

SERRANO RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SERRANO RESOURCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

AS AT

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 10,394	\$ 6,972
Receivables (Note 4)	1,831	4,528
Total assets	\$ 12,225	\$ 11,500
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6 and 8)	\$ 265,669	\$ 233,916
Total current liabilities	265,669	233,916
Shareholders' deficit		
Capital stock (Note 7)	44,966,123	44,966,123
Reserves	252,043	252,043
Deficit	(45,471,610)	(45,440,582)
Total shareholders' deficit	(253,444)	(222,416)
Total liabilities and shareholders' deficit	\$ 12,225	\$ 11,500

Nature, continuance of operations, and going concern (Note 1)

Approved by the Board on November 26, 2020 and signed on behalf of the Board:

<u>"Byron Coulthard"</u>	Director	<u>"Cyrus Driver"</u>	Director
Byron Coulthard		Cyrus Driver	

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

SERRANO RESOURCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
EXPENSES				
Foreign exchange gain	\$ -	\$ 4	\$ -	\$ (5,511)
Office and general	73	38	160	524
Professional fees (Note 8)	9,200	7,000	24,900	8,886
Shareholder communication	165	-	165	65
Transfer agent and filing fees	1,862	611	5,803	4,829
Write-off of accounts payable and accrued liabilities	-	-	-	(500,566)
Income (loss) and comprehensive income (loss) for the period	\$ (11,300)	\$ (7,653)	\$ (31,028)	\$ 491,773
Basic and diluted income (loss) per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.01
Weighted average number of common shares outstanding	73,935,683	73,935,683	73,935,683	73,935,683

*The Company had no dilutive securities outstanding in any of the period ended September 30, 2020 and 2019.

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

SERRANO RESOURCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ (31,028)	\$ 491,773
Items not affecting cash:		
Foreign exchange gain	-	(5,511)
Write-off of accounts payable and accrued liabilities	-	(500,566)
Changes in non-cash working capital items:		
Decrease in receivables	2,697	3,307
Increase in accounts payable and accrued liabilities	31,753	17,409
Net cash flows provided by operating activities	3,422	6,412
Change in cash during the period	3,422	6,412
Cash, beginning of period	6,972	602
Cash, end of period	\$ 10,394	\$ 7,014
Cash paid (received) during the period for interest	\$ -	\$ -
Cash paid (received) during the period for income taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 9)

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

SERRANO RESOURCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	Capital Stock				
	Number of Shares	Amount	Reserves	Deficit	Total Shareholders' Deficit
Balance at January 1, 2019	73,935,683	\$ 44,966,123	\$ 252,043	\$(45,845,006)	\$ (626,840)
Income for the period	-	-	-	491,773	491,773
Balance at September 30, 2019	73,935,683	\$ 44,966,123	\$ 252,043	\$(45,353,233)	\$ (135,067)
Balance at January 1, 2020	73,935,683	\$ 44,966,123	\$ 252,043	\$(45,440,582)	\$ (222,416)
Income for the period	-	-	-	(31,028)	(31,028)
Balance at September 30, 2020	73,935,683	\$ 44,966,123	\$ 252,043	\$(45,471,610)	\$ (253,444)

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

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

SEPTEMBER 30, 2020

1. NATURE, CONTINUANCE OF OPERATIONS, AND GOING CONCERN

Serrano Resources Ltd. ("Serrano" or the "Company") was incorporated under the Business Corporations Act of Alberta, Canada. The Company is listed on the NEX as it did not meet the requirements of a TSX Venture Tier 2 issuer.

The Company's head office address is Suite 2020, 401 West Georgia Street, Vancouver, BC, V6B 5A1. The Company's registered and records office address is 400 – 570 Granville Street, Vancouver, BC, V6C 3P1.

The condensed interim consolidated financial statements of the Company are presented in Canadian dollars, which is the functional and reporting currency of the parent Company.

Going concern of operations

These condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. At September 30, 2020, the Company has a deficit of \$45,471,610 (December 31, 2019 - \$45,440,582) and has incurred losses since inception. The continuing operations of the Company are dependent upon obtaining necessary financing to meet the Company's commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. There is substantial doubt that the Company can meet general operating requirement due to its limited working capital. There can be no assurances that the Company will be able to raise additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations. During the period ended September 30, 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and specifically, the regional economies in which the Company operates. The pandemic could result in delays in the course of business, including potential delays to its business plans and activities, and continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. These uncertainties raise substantial doubt upon the Company's ability to continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

	September 30, 2020	December 31, 2019
Deficit	\$ (45,471,610)	\$ (45,440,582)
Working capital deficiency	(253,444)	(222,416)

2. BASIS OF PREPARATION**Statement of compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

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2. BASIS OF PREPARATION (cont'd...)**Basis of consolidation and presentation**

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The condensed interim consolidated financial statements include the financial statements of Serrano Resources Ltd. and its subsidiaries (the “Group”) are listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest September 30, 2020	Proportion of Ownership Interest December 31, 2019	Principal Activity
146411 Alberta Ltd.	Alberta, Canada	100%	100%	Not active

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency for the parent company and 146411 Alberta Ltd.

3. SIGNIFICANT ACCOUNTING POLICIES**Significant accounting judgment and estimation uncertainties**

The preparation of condensed interim financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

- i) Going concern risk assessment (refer to further discussion in Note 1 under *Going concern of operations*); and
- ii) Determination of the functional currency

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Significant accounting judgment and estimation uncertainties (cont'd...)**

- i) *Deferred income taxes* - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. At each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

Foreign currencies

The presentation currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The functional currency of Serrano Resources Ltd. and 146411 Alberta Ltd. is Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the Statement of Comprehensive Income (loss) in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the Statement of Comprehensive Income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss).

