Southern Empire

RESOURCES CORP.

(Formerly Owl Capital Corp.)

Consolidated Financial Statements

For the Years Ended

October 31, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Southern Empire Resources Corp. (formerly Owl Capital Corp.)

Opinion

We have audited the accompanying consolidated financial statements of Southern Empire Resources Corp. (formerly Owl Capital Corp.) (the "Company"), which comprise the consolidated statement of financial position as at October 31, 2020, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 Company 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of Southern Empire Resources Corp. (formerly Owl Capital Corp.) for the year ended October 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on February 28, 2020.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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 Company 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 Dylan Connelly.

Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

March 1, 2021

Southern Empire Resources Corp.
(Formerly Owl Capital Corp.)
Consolidated Statements of Financial Position
As at October 31
(expressed in Canadian dollars)

		2020		2019
ASSETS				
Current assets				
Cash	$	3,667,214	$	390,818
Marketable securities, at fair value (Note 3)		3,216,760		-
Accounts receivable (Note 6)		113,708		-
Prepaids and advances		208,388		24,194
		7,206,070		**415,012**
Non-current assets				
Reclamation bonds (Note 5)		79,755		-
Equipment (Note 4)		29,342		-
Exploration and evaluation assets (Note 5)		8,567,492		-
Total assets	**$**	**15,882,659**	**$**	**415,012**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	144,688	$	35,159
Subscriptions received		-		214,500
Total liabilities	**$**	**144,688**	**$**	**249,659**
EQUITY				
Common shares (Note 7)		14,850,332		360,812
Contributed surplus (Note 7)		936,147		9,696
Deficit		(48,508)		(205,155)
Total equity		**15,737,971**		**165,353**
Total liabilities and equity	**$**	**15,882,659**	**$**	**415,012**

Nature of operations (Note 1)
Subsequent event (Note 12)

Approved on behalf of the Board:

"Ron Netolitzky"
Director

"Dale Wallster"
Director

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

Southern Empire Resources Corp.
(formerly Owl Capital Corp.)
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
Years Ended October 31
(expressed in Canadian Dollars)

	2020	2019
Expenses		
Amortization (Note 4)	$ 4,192	$ -
Management and consulting fees (Note 6)	499,024	-
Business and investor relations	515,439	-
General and administration	43,010	3,695
Professional fees	145,025	87,358
Share-based payments (Note 6 and 7)	936,147	-
Transfer agent and listing fees	28,308	31,741
Travel and accomodation	928	-
Shareholder communications	5,740	-
	2,177,813	**122,794**
Other items		
Unrealized gain on marketable securities (Note 3)	2,334,460	-
Income (loss) and comprehensive income (loss)	**$ 156,647**	**$ (122,794)**
Basic and diluted income (loss) per share (Note 7)	**$ 0.00**	**$ (0.02)**
Weighted average number of common shares outstanding (Note 7):		
Basic	**35,255,595**	**6,231,606**
Diluted	**37,721,666**	**6,231,606**

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

Southern Empire Resources Corp.
(formerly Owl Capital Corp.)
Consolidated Statements of Changes in Equity
(expressed in Canadian Dollars)

	Attributable to the common shareholders								
	Number of shares		Amount	$	Contributed Surplus		Deficit		Total Equity
Balance, October 31, 2018	**6,220,001**	**$**	**358,202**	**$**	**10,600**	**$**	**(82,361)**	**$**	**286,441**
Shares issued during the year	17,062		2,610		(904)		-		1,706
Loss	-		-		-		(122,794)		(122,794)
Balance, October 31, 2019	**6,237,063**	**$**	**360,812**	**$**	**9,696**	**$**	**(205,155)**	**$**	**165,353**

	Number of shares		Amount	$	Contributed Surplus		Deficit		Total Equity
Balance, October 31, 2019	**6,237,063**	**$**	**360,812**	**$**	**9,696**	**$**	**(205,155)**	**$**	**165,353**
Shares issued during the year	18,943,058		7,295,274		-		-		7,295,274
Non-cash issue costs	116,800		-		-		-		-
Cash issue costs	-		(461,827)		-		-		(461,827)
Warrants exercised	182,938		27,990		(9,696)		-		18,294
Stock options granted	-		-		936,147		-		936,147
Shares issued for property acquisition	22,570,276		6,771,083		-		-		6,771,083
Shares issued for marketable securities	2,856,665		857,000		-		-		857,000
Income	-		-		-		156,647		156,647
Balance, October 31, 2020	**50,906,800**	**$**	**14,850,332**	**$**	**936,147**	**$**	**(48,508)**	**$**	**15,737,971**

