recognized in income in the period in which the change occurs.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

(h) Income taxes (continued)

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

(i) Use of estimates and judgments

The preparation of 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, income and expenses. Actual results may vary from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Significant areas requiring the use of management's estimates include:

*Inputs to the Black-Scholes options pricing model*

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Significant areas requiring the use of management's judgments include:

*Going concern*

The assessment of whether the concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties exist related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

*Capitalization of mineral properties*

The application of the Company's accounting policy for mineral properties requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Use of estimates and judgments (continued)

*Mining exploration tax credits and flow-through expenditures*

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia. Management's judgment is applied in determining whether the resource expenditures are eligible for claiming such credits.

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resources expenditures.

Differences in judgment between management and regulatory authorities with respect to qualified expenditures may result in disallowed expenditures by the tax authorities. Any amount disallowed may result in the Company's required expenditures not being fulfilled.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include:

- the determination of asset retirement and environmental obligations; and
- the utilization of deferred income tax assets.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of financial performance and cash flows.

## 4. MINERAL PROPERTY

**Black Duck Property, British Columbia, Canada**

The Company acquired the Black Duck property, located in south-central British Columbia, consisting of two mineral titles, through staking. During the year ended June 30, 2019, the Company incurred $58,612 (2018 – $79,930) of exploration and evaluation expenditures on this property net of BC METC. To maintain title over the property, the Company is required to incur a total of $4,155 of work on the property by February 23, 2020 (met) and $3,954 of work on the property by March 27, 2020 (met). As at June 30, 2019, the Company has incurred $167,918 of work on the property.

Acquisition costs

During the year ended June 30, 2019, the Company incurred acquisition and staking costs of $nil (2018 – $1).

## 4. MINERAL PROPERTY (continued)

Exploration and evaluation costs

Details of exploration activities during the years ended June 30, 2019 and 2018 are as follows:

| Black Duck Property | Years ended June 30, 2019 | Years ended June 30, 2018 |
|---|---|---|
| Exploration and evaluation costs | | |
| Equipment rental | $ 8,018 | $ 2,250 |
| Field costs | 9,628 | 4,584 |
| Geochemical | 22,647 | 14,227 |
| Geophysical | - | 33,423 |
| Project management | 40,718 | 27,167 |
| Technical report | 2,721 | 2,535 |
| Total exploration and evaluation costs | 83,732 | 84,186 |
| BC METC [1] | (25,120) | (4,256) |
| Exploration and evaluation costs | $ 58,612 | $ 79,930 |

[1] The Company's exploration and evaluation costs incurred in British Columbia are eligible for a British Columbia Mining Exploration Tax Credit ("BC METC"). The amount receivable from BC METC for the exploration and evaluation costs incurred during the year ended June 30, 2019 was $25,120 (2018 – $4,256).

## 5. SHAREHOLDERS' EQUITY

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

17,351,000 common shares without par value.

During the year ended June 30, 2019, the Company completed the following transactions:

i. On April 24, 2019, pursuant to the Prospectus associated with the Company's IPO, the Company issued 3,000,000 common shares at $0.10 per share for gross proceeds of $300,000. Mackie Research Capital Corporation acted as agent for the offering. As compensation for acting as agent, the Company paid a cash commission of $24,000, a corporate finance fee of $22,318, and issued agent options to purchase up to 240,000 shares of the Company at a price of $0.10 per share exercisable until April 24, 2021.

During the year ended June 30, 2019, the Company incurred share issue costs of $51,239, which includes the costs mentioned above and issued agent options with a fair value of $12,665.

## 5. SHAREHOLDERS' EQUITY (continued)

(b) Issued and outstanding (continued)

On June 15, 2019, the Company entered into an escrow agreement whereby common shares of the Company are held in escrow. As at June 30, 2019, the Company has 4,095,900 common shares held in escrow.
The terms of the common shares held in escrow are as follows:

- 682,649 common shares will be released on October 23, 2019;
- 682,649 common shares will be released on April 23, 2020;
- 682,649 common shares will be released on October 23, 2020;
- 682,649 common shares will be released on April 23, 2021;
- 682,649 common shares will be released on October 23, 2021; and
- 682,655 common shares will be released on April 23, 2022.

During the year ended June 30, 2018, the Company completed the following transactions:

i. On March 1, 2018, the Company completed a non-brokered private placement financing raising aggregate gross proceeds of $16,250 by the issuance of 3,250,000 common shares at $0.005 per share.

ii. On April 10, 2018, the Company completed a non-brokered private placement financing raising aggregate gross proceeds of $128,000 by the issuance of 6,400,000 common shares at $0.02 per share.

iii. On April 15, 2018, the Company completed a non-brokered private placement financing raising aggregate gross proceeds of $70,000 by the issuance of 2,800,000 flow-through shares at $0.025 per share. $14,000 was allocated to the flow-through share premium liability and $56,000 was allocated to common shares. The Company has fulfilled the qualified expenditures of $70,000 during the year ended June 30, 2018.

