
CANEX Metals Inc.
Consolidated Financial Statements
(Expressed in Canadian Dollars)
September 30, 2019 and 2018

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Independent Auditor's Report

To the Shareholders of CANEX Metals Inc.:

Opinion

We have audited the consolidated financial statements of CANEX Metals Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at September 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of \$113,432 during the year ended September 30, 2019 and, as of that date, the Group did not received any revenue from mining operations and has not determined whether its mineral properties contain ore reserves that are economically recoverable. These conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion information included on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 John Leavitt.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
January 14, 2020

CANEX Metals Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at September 30

	2019	2018
ASSETS		
Current Assets		
Cash (Note 4)	\$ 134,349	\$ 242,750
Accounts receivable (Note 5)	4,061	1,187
Mining exploration tax credit receivable (Note 16)	63,123	29,598
Prepaid expenses	6,922	10,352
Short-term investments (Note 6)	353,715	245,950
	<u>562,170</u>	<u>529,837</u>
Non-current Assets		
Exploration and evaluation asset advances and deposits (Note 7)	37,569	10,000
Exploration and evaluation assets (Note 7)	510,268	190,832
Equipment (Note 8)	79	132
	<u>547,916</u>	<u>200,964</u>
TOTAL ASSETS	\$ 1,110,086	\$ 730,801
EQUITY AND LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 35,034	\$ 33,449
Non-current Liabilities		
Decommissioning obligation (Note 10)	27,000	15,000
TOTAL LIABILITIES	<u>62,034</u>	<u>48,449</u>
EQUITY		
Share capital (Note 11)	14,243,517	13,835,176
Reserves	2,054,488	1,983,697
Deficit	(15,249,953)	(15,136,521)
TOTAL EQUITY	<u>1,048,052</u>	<u>682,352</u>
TOTAL EQUITY AND LIABILITIES	\$ 1,110,086	\$ 730,801

Nature of operations and continuance of operations (Note 1)

Commitments (Note 18)

Subsequent events (Note 23)

Approved by the Board

“Shane Ebert”

Director

“Jean Pierre Jutras”

Director

See accompanying notes to consolidated financial statements.

CANEX Metals Inc.

Consolidated Statements of Loss and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

For the years ended September 30

	2019		2018
Expenses			
General and administrative (Note 13)	\$ (161,703)	\$	(100,520)
Reporting to shareholders	(17,169)		(17,291)
Professional fees	(31,199)		(33,451)
Stock exchange and transfer agent fees	(9,170)		(9,039)
Depreciation	(53)		(95)
Pre-acquisition costs	(10,104)		-
Impairment (Note 7)	(11,563)		-
Loss before other items	(240,961)		(160,396)
Other items			
Interest and other	809		290
Gain from short-term investments	126,720		217,838
	127,529		218,128
 Net income (loss) and comprehensive income (loss) for the year	 \$ (113,432)	 \$	 57,732
 Basic and diluted income (loss) per share (Note 15)	 \$ 0.00	 \$	 0.00
 Weighted average shares outstanding - basic and diluted (Note 15)	 27,781,435		 22,586,425

See accompanying notes to the consolidated financial statements.

CANEX Metals Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)
For the years ended September 30

	2019	2018
Decrease in cash and cash equivalents		
Operating activities		
Cash paid to suppliers and contractors (Note 19)	\$ (166,967)	\$ (164,051)
Cash used in operating activities	(166,967)	(164,051)
Investing activities		
Interest and other income received	809	290
Cash received on sale of short-term investments	18,955	150,051
Cash expended on exploration and evaluation assets (Note 19)	(250,945)	(31,437)
Cash expended on exploration advances and deposits	(27,569)	-
Cash provided (used) by investing activities	(258,750)	118,904
Financing activities		
Share capital and warrant issue proceeds	335,000	-
Cash share issuance and transactions costs	(17,684)	(2,033)
Cash provided (used) by financing activities	317,316	(2,033)
Decrease in cash and cash equivalents	(108,401)	(47,180)
Cash (Note 4):		
Beginning of period	242,750	289,930
End of period	\$ 134,349	\$ 242,750

Supplementary information:

Interest and taxes

No cash was expended on interest or taxes during the years ended September 30, 2019 and September 30, 2018.

Non-cash transactions

2019

During the year ended September 30, 2019, the Company issued 1,180,000 common shares valued at \$82,600 and 400,000 common shares valued at \$20,000, pursuant to an option agreement on the Gibson property. The acquisitions were valued using the closing share price on the transaction date. See Note 7 – “Exploration and evaluation assets” for more information.

During the year ended September 30, 2019, the Company completed a private placement share and warrant issue of 4,399,990 common units for gross proceeds of \$220,000. The issue included non-cash share issuance costs for broker's warrants valued at \$11,575. Refer to Note 11 – “Share capital, stock options and warrants” for more information regarding this transaction.

The Company granted stock options to officers, directors and consultants and recorded a non-cash charge for stock-based payments of \$59,216 that is included in general and administrative expenses (Note 13). Refer to Note 14 – “Share-based compensation transactions” for further information.

2018

During the year ended September 30, 2018, there were no non-cash transactions.

See accompanying notes to the consolidated financial statements.

CANEX Metals Inc.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

As at September 30

	Reserves						Total
	Common share capital	Equity settled share based payments	Warrants	Other Reserves*	Total Reserves	Deficit	
	\$	\$	\$	\$	\$	\$	\$
Balance, September 30, 2017	13,837,209	64,500	33,120	1,886,077	1,983,697	(15,194,253)	626,653
Net and comprehensive income for the year	-	-	-	-	-	57,732	57,732
Share issuance and transactions costs	(2,033)	-	-	-	-	-	(2,033)
Balance, September 30, 2018	13,835,176	64,500	33,120	1,886,077	1,983,697	(15,136,521)	682,352
Net and comprehensive loss for the year	-	-	-	-	-	(113,432)	(113,432)
Share issuance – property acquisition (Note 7)	82,600	-	-	-	-	-	82,600
Private placement share and warrant issue	115,000	-	-	-	-	-	115,000
Share issuance – property acquisition (Note 7)	20,000	-	-	-	-	-	20,000
Share issuance and transaction costs	(3,934)	-	-	-	-	-	(3,934)
Private placement share and warrant issue	220,000	-	-	-	-	-	220,000
Share issuance and transaction costs	(25,325)	-	11,575	-	11,575	-	(13,750)
Options issued	-	59,216	-	-	59,216	-	59,216
Balance, September 30, 2019	14,243,517	123,716	44,695	1,886,077	2,054,488	(15,249,953)	1,048,052

*Other reserves is comprised of the aggregate of options and warrants that expired or were forfeited without exercise. These values were relieved from common share capital, share based payment reserve and warrants reserve respectively upon the expiry of the equity instrument.

See accompanying notes to the consolidated financial statements

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

1. Nature of operations and continuance of operations

CANEX Metals Inc. ("CANEX" or the "Company") is engaged in the business of mineral exploration and development in Canada. The Company was originally incorporated under the laws of the Province of Quebec, Canada and has been continued under the Alberta Business Corporations Act, Canada. The address of its primary office is Suite 815, 808 - 4th Avenue SW, Calgary, Alberta, Canada, T2P 3E8. The Company's common shares are listed on the TSX Venture Exchange under the trading symbol CANX.