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

Southern Empire Resources Corp.
(formerly Owl Capital Corp.)
Consolidated Statements of Cash Flows
Years Ended October 31
(expressed in Canadian Dollars)

	2020	2019
Cash flows from Operating Activities		
Income (loss)	$ 156,647	$ (122,794)
Items not affecting cash		
Share-based payments	936,147	-
Unrealized gain on marketable securities	(2,334,460)	-
Amortization	4,192	-
Net changes in non-cash working capital items		
Accounts receivable, prepaids and advances	(297,902)	(24,194)
Accounts payable and accrued liabilities	5,690	22,663
	(1,529,686)	**(124,325)**
Cash flows from Investing Activities		
Acquisition of marketable securities	(25,300)	-
Increase in equipment	(33,534)	-
Increase in exploration and evaluation assets	(1,692,570)	-
Increase in reclamation bonds	(79,755)	-
	(1,831,159)	-
Cash flow from Financing Activities		
Issuance of common shares	7,080,774	1,706
Share issue costs	(461,827)	-
Subscriptions received	-	214,500
Warrants exercised	**18,294**	-
	6,637,241	**216,206**
Net change in cash during the year	**3,276,396**	**91,881**
Cash, beginning of year	390,818	298,937
Cash, end of year	**$ 3,667,214**	**$ 390,818**

Supplemental cash flow disclosure (Note 11)

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

1. NATURE OF OPERATIONS

Southern Empire Resources Corp. ("Southern Empire" or the "Company"; formerly Owl Capital Corp.) was incorporated pursuant to the *Business Corporations Act of British Columbia* on September 27, 2017. Owl Capital Corp. was classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Owl Capital Corp.'s principal business was to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction ("Qualifying Transaction") in accordance with Policy 2.4 of the Exchange. Southern Empire's head office is located at Suite 420 – 789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

On March 18, 2020 the Company completed its previously announced Qualifying Transaction with Eros Resources Corp. ("Eros") and Demerara Gold Corp ("Demerara") whereby the Company acquired all of their rights, titles and interest in the Oro Cruz Property, located in Imperial County, California and the Eastgate Property located in Churchill County, Nevada from Eros and Demerara respectively as well as marketable securities in Augusta Gold Corp. ("Augusta" formerly Bullfrog Gold Corp.), an exploration stage company from Eros. Upon completion of the Qualifying Transaction, Owl Capital Corp. changed its name to Southern Empire Resources Corp. For additional details, see Note 7.

Pursuant to the Qualifying Transaction, the Company acquired:

a) From Demerara, Demerara's entire right, title and interest, being an undivided 40% interest, in the Eastgate Property, Churchill County, Nevada;
b) From Eros, Eros' entire right, title and interest, being an undivided 45% interest in the Eastgate Property;
c) From each of Demerara and Bell Mountain Exploration Corp. ("Bell", a wholly-owned subsidiary of Eros), the assignment of a Letter Agreement dated February 28, 2019 with Lincoln Mining Corp. and Lincoln Gold US Corp. pursuant to which each of Demerara and Bell may acquire a 37.5% interest (aggregate 75% interest) in the Oro Cruz Property, Imperial County, California; and
d) From Eros, 8,750,000 common shares and 7,750,000 common share purchase warrants in the capital of Augusta.

In consideration, the Company issued 25,426,940 common shares as follows:

a) 2,579,000 shares to Demerara with respect to the acquisition of a 40% interest in the Eastgate Property;
b) 2,901,275 shares to Eros with respect to the acquisition of a 45% interest in the Eastgate Property;
c) 8,545,000 shares to Demerara and 8,545,000 shares to Eros with respect to the acquisition of an exclusive option to acquire an aggregate 75% interest in the Oro Cruz Property;
d) 2,856,665 shares to Eros with respect to the acquisition of the 8,750,000 common shares and 7,750,000 common shares purchase warrants in Augusta.