Subsidiary

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations on the Statement of Comprehensive Income (Loss) and are reported as a separate component of shareholders' equity titled "Cumulative Translation Adjustment". These differences are recognized in profit or loss in the period in which the operation is disposed of.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Impairment of long-lived assets**

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

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

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Capital stock

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate oil and gas properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned the residual value after the main component of the equity financing (common shares) is valued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

In situations where capital stock is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of issuance.

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SEPTEMBER 30, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the 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, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received in the profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of capital stock.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioral considerations. All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to capital stock, adjusted for any consideration paid. When options are cancelled or are not exercised at the expiry date the amount previously recognized in equity is transferred from reserves to deficit.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Financial instruments**Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of income (loss) and comprehensive income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of income (loss) and comprehensive income (loss) in the period in which they arise.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of income (loss) and comprehensive income (loss). Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Financial liabilities at amortized cost - This category consists of liabilities carried at amortized cost using the effective interest method. These financial liabilities are initially recognized at fair value less directly attributable transaction costs.

Refer to Note 10 for classification of the Company’s financial assets and liabilities.

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Convertible debentures**

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or paid off. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

Convertible debenture instruments denominated in foreign currencies are presented as a liability in two parts, a loan liability and a conversion feature liability, accreted by way of a charge to earnings with a corresponding credit to the liability and interest payments are applied against the accrued liability. The conversion feature liability is revalued to fair market value at every reporting period and the change in valuation is recognized in profit or loss.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. There were no warrants or options as at September 30, 2020.

Leases

IFRS 16, Leases, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The adoption of IFRS 16 resulted in no impact to the opening accumulated deficit nor the opening balance of accumulated comprehensive income on January 1, 2019.

4. RECEIVABLES

The Company's receivables are as follows:

	September 30, 2020	December 31, 2019
GST receivable	\$ 1,831	\$ 4,528

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5. CASH HELD IN TRUST

Cash held in trust is comprised of funds held in trust by the Alberta Energy and Utilities Board as security in respect of future reclamation costs associated with the Company's oilfield waste water treatment and power generation facility.

During the year ended December 31, 2019, the Company wrote-off cash held in trust which was considered to be uncollectible.

6. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	September 30, 2020	December 31, 2019
Trade payables	\$ 101,507	\$ 96,170
Accrued liabilities	6,000	8,000
Due to related parties (Note 8)	158,162	129,746
Total	\$ 265,669	\$ 233,916

7. CAPITAL STOCK AND RESERVES**a) Authorized capital stock**

As at September 30, 2020, the authorized capital stock of the Company is an unlimited number of common shares without par value. All issued shares are fully paid.

b) Issued capital stock

During the period ended September 30, 2020 and year ended December 31, 2019, the Company did not have any share activities.

c) Stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the approximate market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and periods of vesting are determined by the Board of Directors.

The Company did not have any outstanding options as at September 30, 2020 and December 31, 2019.

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8. RELATED PARTY TRANSACTIONS

The Company incurred the following fees and expenses in the normal course of operations in connection with the following related parties:

	Nature of transactions	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
<u>Related parties:</u>			
A Company controlled by a Director	Professional fees	\$ 16,700	\$ 28,700

The amounts due to related parties included in accounts payable and accrued liabilities are as follows:

	September 30, 2020	December 31, 2019
Due to a Company controlled by a Director	\$ 148,162	\$ 119,746
Due to a Director of the Company	10,000	10,000
	<u>\$ 158,162</u>	<u>\$ 129,746</u>

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the nine months period ended September 30, 2020 and 2019, there were no significant non-cash investing and financing transactions.

10. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liabilities either directly or indirectly;
and

Level 3 – Inputs that are not based on observable market data.

The Company's primary financial instruments are classified as follows:

<u>Financial instruments</u>	<u>Classifications</u>
Cash	FVTPL
Cash held in trust	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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10. FINANCIAL INSTRUMENTS (cont'd...)

The fair value of these assets and liabilities approximates their respective carrying amounts due to their short term nature except as otherwise noted. The fair value of the Company's cash constitutes a Level 1 fair value measurement.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 11 of these financial statements. As at September 30, 2020, the Company had a cash balance of \$10,394 and receivables of \$1,831 to settle current liabilities of \$265,669. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company will require financing from lenders, shareholders and other investors to generate sufficient capital to meet its short term business requirements. The Company is planning additional financings and debt settlements in the near term to raise working capital to finance its ongoing operations.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. As at September 30, 2020, the Company's receivables consisted of \$1,831 in GST receivable from government authorities in Canada. Substantially all cash balances are held at chartered banks in Canada. The Company believes it has no significant credit risk.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

a) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company is satisfied with the credit ratings of its banks. As of September 30, 2020, the Company did not hold any investments. The Company believes it has no significant interest rate risk.

b) Foreign currency risk

The Company is exposed to changes in foreign exchange rates as expenses in international subsidiaries or financial instruments may fluctuate due to changes in rates. The Company had accounts payable and accrued liabilities of \$Nil denominated in U.S. Dollars.

SERRANO RESOURCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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SEPTEMBER 30, 2020

11. MANAGEMENT OF CAPITAL RISK

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, reserves and deficit. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity. The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. This strategy is unchanged from the prior year.

The Company is not subject to externally imposed capital requirements.