Since inception, the efforts of the Company have been devoted to the acquisition, exploration and development of mineral properties. To date the Company has not received any revenue from mining operations and has not determined whether its mineral exploration properties contain ore reserves that are economically recoverable.

The Company incurred a net loss of \$113,432 during the year ended September 30, 2019. The Company has a deficit of \$15,249,953 at September 30, 2019, and a working capital surplus of \$527,126. The Company believes it has sufficient working capital to fund its administrative and other operating expenses for the next twelve month period. Operating expenses beyond September 30, 2020, increases in expenditures over budget for the twelve month period ended September 30, 2020, exploration programs and new property acquisitions will require additional financing. There can be no assurance that the Company will be successful in obtaining financing. These uncertainties cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include any adjustments which could be significant should the Company be unable to continue as a going concern.

Mineral properties are recognized in these financial statements in accordance with the accounting policies outlined in *Note 3 (f) "Exploration and evaluation assets"*. Accordingly, their carrying values represent costs incurred to date, net of recoveries, abandonments and impairments. The recoverability of these amounts is dependent upon the existence of economically recoverable mineral reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain necessary financing to complete the development of properties where necessary, and upon future profitable operations; or alternatively, upon the Company's ability to recover its costs through a disposition of its interests in its mineral exploration properties.

2. Basis of presentation

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretations Committee ("IFRIC"), effective for the periods ended September 30, 2019 and 2018, using the significant accounting policies outlined in Note 3. The consolidated statements were authorized for issue by the board of directors on January 14, 2020.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments described in Note 12 and decommissioning obligation described in Note 10. In addition, these statements have been prepared using the accrual basis of accounting except for cash flow information.

The presentation and functional currency of the Company is the Canadian dollar.

b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned US subsidiary, Canexco Inc. ("Canexco"). Canexco was incorporated by the Company on June 5, 2019 in Arizona, USA, to conduct its exploration and development business in the USA, (refer to Note 7 - "Exploration and evaluation assets" for more information). All intercompany transactions and balances have been

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)
September 30, 2019 and 2018

2. Basis of presentation (continued)

b) Principles of consolidation (continued)

eliminated on consolidation. Subsidiaries are those entities that the Company controls through its power to govern the financial and operating policies of the subsidiary. Subsidiaries are fully consolidated from the date control is obtained and are de-consolidated from the date control ceases. During the year ended September 30, 2019, the Company determined that its dormant wholly-owned subsidiary, NAMCOEX Inc., ("NAMCOEX"), incorporated during the year ended September 30, 2005 to acquire Nevada mineral property interests, was dissolved. As the operations of Namcoex had been fully consolidated, there was no financial impact to the Company as a result of the dissolution.

3. Significant accounting policies

a) New accounting policies

The Company adopted IFRS 15 during the year ended September 30, 2019, with no impact to the consolidated financial statements.

b) New accounting standards and interpretations

Certain new accounting standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for periods subsequent to those disclosed in these financial statements. Many are not applicable or do not have a significant impact to the Company and have been excluded from below. Relevant pronouncements include the following:

IFRS 16 - Leases

IFRS 16 – Leases, was issued in January 2016 with the objective to recognize all leases on the balance sheet. IFRS 16 requires lessees to recognize a "right of use" asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. With the lease expiring in April 2020, the Company anticipates the standard will have no significant impact on its financial statements. The new policy will be applied to any new leases that the Company enters into if it is not subject to recognition exemptions.

c) Financial Instruments

The Company's financial instruments consist of the following:

Financial Assets

Cash
Accounts receivable
Short-term investments

Classification

Financial asset measured at amortized cost
Financial asset measured at amortized cost
Financial asset measured at fair value

Financial Liabilities

Accounts payable and accrued liabilities

Classification

Financial liabilities measured at amortized cost

The Company records financial assets initially at fair value and subsequently measures these financial assets at either amortized cost or fair value on the basis of both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following conditions are met:

- 1) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

c) Financial Instruments (continued)

- 2) 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.

If the financial asset is not measured at amortized cost as per the above, the financial asset is measured at fair value.

Financial asset measured at fair value

Financial assets measured at fair value are carried at fair value at each period end, with the related gains and losses recognized in profit or loss. The sale of equity investments is accounted for using trade date accounting.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are recorded at fair value upon initial recognition, plus any applicable transaction costs that are directly attributable to the acquisition of the financial asset, and subsequently carried at amortized cost, using the effective interest method. A gain or loss on a financial asset that is measured at amortized cost is recognized in profit or loss when the financial asset is derecognized, impaired, or reclassified.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are recorded at fair value upon initial recognition, less any applicable transaction costs that are directly attributable to the acquisition of the financial liability, and are subsequently measured at amortized cost using the effective interest method. A gain or loss on a financial liability that is measured at amortized cost is recognized in profit or loss when the financial liability is derecognized.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss as an impairment gain or loss, the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

The carrying amount of financial assets is reduced by any impairment loss directly except in the case of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of accounts receivable previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in earnings.

If, in a subsequent period, the amount of the impairment loss decreases for financial assets except accounts receivable, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal is recognized in profit or loss and is limited to the carrying amount that would have been determined had no impairment loss been recognized in prior years.

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

c) Financial Instruments (continued)

Cash

Cash includes cash held in current accounts, highly liquid Canadian dollar denominated investments in bankers' acceptances or term deposits, with terms to maturity of 90 days or less when acquired and cash held in short-term investment accounts. The counter-parties are financial institutions.

d) Provisions

Provisions are recognized when the Company has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using the pre-tax, risk-free rate, updated at each reporting date.

e) Decommissioning obligation

Decommissioning obligation includes obligations related to future removal of property and equipment, and site restoration costs. A liability, for the fair value of environmental and site restoration obligations, is recorded in accordance with the broader policy described in "d) Provisions" above. Provisions for restoration costs do not include any additional obligations that are expected to arise from future disturbance. The amortization or unwinding of the discount applied in establishing the net present value of provisions is charged to earnings in a systematic manner. Other movements in the provision, including those from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalized to exploration and evaluation assets. The amounts included in capitalized costs are depleted using the unit-of-production method at such point that the mineral property achieves commercial production, or the costs will be written-off at such time that management considers that the value of the related property has been impaired.

f) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties. The Company capitalizes costs directly related to the acquisition, exploration and evaluation of mineral properties. Such costs include, but are not restricted to, geological, geophysical, drilling, trenching and sampling costs including the support costs and supplies required in relation thereto. These assets are recorded at cost as adjusted for impairments in value. Impairment is assessed when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. In assessing impairment, exploration and evaluation assets are grouped into Cash Generating Units ("CGU's"), on the basis of areas of interest. Management groups mineral claims that are contiguous and specific to an area that encompasses the same prospective minerals, into one area of interest and assigns a name to this mineral property. Each named mineral property is considered an area of interest and a CGU.

Exploration and evaluation assets are reviewed for impairment if there is an indication that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit ("CGU"), or "fair value less costs to sell." Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the assets in an arm's length transaction.