1. NATURE OF OPERATIONS (Continued)

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. As an exploration stage company, Southern Empire does not have revenues and historically has recurring operating losses. As at October 31, 2020, the Company had working capital of $7,061,382 (2019 - $165,353). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year. If the going concern assumption were not appropriate for these financial statements, it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation, principals of consolidation and statement of compliance

These consolidated financial statements include the accounts of Southern Empire and its wholly owned subsidiary, SMP Gold Corp., a company incorporated in Nevada, USA. All inter-company transactions and balances are eliminated in preparing the financial statements. Subsidiaries are entities controlled by the Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by Southern Empire.

These consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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

The consolidated financial statements were prepared by management and reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on February 28, 2021.

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, 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. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the statement of financial position date, which could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and include, but are not limited to, the following:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Share-based payments

The Black-Scholes fair value option pricing model requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and requires judgment in making these estimates. Annualized volatility is based on volatility measures of the Company's and comparable peer companies, historical prices.

- COVID-19 estimation uncertainty

A global pandemic related to COVID-19 was declared by the World Health Organization in March 2020. The current and expected impacts on global commerce have been and are anticipated to continue to be far-reaching. To date, globally, there has been significant volatility in commodity prices and foreign exchange rates, restrictions on the conduct of business in many jurisdictions, including travel restrictions, and supply chain disruptions. There is significant ongoing global uncertainty surrounding COVID-19 and the extent and duration of the impact that it may have.

The areas of judgment and estimation uncertainty for the Company which may be impacted include estimates used to determine the recoverable amounts of exploration and evaluation assets. The impact of COVID-19 on the global economic environment, and the local jurisdictions in which the Company operates, could result in changes to the way the Company runs its operations. These changes could result in results of operations being different from the Company's expectations. This impact could be material.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- Exploration and evaluation interests

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral property interests. In respect of costs incurred for its mineral property interests, management has determined that acquisition costs that have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geological, engineering and metallurgical information, economics assessment/studies, accessible facilities, existing permits, and ability to continue development. Management determined that there are no indicators of impairment on its exploration and evaluation interests.

Exploration and evaluation interests

The acquisition costs of mineral property interests and any subsequent exploration and evaluation costs are capitalized until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. Exploration and evaluation costs incurred prior to obtaining ownership, or the right to explore a property, are expensed as incurred as property examination costs. Mineral property interests that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units ("CGU") for the purpose of determining future mineral reserves and impairments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The acquisition costs include the cash consideration paid and the fair value of any shares issued for mineral property interests being acquired or optioned.

Proceeds received from a partial sale or option of any interest in a property are credited against the carrying value of the property. When the proceeds exceed the carrying costs the excess is recorded in profit or loss in the year the excess is received. When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated property costs are written-off, with any gain or loss included in profit or loss in the year the transaction takes place. No initial value is assigned to any retained royalty interest. The royalty interest is subsequently assessed for value by reference to developments on the underlying mineral property.

Once an economically viable resource has been determined for an area and the decision to proceed with development has been approved, mineral property interests attributable to that area are first tested for impairment and then reclassified to property and equipment. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. Should a project be put into production, the costs of acquisition, exploration and evaluation will be amortized over the life of the project based on estimated economic reserves. If the carrying value of a project exceeds its estimated net realizable value or value in use, an impairment provision is recorded.

When entitled, the Company records refundable mineral exploration tax credits or incentive grants on an accrual basis and as a reduction of the carrying value of the mineral property interest. When the Company is entitled to non-refundable exploration tax credits, and it is probable that they can be used to reduce future taxable income, a deferred income tax benefit is recognized.

Impairment of non-financial assets

At the end of each reporting period, Southern Empire'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 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.

Share-based payments

Southern Empire has a stock option plan that is described in Note 7. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options and warrants is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share capital

Southern Empire records proceeds from share issuances, net of issue costs. Common shares issued for consideration other than cash are recorded based on their market value at the date the shares are issued.