These flow-through shares are subject to Seed Share Resale Restrictions ("SSRRs") by the TSX Venture Exchange and are required to be held for four months following the closing of the Company's Initial Public Offering ("IPO"), with 20% released on the closing of the IPO and 20% released on each of the dates that are one month, two months, three months and four months following the IPO closing date. Subsequent to June 30, 2019, all flow-through subjected to SSRRs were released.

iv. On June 29, 2018, the Company completed a non-brokered private placement financing raising aggregate gross proceeds of $95,000 by the issuance of 1,900,000 common shares at $0.05 per share.

During the year ended June 30, 2018, the Company incurred share issue costs of $8,392.

## 5. SHAREHOLDERS' EQUITY (continued)

(c) Stock options

Stock options to purchase common shares have been granted to directors and officers of the Company at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's stock option plan is 10% of the number of shares outstanding (the "Plan"). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the Plan, the options are non-assignable and non-transferable. The minimum exercise price of an option granted under the Plan must not be less than the discounted market price, as such term is defined in the policies of the CSE.

The changes in stock options outstanding are as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| **Balance at June 30, 2016 and 2017** | - | - |
| Granted | 1,240,000 | $0.10 |
| **Balance at June 30, 2019** | **1,240,000** | **$0.10** |

As at June 30, 2019, the Company had the following options outstanding and exercisable:

| Expiry date | Number of options | Weighted Average Exercise Price | Weighted Average Remaining Life in Years |
|---|---|---|---|
| April 24, 2021[(1)] | 240,000 | $0.10 | 1.82 |
| April 24, 2024 | 1,000,000 | $0.10 | 4.82 |
| | **1,240,000** | **$0.10** | **4.24** |

(1) Agent options.

The Company used the Black-Scholes option pricing model to determine the fair value of 1,240,000 (2018 – nil) options granted for the year ended June 30, 2019 with a weighted average fair value of $0.07 (2018 – N/A). The following weighted average assumptions were used:

| | **2019** |
|---|---|
| Risk-free interest rate | 1.49% |
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 100% |
| Expected option life in years | 4.42 |
| Forfeiture rate | 0.00% |

During the year ended June 30, 2019, the Company recorded $74,613 (2018 - $nil) in relation to the vesting of the stock options.

## 6. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

| | 2019 | 2018 |
|---|---|---|
| Loss for the year | $ (327,925) | $ (86,630) |
| Tax rate | 27% | 26.5% |
| Expected recovery | (88,540) | (22,957) |
| Change in statutory tax rates and other | - | (195) |
| Non-deductible and other items | 19,274 | (3,668) |
| Flow-through shares | - | 18,550 |
| Share issue costs | (13,835) | (2,266) |
| Change in unrecognized deductible temporary differences and other | 83,101 | 10,536 |
| Total income tax expense (recovery) | $ - | $ - |

As at June 30, 2019 and 2018, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets:

| | 2018 | Expiry date range | 2017 | Expiry date range |
|---|---|---|---|---|
| Non-capital loss carry forwards | $ 232,234 | 2037 – 2039 | $ 22,377 | 2038 |
| Mineral properties | 68,542 | indefinite | 9,930 | indefinite |
| Share issue costs | 46,026 | 2038 - 2043 | 6,714 | 2038 - 2041 |
| | 346,802 | | 39,021 | |
| Unrecognized deferred tax assets | (346,802) | | (39,021) | |
| Net deferred tax assets | $ - | | $ - | |

## 7. RELATED PARTY TRANSACTIONS

The Company's related parties consist of key management personnel and companies owned directly or indirectly by key management personnel.

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers.

## 7. RELATED PARTY TRANSACTIONS (continued)

Related party transactions for the year ended June 30, 2019 are as follows:

- management fees of $54,000 (2018 – $10,500) to key management personnel of the Company;
- accounting and audit fees of $2,500 (2018 – $nil) to a company owned directly by key management personnel;
- legal fees of $62,646 (2018 - $nil) to a company in which a Director of the Company is a partner; and
- share-based compensation of $74,613 (2018 - $nil) to directors and officers of the Company.

As at June 30, 2019, $11,025 owed to the Company's related parties is included in accounts payable and accrued liabilities (2018 – $10,500).

Amounts owed to related parties included in accounts payable and accrued liabilities are unsecured, non-interest-bearing and are without fixed terms of repayment.

## 8. RISK MANAGEMENT

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk for the Company is associated with its cash. The Company is not exposed to significant credit risk as its cash is placed with a major Canadian financial institution.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company is not exposed to significant liquidity risk.

As at June 30, 2019, the Company has cash of $211,622 (2018 – $252,097) available to apply against short-term business requirements and current liabilities of $57,951 (2018 – $66,311). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of June 30, 2019.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk. The Company is not exposed to significant market risk.

## 9. CAPITAL MANAGEMENT

The Company has just commenced operations. It has not yet determined whether it will be successful in its endeavours and does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of common shares. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid.

## 10. SEGMENTED INFORMATION

The Company has one operating segment, acquisition, exploration and evaluation of resource properties. All long-term assets of the Company are located in Canada.