The discount rate applied in calculating net present value of expected future cash flows, is based upon pre-tax discount rates that reflect current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecasted cash flows.

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

f) Exploration and evaluation assets (continued)

If the carrying amount of the asset exceeds its recoverable amount, the asset impairment loss is charged to earnings and reduces the carrying amount of the asset. A previously recognized impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally precipitated the impairment. This reversal is recognized in profit or loss and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years.

An impairment loss may be reversed in a situation where there is a change in the circumstances that had initially dictated that an impairment had occurred. An example of such a situation might include, but not be limited to, the re-commencement of exploration activity on a mineral property due to a significant change in commodity prices.

Although not an exhaustive list, one or more of the following facts and circumstances indicate that a specific CGU should be tested for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the financial statement period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

Where the Company's exploration commitments for a CGU are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the CGU to the extent of costs incurred. The excess, if any, is credited to operations. Option payments made by the Company are recorded as exploration and evaluation assets. Options are exercisable entirely at the discretion of the optionee and accordingly, are recorded as exploration and evaluation assets or recoveries when the payments are made or received. The proceeds on the sale of exploration and evaluation assets are applied to the area of interest to the extent of costs incurred and the excess, if any, is credited to operations. In some circumstances option payments received by or made by the Company are made in whole or in part through the issuance of common shares. The value of these share-based payments is calculated using the closing price of the shares on the date of issue as determined by the public exchange upon which they are listed as this is the most readily determinable value.

When the Company enters the development stage for a CGU, the exploration and evaluation costs are transferred into mine development costs and all subsequent expenditures on the construction, installation or completion of infrastructure net of incidental revenue, is capitalized. Upon commencement of commercial production, all mine development assets for the relevant CGU are transferred to producing mine assets at which point the costs will commence being charged to earnings on a unit-of-production basis.

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

g) Equipment

On initial recognition, equipment assets are valued at cost, being the purchase price plus the directly attributable costs of acquisition to bring the assets to the location and condition necessary for the assets to be put into use. Subsequent to acquisition, these assets are recorded at cost less accumulated depreciation. Depreciation methods and rates by significant categories of property and equipment that are calculated to write off the cost of the assets, less estimated residual values, over their useful lives. The method and rates used by category are as follows:

	<u>Depreciation method</u>	<u>Depreciation rate</u>
Computer equipment and software	Declining balance	50%

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to estimated residual values or useful lives are accounted for prospectively as a change in estimates.

Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit ("CGU"), or "fair value less costs to sell." Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the assets in an arm's length transaction.

The discount rate applied in calculating net present value of expected future cash flows, is based upon pre-tax discount rates that reflect current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecasted cash flows.

If the carrying amount of the asset exceeds its recoverable amount, the asset impairment loss is charged to earnings and reduces the carrying amount of the asset. A previously recognized impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally precipitated the impairment. This reversal is recognized in profit or loss and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years.

Gains or losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in other gains and losses in the statements of loss and comprehensive income (loss).

h) Gains and losses on short-term investments

The Company maintains an investment portfolio of publicly traded securities. These investments are recorded at fair value at year end and differences are recorded in income.

i) Foreign currencies

Both the presentation currency and functional currency of the Company is the Canadian dollar. The functional currency of its wholly owned US subsidiary is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the transaction dates. At each financial statement reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the date of the statements of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items that are carried at fair value and were measured in a foreign currency are translated at the rate prevailing at the

CANEX Metals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

i) Foreign currencies (continued)

date when the fair value was determined. Foreign exchange gains and losses on the foregoing transactions are recorded in profit or loss.

j) Critical accounting judgements and estimates

The preparation of financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets, 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. Actual outcomes could differ from these estimates. Circumstances could arise over the years that would require material revisions to these estimates. Changes in assumptions could have a material effect on the fair value of estimates.

These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Adjustments resulting from revisions to accounting estimates are recognized in the period in which the estimate is revised, and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical estimates include:

- a) the carrying values of exploration and evaluation assets that are included in the statement of financial position, including the assumptions that are incorporated into the impairment assessments, and the amount of impairments that are included in the statement of loss and comprehensive income (loss). (Refer to Note 1 - "Nature of operations and continuance of operations")
- b) the estimate of the amount of asset retirement obligation and the inputs used in determining the net present value of the liabilities for asset retirement obligations included in the statement of financial position.
- c) the estimated fair value of share purchase options and broker warrants requires determining the most appropriate model as well as the applicable inputs.
- d) Judgement is required in determining whether or not deferred tax assets are recognized on the statement of financial position.
- e) Estimates are required in determining the amount of government incentives. Judgment is also required to determine the recoverability of the government incentives.

k) Share-based payment transactions

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity-settled share based payment reserve in equity. Employees, for the purpose of this calculation, also include individuals who provide services similar to those performed by a direct employee, including directors and consultants of the Company. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. Consideration received on the exercise of stock options is recorded as share capital and the related equity-settled share based payment amount is transferred to share capital. If options expire without being exercised, the value associated therewith is transferred from equity-settled share based payment reserve to other reserves.

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Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

September 30, 2019 and 2018

3. Significant accounting policies (continued)

l) Income (loss) per share

Basic loss per common share is computed by dividing the net earnings loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Only "in-the-money" dilutive instruments impact the dilution calculations and potentially dilutive instruments shall only be treated as dilutive when their conversion increases loss per share. Refer to Note 11 for a summary of options and warrants outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the calculation in the periods disclosed because their effect was anti-dilutive. Refer to Note 15 for calculations of income (loss) per share.

m) Income taxes

Income tax on net earnings or loss for the periods presented is comprised of current and deferred tax as applicable. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings. Income tax pertaining to earnings or loss is recognized in earnings or loss; income taxes pertaining to items recognized directly in equity is recorded through equity. Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted by the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill, not deductible for tax purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

n) Leases

The Company leases office space pursuant to a sublease agreement that does not transfer substantially all the risks and rewards incidental to ownership. Consequently the lease is classified as an operating lease. The lease obligations are recognized as an expense on a straight-line basis over the term of the lease.

o) Government incentives

Through its exploration, the Company has benefited from government grants. These incentives are not repayable provided that the Company meets the requirements of the agreement, the most significant of which is that the incentives apply to qualifying expenditures. Qualifying expenditures are defined broadly within the agreement as all reasonable expenses for contracted services, machinery rental, transportation of machinery, personnel and supplies or other approved costs in connection with specific exploration programs. The government grants are recognized when there is reasonable assurance that the Company will comply with the conditions of the grant and the grants will be received. The incentives reduce the mineral property costs to which they pertain in the period that the qualifying exploration expenditures are incurred or when collectability is reasonably assured if this is later. These government incentives are subject to review by the relevant granting authorities, and by their nature are subject to measurement uncertainty. Adjustments, if any, resulting from such a review are recorded in the period during which the final grant payment amount is assessed by the governing agency.

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4. Cash

Cash is comprised of:

	Sept 30, 2019	Sept 30, 2018
Current bank accounts	\$ 115,378	\$ 80,229
Cash investment accounts	18,971	162,521
	<u>\$ 134,349</u>	<u>\$ 242,750</u>

5. Accounts receivable

	Sept 30, 2019	Sept 30, 2018
Trade receivables	\$ 656	\$ -
Due from related parties	450	332
Sales tax receivables	2,955	855
	<u>\$ 4,061</u>	<u>\$ 1,187</u>

6. Short-term investments

	Sept 30, 2019	Sept 30, 2018
Spruce Ridge Resources Ltd.		
Common shares (Sept 30, 2019 – 5,833,500, Sept 30, 2018 - 6,000,000)	\$ 350,010	\$ 240,000
Commander Resources Ltd.		
Common shares (Sept 30, 2019 – 20,000, Sept 30, 2018 - 100,000)	1,500	2,800
Maple Gold Mines Ltd.		
Common shares (Sept 30, 2019 - 31,500, Sept 30, 2018 - 31,500)	2,205	3,150
	<u>\$ 353,715</u>	<u>\$ 245,950</u>

The common shares of Spruce Ridge Resources Ltd. ("Spruce Ridge"), Commander Resources Ltd. and Maple Gold Mines Ltd. were valued at their fair value, based on their respective period-end trading prices, at September 30, 2019 and September 30, 2018.

During the year ended September 30, 2019, the Company disposed of 166,500 Spruce Ridge shares for cash proceeds of \$18,955 net of commissions.

Subsequent to September 30, 2019 and prior to the date of this report, the Company disposed of 200,000 Spruce Ridge shares for cash proceeds of \$15,434 net of commissions.

During the year ended September 30, 2018, the Company sold 5 million shares of Spruce Ridge for cash proceeds of \$150,000, to an arm's length party ("Purchaser"). It also approved the granting of an option to the Purchaser to sell an additional 3 million shares of Spruce Ridge at a set price of \$0.06 per share until September 21, 2019 exercisable at the option of the Purchaser. The term was accelerated to expire within 2 weeks in the event that Spruce Ridge shares traded above \$0.09 for 30 consecutive days. The fair value of option at initial recognition and year end was determined to be immaterial, using the Black-Scholes model and the following assumptions: risk free rate of 1%, volatility of 57%, and dividend yield of nil. The option expired on September 21, 2019 without exercise.

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7. Exploration and evaluation assets

Gibson Prospect, British Columbia

On April 4, 2017, the Company announced it had signed a Letter of Intent to acquire a 100% interest in the Gibson property from Altius Resources Inc. ("Altius"), a wholly held subsidiary of Altius Minerals Corp. (TSX:ALS), which is an arm's length party. Gibson is 887 Ha in size and located in central British Columbia, approximately 95 kilometres northwest of Fort St. James. The option purchase agreement (the "Agreement") was executed on May 12, 2017; and received Exchange approval on May 17, 2017. The Company also assumed the obligations of an underlying option agreement with Steven Scott, an arm's length party (the "Underlying Agreement").

Under the terms of the Agreement, the Company is committed to issue a maximum of 3,545,000 common shares to Altius in three stages plus incur minimum exploration expenditures up to \$500,000 within 18 months, and make \$90,000 in cash or share equivalent payments to Steven Scott. Upon approval of the Agreement, the Company issued 1,125,000 common shares to Altius valued at \$78,750 and paid \$5,000 to Steven Scott. On February 14, 2018, the Company paid \$15,000 to Steven Scott pursuant to the Underlying Agreement. On October 5, 2018, the Company issued 1,180,000 common shares to Altius valued at \$82,600 pursuant to the Agreement and on February 21, 2019, the Company issued 400,000 common shares to Steven Scott valued at \$20,000, pursuant to the Underlying Agreement. On November 12, 2018, the Company was granted an extension to meet its minimum exploration expenditures of \$500,000 by November 12, 2018 to July 15, 2019, as lack of access during 2018, in part, prevented the Company from completing the required expenditures within the allotted time. On June 20, 2019, the Company was granted a further extension to meet its minimum exploration expenditures of \$500,000 by July 15, 2019 to July 15, 2020. All other terms of the Agreement remain unchanged. The gross costs and impairments recorded to the Gibson Prospect as at September 30, 2019 are \$422,527 and \$nil, respectively (September 30, 2018 - \$177,234 and \$nil).

As at September 30, 2019, under the terms of the Agreement, the Company is committed to the following share issuances, cash payments and minimum exploration expenditures:

	Altius		Underlying option agreement with Steven Scott	
	Share issues	Minimum exploration expenditures	Cash or share equivalent payments	Minimum exploration expenditures*
		(\$)	(\$)	(\$)
Remaining commitments under the terms of the Agreement are as follows:				
Expenditure Commitment on or before July 15, 2020	-	500,000	-	-
Following the completion of the Expenditure Commitment	1,240,000	-	-	-
On or before March 9, 2020	-	-	25,000	30,000
On or before March 9, 2021	-	-	25,000	50,000
Total	1,240,000	500,000**	50,000	80,000**

* - included in total minimum exploration expenditure commitments

** - as at September 30, 2019, the Company has incurred exploration expenditures of \$293,500

Shane Ebert through his company, Vector Resources Inc. (see Note 17 - "Related parties and transactions and key management remuneration"), provides consulting services to Altius regarding British Columbia project generation activities. Vector Resources Inc. is entitled to 5% of the compensation, 177,250 shares, due to Altius under the Gibson agreement.

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September 30, 2019 and 2018

7. Exploration and evaluation assets (continued)

Gibson Prospect, British Columbia (continued)

In addition, Altius will retain a right to purchase an underlying 1.5% Net Smelter Royalty ("NSR") and preferential rights on any future royalties or streams granted on the Property. If the Company achieves a measured and indicated mineral resource in excess of 1 million gold equivalent ounces, a Milestone Payment of 1,275,000 shares will be issued to Altius. Altius will have a pro rata right to participate in future equity financings of the Company for two years. Pursuant to the underlying option agreement, Steven Scott is also entitled to the additional milestone bonuses 1) \$25,000 in cash or securities upon a Bankable Feasibility Study; and 2) \$50,000 in cash or securities upon Commercial Production.

Echo, Fulton, Red and Beal properties, British Columbia

On June 21, 2018, the Company signed a Definitive Agreement granting the Company an option to acquire a 100% interest in five mineral exploration properties in British Columbia from Altius. The five properties are named Ace, Echo, Fulton, Red and Beal. Pursuant to the Definitive Agreement, the acquisition of the Ace property was conditional upon satisfactory resolution of a property access issue by August 15, 2018. Since the access issue remained unresolved, the Ace Property was dropped from the Definitive Agreement. All other terms of the agreement remain unchanged. There are no financing obligations attached to the Definitive Agreement.

The terms of the agreement are summarized below:

To acquire a 100% interest in the Echo, Fulton, Red and Beal properties, the Company must spend a minimum of \$30,000 on exploration within 15 months (on or before September 21, 2019) of closing the Definitive Agreement and issue to Altius 500,000 common shares for each project. In addition, Altius will retain a 1.75% Gross Smelter Royalty ("GSR") on all properties within a 5 km area of interest. For each property that achieves a measured and indicated mineral resource in excess of 0.5 million gold equivalent ounces, a Milestone Payment of 1.5 million shares will be issued to Altius.

Altius has agreed to extend the expenditure deadline to December 31, 2019 to allow the Company time to complete further evaluations of the properties. The Company conducted additional fieldwork in September and has determined that it will no longer continue to explore the Fulton, Red and Beal properties, and therefore has impaired the full amount of expenditures on each respective property as of September 30, 2019. However, the Company, will continue to evaluate the Echo property and will conduct a ground magnetic survey at Echo during Q1 2020. The gross costs and impairments recorded to the Echo, Fulton, Red and Beal properties combined as at September 30, 2019 are \$12,617 and \$5,154, respectively (September 30, 2018 - \$7,690 and \$nil).

Gold Range Property, Arizona, USA

On June 11, 2019, the Company's wholly-owned subsidiary, Canexco Inc., entered into an arm's length Option Agreement to acquire a 100% interest in the Gold Range Property, Arizona, USA from a Prospector, the "Optionor". The Gold Range Property, under option, is comprised of three staked lode mineral claims with a total area of 61.98 acres and is located in Mohave County, Arizona, USA. In addition, the Company staked and recorded 13 additional lode mining claims covering prospective ground surrounding the area of interest optioned and began conducting preliminary geologic fieldwork. In October 2019, the Company conducted trenching and mapping sampling program, and exploration and land evaluations are ongoing. The area has seen historic lode and placer gold production, but limited modern lode gold exploration.

Under the terms of the agreement, the Company is committed to make options payments and minimum exploration expenditures totaling US\$90,000 and US\$80,000 over four years, respectively. On June 11, 2019, the Company issued US\$10,000 (CDN\$13,405) in accordance with the agreement. In addition, the Optionor will retain a 2% NSR, half of which can be bought back by the Company for US\$500,000; the

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7. Exploration and evaluation assets (continued) Gold Range Property, Arizona, USA (continued)

remaining half can be bought back for US\$1,000,000. The gross costs and impairments recorded to the Gold Range Property at September 30, 2019 are \$80,278 and \$nil, respectively (September 30, 2018 - \$nil and \$nil).

As at September 30, 2019, under the terms of the Agreement, the Company is committed to the following cash payments and minimum exploration expenditures:

Due date	Option Payments	Minimum Exploration Expenditures
	US\$	US\$
June 11, 2020	15,000	10,000
June 11, 2021	15,000	20,000
June 11, 2022	20,000	20,000
June 11, 2023	30,000	30,000
Total committed cash payments and minimum exploration expenditures	80,000	80,000
Exploration expenditures to September 30, 2019	-	48,000
Total remaining commitment as of September 30, 2019	80,000	32,000

The remaining committed option payments and exploration expenditures of US\$80,000 and US\$32,000 would equate to CDN\$106,000 and CDN\$42,400 respectively using the September 30, 2019 Bank of Canada exchange rate. An increase or decrease of 10% to the exchange rate would result in an increase or decrease in required option payments and minimum exploration expenditures of \$10,600 and \$4,200 respectively.

Cariboo Gold Property, British Columbia

During the year ended September 30, 2015, the Company staked the Cariboo Gold Property located in central British Columbia. During the year ended September 30, 2019, the Company determined that it would no longer continue to explore the Cariboo Gold Property, and therefore impaired the full amount of expenditures to date. The Company will continue to hold the mineral claims until they expire on June 23, 2021. The gross costs and impairments recorded to the Cariboo Gold Property as at September 30, 2019 are \$6,409 and \$6,409, respectively (September 30, 2018 - \$5,908 and \$nil).

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7. Exploration and evaluation assets (continued)

A summary of exploration and evaluation expenditures by category for the years ended September 30, 2019 and September 30, 2018 appear below:

Year ended September 30, 2019	British Columbia							Arizona, USA
	Total	Gibson Property	Cariboo Gold Property	Echo Property	Fulton Property	Red Property	Beal Property	Gold Range Property
	\$	\$	\$	\$	\$	\$	\$	\$
Exploration expenditures:								
Balance, September 30, 2018	84,588	78,484	2,243	1,546	2,315	-	-	-
Geological consulting	65,596	31,640	-	3,300	150	150	2,100	28,256
Field costs	5,579	3,179	-	206	-	-	205	1,989
Travel	16,804	11,053	-	-	-	-	-	5,751
Geochemical	23,642	11,738	715	-	483	-	-	10,706
Excavating	12,482	12,482	-	-	-	-	-	-
Drilling	128,000	128,000	-	-	-	-	-	-
Equipment rental	5,011	4,567	-	222	-	-	222	-
Provision for decommissioning	12,000	-	-	-	-	-	-	12,000
BC Mining exploration tax credit	(62,937)	(60,612)	(214)	(1,118)	(190)	(45)	(758)	-
Impairment	(7,376)	-	(2,744)	-	(2,758)	(105)	(1,769)	-
Balance, September 30, 2019	283,389	220,531	-	4,156	-	-	-	58,702
Property acquisition costs								
Balance, September 30, 2018	106,244	98,750	3,665	3,307	522	-	-	-
Acquisition costs incurred	124,822	103,246	-	-	-	-	-	21,576
Impairment	(4,187)	-	(3,665)	-	(522)	-	-	-
Balance, September 30, 2019	226,879	201,996	-	3,307	-	-	-	21,576
Total exploration and evaluation assets, September 30, 2019	510,268	422,527	-	7,463	-	-	-	80,278

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September 30, 2019 and 2018

7. Exploration and evaluation assets (continued)

Year ended September 30, 2018	British Columbia				
	Total	Gibson Property	Cariboo Gold Property	Echo Property	Fulton Property
	\$	\$	\$	\$	\$
Exploration expenditures:					
Balance, September 30, 2017	75,762	75,237	525	-	-
Geological consulting	9,735	4,700	1,585	1,200	2,250
Field costs	663	-	-	663	-
Travel	531	-	302	88	141
Geochemical	380	(62)	399	-	43
Equipment rental	1,011	-	141	258	612
Fuel	261	-	-	-	261
Expediting	27	-	27	-	-
BC Mining exploration tax credit	(3,782)	(1,391)	(736)	(663)	(992)
Balance, September 30, 2018	84,588	78,484	2,243	1,546	2,315
Property acquisition costs					
Balance, September 30, 2017	87,415	83,750	3,665	-	-
Acquisition costs incurred	18,829	15,000	-	3,307	522
Balance, September 30, 2018	106,244	98,750	3,665	3,307	522
Total exploration and evaluation assets, September 30, 2018	190,832	177,234	5,908	4,853	2,837

From time to time the Company is required to advance amounts to service providers prior to their commencing exploration work on the mineral interest. The advance is applied to the invoiced services, generally through the final invoice. As these advances pertain to costs that form part of the long-term exploration and evaluation assets, they are classified as long-term. At September 30, 2019, the Company held \$10,000 in respect of the Gibson Prospect and \$27,569 in respect of the Gold Range Project in exploration and evaluation asset advances and deposits (September 30, 2018 - \$10,000).

8. Equipment

	Computer equipment and software
Cost	
Balance at September 30, 2019 and 2018	\$ 9,685
Accumulated depreciation	
Balance, September 30, 2018	9,553
Depreciation	53
Balance September 30, 2019	\$ 9,606
Net book value	
September 30, 2018	\$ 132
September 30, 2019	\$ 79

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September 30, 2019 and 2018

9. Accounts payable and accrued liabilities

	Sept 30, 2019	Sept 30, 2018
Trade payables	\$ 2,090	\$ 762
Due to related parties	5,988	9,671
Accrued liabilities	26,934	23,000
Commodity taxes payable	22	16
	<u>\$ 35,034</u>	<u>\$ 33,449</u>

10. Decommissioning obligation

Changes in the decommissioning obligation:

	Sept 30, 2019	Sept 30, 2018
Balance, beginning of year	\$ 15,000	\$ 15,000
Gold Range Property additions	12,000	-
Balance, end of year	<u>\$ 27,000</u>	<u>\$ 15,000</u>

The provision noted above represents estimated costs to restore the Company's mineral property which includes the cost of filling trenches and revegetation as applicable. Management believes that there are no other significant legal and constructive obligations as at the respective year end dates for current and future decommissioning obligations. The year end present value of the decommissioning obligation was determined using a risk-free rate of 1.58% (September 30, 2018 – 2.21%). The estimated total undiscounted amount, using an inflation rate of 1.90% (September 30, 2018 – 2.36%) for the year ended September 30, 2019 is \$28,035 (2018 - \$17,500). The timing of future decommissioning costs is uncertain, as the costs will not be incurred until the Company gives up its legal right to explore the property or the current land use permits expire, at which time the reclamation has to have been completed. No accretion expense has been recorded in the current year because the amount is considered to be immaterial.

11. Share capital, stock options and warrants

a) Authorized

Unlimited number of common shares without par value.

b) Issued and outstanding common share capital

	Shares	Value \$
Balance, as at September 30, 2018	22,586,425	13,835,176
Share issuance – property acquisition	1,180,000	82,600
Private Placement – October 16, 2018	2,300,000	115,000
Share issuance costs	-	(2,959)
Share issuance – property acquisition	400,000	20,000
Share issuance costs	-	(975)
Private Placement – June 6, 2019	4,399,990	220,000
Share issuance costs	-	(25,325)
Balance, as at September 30, 2019	30,866,415	14,243,517

	Shares	Value \$
Balance, as at September 30, 2017	22,586,425	13,837,209
Share issuance costs	-	(2,033)
Balance, as at September 30, 2018	22,586,425	13,835,176

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11. Share capital, stock options and warrants (continued)

b) Issued and outstanding common share capital (continued)

On October 5, 2018, the Company issued 1,180,000 common shares valued at \$82,600 pursuant to an option agreement on the Gibson property. The acquisition was valued using the closing share price on the transaction date. See Note 7 – “Exploration and evaluation assets” for more information.

On October 16, 2018, the Company closed a non-brokered private placement share and warrant issue for aggregate gross proceeds of \$115,000. The placement was comprised of 2,300,000 common units at \$0.05 per unit. Each common unit was comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share until October 16, 2020. It is the Company's policy to allocate the full amount of proceeds to common share capital.

On February 21, 2019, the Company issued 400,000 common shares valued at \$20,000 pursuant to an option agreement on the Gibson property. The acquisition was valued using the closing share price on the transaction date. See Note 7 – “Exploration and evaluation assets” for more information.

On June 6, 2019, the Company closed a non-brokered private placement share and warrant issue for aggregate gross proceeds of \$220,000. The placement was comprised of 4,399,990 common units at \$0.05 per unit. Each common unit was comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.08 per share until June 6, 2022. It is the Company's policy to allocate the full amount of proceeds to common share capital. In addition, the Company issued 194,999 Broker's Warrants to eligible agents. Each Broker's Warrant entitles the holder to purchase one common share at a price of \$0.05 per share until June 6, 2022. In valuing the warrants, the Company used the Black-Scholes Pricing model assuming a volatility of 153.16%, a risk free rate of 1.35%, a three year warrant life, and a 0% dividend.

On October 29, 2019, the Company closed its non-brokered private placement, issuing 12,120,000 common shares for aggregate gross proceeds of \$606,000. Refer to Note 23 – “Subsequent events” for more information regarding this transaction. On November 19, 2019, 100,000 options exercisable at \$0.06 per share were exercised for total proceeds of \$6,000. There were no other share transactions subsequent to September 30, 2019 and up to the approval date of these financial statements.

During the year ended September 30, 2018, there were no shares issued or cancelled and returned to treasury.

c) Stock options outstanding

<u>Expiry</u>	<u>Number of options</u>		<u>Exercise price</u>
	<u>Sept 30, 2019</u>	<u>Sept 30, 2018</u>	
June 26, 2022	1,175,000	1,175,000	\$0.06
September 23, 2024	1,200,000	-	\$0.06
	<u>2,375,000</u>	<u>1,175,000</u>	

The Company has an option plan ("the Plan"), under which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the Plan, the options that have been granted expire at the earlier of five years from the grant date, the date at which the Directors determine, or 60 days from the date on which

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11. Share capital, stock options and warrants (continued)

c) Stock options outstanding (continued)

the optionee ceases to be a director, officer, employee or consultant. The exercise price of the options granted under the Plan will not be less than that from time to time permitted under the rules of the stock exchange or exchanges on which the shares are then listed, which price reflects trading values at that time. All of the options outstanding at the respective period ends have vested.

d) Stock option transactions

	Number of options	Weighted average exercise price
Balance, September 30, 2018	1,175,000	\$0.06
Issued	1,200,000	\$0.06
Balance, September 30, 2019	2,375,000	\$0.06

Refer to Note 14 - "Share-based payment transactions" for more information regarding the options issued during the year.

Subsequent to September 30, 2019 and prior to the approval date of these financial statements, 100,000 options, expiring June 26, 2022 were exercised for total proceeds of \$6,000. In addition, 710,000 options were issued to consultants and were valued at \$37,417. Refer to Note 14 – "Share-based payment transactions" for more information. There were no further changes to stock options.

e) Warrant transactions and warrants outstanding

The warrants summarized below are fully vested and may be exercised to acquire an equal number of common shares.

Year ended September 30, 2019:

Exercise Price	Expiry	Balance Sept 30, 2018	Warrants Issued	Warrants Expired	Balance Sept 30, 2019
\$0.10	October 16, 2020	-	2,300,000	-	2,300,000
\$0.25	March 23, 2021	460,000	-	-	460,000
\$0.08	June 6, 2022	-	4,399,990	-	4,399,990
\$0.05	June 6, 2022	-	194,999	-	194,999
		460,000	6,894,989	-	7,354,989

Year ended September 30, 2018:

Exercise Price	Expiry	Balance Sept 30, 2017	Warrants Issued	Warrants Expired	Balance Sept 30, 2018
\$0.25	March 23, 2021	460,000	-	-	460,000

Subsequent to September 30, 2019 and up to the approval date of these financial statements, no warrants were issued or expired.

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12. Financial instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that prioritizes the inputs to fair value measurements. The three levels of fair value are summarized below:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities either directly, (i.e. prices), or indirectly, (i.e. derived from prices); and
- Level 3 - Inputs that are not based on observable market data.

Level 1 has been utilized to value common shares included in short-term investments. The option included in short-term investments are categorized as Level 3.

The following summarizes the categories of the various financial instruments:

	Sept 30, 2019	Sept 30, 2018
	Carrying Value	
Financial Assets		
Financial assets measured at fair value:		
Short-term investments	\$ 353,715	\$ 245,950
Financial assets measured at amortized cost:		
Cash	134,349	242,750
Accounts receivable	1,106	332
	\$ 135,455	\$ 243,082
Financial Liabilities		
Financial liabilities measured at amortized cost:		
Accounts payable and accrued liabilities	\$ 35,012	\$ 33,433

The above noted financial instruments are exclusive of any sales tax. The carrying value of financial assets and liabilities measured at amortized cost approximates fair value due to the short-term nature of the instruments.

13. General and administrative

	Sept 30, 2019	Sept 30, 2018
Administrative consulting fees	\$ 38,630	\$ 35,580
Stock-based compensation (Note 14)	59,216	-
Occupancy costs	18,789	18,600
Office, secretarial, supplies and other	28,458	25,219
Insurance	8,130	8,663
Directors' fees	2,100	2,100
Computer network and website maintenance	2,254	6,051
Travel and promotion	4,126	4,307
	\$ 161,703	\$ 100,520

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14. Share-based payment transactions

During the year ended September 30, 2019, the Company granted 1,200,000 options that may be exercised at \$0.06 per share to September 23, 2024. The options were valued at \$59,216 using the Black-Scholes Option Pricing model assuming a 5 year term, volatility of 118.84%, a risk-free discount rate of 1.40% and a dividend rate of 0%.

During the year ended September 30, 2018, there were no share-based payment transactions.

Subsequent to September 30, 2019 and prior to the approval date of these financial statements, the Company issued 710,000 options that may be exercised at \$0.055 per share to October 4, 2024. The options were valued at \$37,417 using the Black-Scholes Options Pricing model assuming a 5 year term, volatility of 182.33%, a risk free discount rate of 1.25% and a dividend rate of 0%.

15. Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive.

The following adjustments were made in arriving at diluted weighted average number of common shares for the years ended September 30:

Weighted average number of common shares:	2019	2018
Basic and Diluted	27,781,435	22,586,425
Income (loss) per share		
Basic	\$ (0.00)	\$ 0.00
Diluted	\$ (0.00)	\$ 0.00

16. Income tax information

Rate reconciliation:

The combined provision for taxes in the consolidated statement of income (loss) and other comprehensive income (loss) reflects an effective tax rate which differs from the expected statutory rate as follows:

	2019	2018
Income (loss) before income taxes	\$ (113,432)	\$ 57,732
Computed expected expense (recovery) based on a combined rate of 26.75% (2017 - 27.00%)	(30,343)	15,588
Change resulting from:		
Differential tax rate of foreign jurisdiction	166	-
Non-deductible (taxable) items and other	117,259	(29,377)
Change in tax rate	378,682	-
Unrecognized deferred tax asset	(469,798)	21,676
Change in prior year estimates	4,034	(7,887)
Income tax expense	\$ -	\$ -

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16. Income tax information (continued)

The combined statutory rate is 26.75% for 2019 (2018 - 27.00%). The deferred combined statutory rate is expected to be 23.00% for 2020 and subsequent years (2019 – 25.75%).

Temporary differences and tax loss not recognized for accounting purposes:

	2019	2018
Non-capital loss carry-forwards	\$ 2,828,146	\$ 2,659,631
Capital loss carry-forwards	779,033	782,935
Share issuance costs	24,337	17,749
US net operating loss	43,352	354,758
Property and equipment	18,251	18,198
Mineral properties	4,843,892	5,037,364
Short-term investments	96,035	157,445
Total	\$ 8,633,046	\$ 9,028,080

As future taxable profits of the Company are uncertain, no deferred tax asset has been recognized. As at September 30, 2019, the Company had unused non-capital loss carry forwards of approximately \$2.83 million that expire between the years 2026 and 2039. Capital loss carry-forwards may be carried forward indefinitely. The Company has unused US net operating loss carry forwards of approximately \$33,000USD (\$43,000 CDN) that may be carried forward indefinitely.

During the year ended September 30, 2019, the Company applied for a British Columbia mining exploration tax credit in the amount of \$63,123 (2018 – \$3,782) for qualified expenditures made in 2019 totalling \$210,411 (2018 - \$12,806) relating to its British Columbia properties (see Note 7 - Exploration and evaluation assets).

17. Related party balances and transactions and key management remuneration

The Company is considered a related party to Jade Leader Corp. ("Jade Leader") (formerly Manson Creek Resources Ltd.) because of its common directors, officers and key management personnel that have some direct financial interest in both the Company and Jade Leader. In addition, related parties include members of the board of directors, officers and their close family members. Vector Resources Inc., a company controlled by Shane Ebert, President and director, is considered a related party. The Company incurred the following amounts charged to (by) related parties:

	Sept 30, 2019	Sept 30, 2018
Key management remuneration		
President and director	a \$ (82,050)	\$ (33,700)
Corporate secretary	b (18,371)	(16,628)
Directors' fees	c (2,100)	(2,100)
Total Management remuneration	\$ (102,521)	\$ (52,428)
	Sept 30, 2019	Sept 30, 2018
Other related party transactions		
Jade Leader		
Office rent and operating costs paid	d \$ (18,789)	\$ (18,527)
General and administrative and secretarial costs paid	d \$ (6,237)	\$ (5,653)
General and administrative and secretarial costs received	d \$ 2,808	\$ 2,955

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17. Related party balances and transactions and key management remuneration (continued)

The following amounts were due to or receivable from related parties at the respective year ends:

Balances Receivable (Payable)		Sept 30, 2019	Sept 30, 2018
Consulting fees:			
President and director	a \$	-	\$ (4,500)
Corporate secretary	b \$	-	\$ (1,485)
Office rent and operating costs			
Jade Leader	d \$	(4,932)	\$ -
General and administrative and secretarial costs:			
Jade Leader	d \$	(1,056)	\$ (1,280)
Jade Leader	d \$	450	\$ 332

Management compensation payable to "key management personnel" during the years ended September 30, 2019 and 2018 is reflected in the table above and consists of consulting fees paid to the President, the CFO, fees for the Corporate Secretary and directors' fees. Officers and directors are also compensated through the granting of options from time-to-time. During the year ended September 30, 2019, the Company granted stock options to officers, directors and consultants and recorded a non-cash charge for stock-based payments of \$52,300 that is included in general administrative expenses (Note 14 - "Share based payment transactions"). There were no options granted to officers and directors during the year ended September 30, 2018. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company.

a) The President and director of the Company billed for consulting services that were either expensed or, when his services related directly to mineral property exploration, capitalized to exploration and evaluation assets (Note 7). During the year ended September 30, 2019, \$24,000 (2018 - \$24,475) was expensed through administrative expenses, \$52,200 (2018 - \$9,225) was capitalized to exploration and evaluation assets, and \$5,850 (2018 - \$nil) was expensed through pre-acquisition and evaluation asset expenditures.

b) The Corporate Secretary provides services to the Company on a contract basis.

c) The Company pays directors who are not officers of the Company \$500 for meeting attendance in person and \$300 for meeting attendance by telephone. There are two directors who are not officers and the amounts above reflect directors fees paid/payable for meetings attended during the above-noted periods.

d) Jade Leader incurred certain administrative expenses on the Company's behalf that were subsequently billed to the Company on a quarterly basis. Further, the Company incurred certain administrative costs on behalf of Jade Leader that were billed on a quarterly basis. Effective April 1, 2015, the Company commenced to lease office space from Jade Leader. Jade Leader and the Company share two common officers and two common directors.

Related party receivables pertain to billings plus applicable sales taxes for which payment has not been received and related party payables reflect billings plus applicable sales taxes that were not yet paid by the Company at the respective period ends. Related party transactions were measured at the amounts agreed to by the transacting parties.

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18. Commitments

Pursuant to a lease agreement for office space, the Company is committed to pay \$1,566 per month until April 30, 2020 (refer to Note 17 – “Related party balances and transactions and key management remuneration”). As at September 30, 2019, the committed base lease costs to the termination of the lease are as follows:

October 1, 2019 - April 30, 2020	\$	<u>10,962</u>
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19. Supplemental disclosure statement of cash flows

Reconciliation of cash used in operating activities to operating loss for the years ended:

	Sept 30, 2019	Sept 30, 2018
Income (loss) and comprehensive income (loss)	\$ (113,432)	\$ 57,732
Depreciation	53	95
Stock-based compensation	59,216	-
Mineral property impairments	11,563	-
Interest and other income	(809)	(290)
Gain on short-term investments	(126,720)	(217,838)
Changes in assets and liabilities pertaining to operations:		
Accounts receivable	81	3,458
Prepaid expenses	3,430	(1,975)
Accounts payable and accrued liabilities	(349)	(5,233)
Cash paid to suppliers and contractors	\$ (166,967)	\$ (164,051)

Reconciliation of cash expended on exploration and evaluation assets for the years ended:

	Sept 30, 2019	Sept 30, 2018
Change in exploration and evaluation assets	\$ (319,436)	\$ (27,655)
Property acquisition – Share issuance	102,600	-
Provision for decommissioning	12,000	-
Mineral property impairments	(11,563)	-
Changes in assets and liabilities pertaining to exploration and evaluation		
Mining exploration tax credit receivable	(33,525)	(3,782)
Accounts receivable	(2,955)	-
Accounts payable and accrued liabilities	1,934	-
Cash expended on exploration and evaluation assets	\$ (250,945)	\$ (31,437)

20. Segment disclosures

During the years ended September 30, 2019 and 2018, the Company was only engaged in mineral exploration and all exploration activities were undertaken in Canada and/or the United States. Activities undertaken in both countries were similar in nature. The non-current assets associated with United States operations are comprised of the exploration and evaluation assets located in Arizona, the Gold Range Property. All remaining non-current assets are associated with Canadian operations. Consequently, segmented information is not presented in these financial statements. Refer to Note 7 – “Exploration and evaluation assets” for details of the carrying amounts of these assets at the respective period ends.

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21. Capital

The Company's objective when managing capital is to continue as a going concern so that it can provide value to shareholders by acquiring and conducting exploration on mineral exploration properties with the ultimate objective of finding commercial quantities of base and/or precious metals. Capital is defined as capital stock, warrants, contributed surplus and deficit. The Company has traditionally financed through equity issues rather than debt and does not anticipate using debt to finance its continuing grass roots exploration. Should the Company evolve to the point where it is developing or operating a mine, debt options will be investigated.

The Company will raise equity as cash flow requirements dictate and will attempt, when able, to time financings with more favorable market conditions. The Company can scale back exploration, and to a certain extent, discretionary administrative costs during tighter equity markets. The Company invests capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments such as Bankers' Acceptances and Term Deposits until such time as it required to pay operating expenses and mineral property costs, including option payments (Note 7). The Company objective is to manage its capital to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital.

22. Financial risk management

a) Credit risk

Credit risk is the risk of financial loss to the Company if counterparties to a financial instrument fail to meet their contractual obligations. The Company's financial instruments that could be subject to credit risk consist of receivables, excluding sales tax. The Company has had a history of prompt receipt of its receivables and considers credit risk to be low on these instruments as at September 30, 2019 and September 30, 2018.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is the utilization of budgets, to attempt to maintain sufficient liquidity in order to meet operational and exploration requirements as well as property acquisition commitments. The Company raises capital through equity issues and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. The Company is continually investigating financing options. The continuing operations of the Company are dependent upon its ability to obtain adequate financing or to commence profitable operations in the future. On October 29, 2019, the Company closed a private placement share issuance for aggregate gross proceeds of \$606,000 (Refer to Note 23 – "Subsequent events"). Increases in activity levels, new property acquisitions and any level of exploration on its mineral properties may require additional financing. There can be no assurance that the Company will be successful in obtaining financing. Refer to Note 1 - "Nature of operations and continuance of operations".

The Company's significant remaining contractual maturities for financial liabilities as at September 30, 2019 and 2018 are as follows:

- Accounts payable and accrued liabilities are due within one year.

c) Market risk

The Company's equity investments are subject to market price risk. The investments in common shares are recorded at fair value at the respective period ends with the resultant gains or losses recorded in earnings. The price value of these investments can vary from period to period. During the year ended September 30, 2019, the market price fluctuation on the investments held resulted in a net gain of \$122,819 (2018 - net gain of \$520,288) on short-term investments. In 2019 at 10% change in fair value of the Company's

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22. Financial risk management (continued)

c) Market risk (continued)

marketable investments would result in a charge to income of \$35,372 (2018 - \$24,595). The Company does not intend to hold these investments for more than one year.

The Company has not yet developed producing mineral interests and as a result it is not exposed to commodity price risk associated with developed properties at this time.

d) Interest rate risk

The Company has no debt facilities and has minimal amounts of interest income, it is not exposed to significant interest rate risk at this time. All market risk is associated with the Company's investments in common shares, which are recorded at fair value at the respective period ends with the resultant gains or losses recorded in earnings.

e) Foreign exchange risk

The Company undertakes transactions denominated in US currency; consequently, it is exposed to exchange rate fluctuations. The Company has disclosed US\$ commitments pertaining to one option agreement in Note 7 – “Exploration and evaluation assets”. The Company had no foreign currency denominated fund balances as at September 30, 2019 and September 30, 2018.

23. Subsequent events

On October 4, 2019, the Company issued 710,000 options that may be exercised at \$0.055 per share to October 4, 2024. Refer to Notes 11(d) and 14 – “Share-based payment transactions”.

On October 29, 2019, the Company closed a non-brokered private placement share issuance for aggregate gross proceeds of \$606,000. The placement was comprised of 12,120,000 common shares at \$0.05 per share.

On November 19, 2019, 100,000 options exercisable at \$0.06 per share were exercised for total proceeds of \$6,000. Refer to Note 11 (b).

Subsequent to the year ended September 30, 2019, the Company engaged a consultant to provide business advisory services for a total of \$90,000 to September 30, 2020, to be paid in quarterly installments of \$22,500.