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Southern Empire uses the treasury stock method for calculating diluted earnings (loss) per share. Using this method, the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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

Financial instruments

Financial assets

Southern Empire recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets to collect contractual cash flows.
- 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 amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company's cash is classified as FVTPL.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Warrants are classified as derivative financial assets and are recorded at FVTPL. Warrants without an active market are initially recorded at their fair value determined using the Black-Scholes model. Subsequent value is determined at the measurement date using the Black-Scholes option pricing model, or when the valuation technique input variables are not reliable, using the intrinsic value, which is equal to the higher of the market value of the underlying security, less the exercise price of the warrant, or zero.

Financial Liabilities

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

Fair Value Hierarchy

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Southern Empire's financial instruments classified as Level 1 in the fair value hierarchy are cash, marketable securities, and reclamation bonds. The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to short-term maturity of these instruments.

Impairment of financial assets

The Company assesses all information available, including on a forward-looking bases, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the statement of income (loss) and comprehensive income (loss). Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years. Deferred tax assets and liabilities and the

related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized in profit or loss to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Environmental rehabilitation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Southern Empire has no known restoration, rehabilitation or environmental costs, of any significant, related to its mineral property interests.

Equipment

Equipment is measured at cost less accumulated amortization and impairment losses. Equipment not available for use is not subject to amortization. Amortization is recognized on a straight-line basis over a term of five years. An asset's residual value, useful life and depreciation method is reviewed at each reporting period and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Subsequent costs that meet the asset recognition criteria are capitalized, while costs incurred that do not extend the economic useful life of an asset are considered repairs and maintenance, which are accounted for as an expense recognized during the period. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

Foreign currency translation

The functional and presentation currency of the Company is the Canadian dollar. The functional currency of the Company's subsidiary is the Canadian dollar. Monetary assets and liabilities that are denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange on the reporting date while non-monetary assets and liabilities are translated at historical rates. Gains and losses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses are arising on translation are included in income or loss in the statement of income (loss) and comprehensive income (loss)

Adoption of new accounting standards

Effective November 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16") using the modified retrospective approach. The comparative figures for the 2019 reporting period have not been restated and are accounted for under IAS 17 *Leases*, ("IAS 17") and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, as permitted under the specific transitional provisions in the standard. IFRS 16 requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17, *Leases*. The adoption of IFRS 16 Leases did not have an impact on the Company's financial statements as the Company does not have any lease agreements.

(expressed in Canadian dollars)

3. MARKETABLE SECURITIES

As at October 31, 2020 and October 31, 2019, Southern Empire's investments consisted of equity interests in companies involved with gold exploration:

	October 31, 2020		October 31, 2019	
	Cost	FMV	Cost	FMV
Shares - Augusta Gold Corp.	$ 832,323	$ 2,362,500	$ -	$ -
Shares - Lincoln Gold Corp.	$ 25,300	$ 48,300	$ -	$ -
Warrants - Lincoln Gold Corp.	$ -	$ 12,086	$ -	$ -
Warrants - Augusta Gold Corp.	$ 24,676	$ 793,874	$ -	$ -
	$ 882,299	**$ 3,216,760**	**$ -**	**$ -**

During the year ended October 31, 2020 the Company:

- Completed its Qualifying Transaction (Note 1) which resulted in the Company purchasing 8,750,000 common shares and 7,750,000 common share purchase warrants of Augusta. The common share purchase warrants are exercisable at US $0.15 (6,750,000 warrants) and US $ 0.10 (1,000,000 warrants), and expire on May 23, 2021 and February 11, 2021.
- Purchased 230,000 units of Lincoln Gold Corp. for $25,300. Each units consisted of one common share and one half of one common share purchase warrant. Each full warrant is exercisable at a price of $0.15 per share until August 13, 2022.

4. EQUIPMENT

	Computers and equipment
Cost:	
Balance at October 31, 2019 & 2018	$ -
Additions	33,534
Balance at October 31, 2020	**33,534**
Accumulated amortization:	
Balance at October 31, 2019 & 2018	$ -
Amortization expense	4,192
Balance at October 31, 2020	**4,192**
Total balance at October 31, 2019	**$ -**
Total balance at October 31, 2020	**$ 29,342**

(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS

Southern Empire classifies its exploration and evaluation gold properties into two geographical regions, namely California and Nevada. The following is a summary of the properties:

	Oro Cruz California	Eastgate Nevada	Total
October 31, 2018 & 2019	$ -	$ -	$ -
Acquisition and renewal	5,901,224	1,644,083	7,545,307
Property maintenance	161,728	24,111	185,839
Geology and geophysics	148,638	47,170	195,808
Drilling and assay	-	345,612	345,612
Camp & field work	8,247	9,779	18,026
Environmental and permitting	269,060	7,840	276,900
October 31, 2020	**$ 6,488,897**	**$ 2,078,595**	**$ 8,567,492**

Oro Cruz Gold Project

Upon completion of the Qualifying Transaction, Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Gold Project, located in Imperial County, California. On June 22, 2020 Southern Empire entered into an option agreement to acquire the remaining 25% of the Oro Cruz Gold Project from Ronald Netolitzky, bringing its total potential interest to 100%. The Oro Cruz Gold Project option agreements are summarized as follows:

Southern Empire holds the option agreement with Lincoln Gold US Corp. ("Lincoln") to acquire a total of a 75% interest in the Oro Cruz Gold Project from Lincoln. The pertinent business terms of this option agreement follow:

Cash payments to Lincoln:

- US$10,000 initial payment (paid)
- US$25,000 paid on or before February 15, 2020 (paid)
- US$25,000 paid on or before February 15, 2021 (paid)
- US$25,000 paid on or before February 15, 2022
- US$25,000 paid on or before February 15, 2023

Cash payments to ADGIS, Inc. ("ADGIS") who granted an underlying option (the "Hercules Claims") to Lincoln:

- US$50,000 by May 15, 2019 (paid)
- US$50,000 by April 15, 2020 (paid)
- US$100,000 by April 15, 2021
- US$100,000 by April 15, 2022
- US$100,000 by April 15, 2023

Lincoln Gold US Corp. Option Agreement (continued)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration expenditures:

- US$200,000 acknowledged as incurred to October 1, 2019 (incurred)
- US$400,000 cumulative to be incurred before October 1, 2020 (incurred)
- US$700,000 cumulative to be incurred before October 1, 2021
- US$1,000,000 cumulative to be incurred before October 1, 2022
- US$1,600,000 cumulative to be incurred before October 1, 2023

Royalties:

- 2% net smelter return royalty ("NSR") from production within the Hercules Claims boundary (the "Hercules Royalty")
- 1% NSR on production within a 1-mile radius of the Hercules Claims boundary ("Radius Royalty")
- Southern Empire can reduce the Hercules Royalty by 0.5% and the Radius Royalty by 0.5% collectively with a cash payment of US$500,000 to ADGIS.
- Southern Empire can reduce the Hercules Royalty by an additional 0.5% with an additional payment of US$500,000 to ADGIS.

Ronald K. Netolitzky Option Agreement

On June 22, 2020 Southern Empire entered into an option agreement with Mr. Ronald K. Netolitzky ("Netolitzky"), a director of Southern Empire, to acquire the remaining 25% of the Oro Cruz Gold Project in exchange for cash payments of $440,000. Option payments are due as follows:

- $140,000 on TSX Venture Exchange approval (paid)
- $100,000 on or before the first anniversary date, August 4, 2021
- $100,000 on or before the second anniversary date, August 4, 2022
- $100,000 on or before the third anniversary date, August 4, 2023

Oro Cruz - American Girl Mine Property

On September 14, 2020 Southern Empire executed a purchase and sale agreement (the "PSA") to acquire the American Girl Mine Property from Mackenzie Corporation, a company controlled the President and CEO of Southern Empire. In accordance with the terms of the PSA, Southern Empire acquired a 100% interest in seven privately owned, patented mining claims and 10 Bureau of Land Management claims covering the former American Girl mine by paying a total of US$330,000 to Mackenzie Corporation.

Reclamation bond

Southern Empire holds a $79,755 (2019 - $nil) reclamation bond with the Bureau of Land Management with respect to its California properties.

Eastgate Gold Project

Upon completion of the Qualifying Transaction, Southern Empire acquired an 85% interest in the Eastgate Gold Project, located in Churchill County, Nevada.

(expressed in Canadian dollars)

6. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of Southern Empire. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officer. The remuneration of key management personnel are as follows:

For the years ended October 31,	2020	2019
Management fees to officers	$ 435,000	$ -
Directors' fees	-	-
Share-based payments to directors and officers	663,013	-
	$ 1,098,013	$ -

As at October 31, 2020, $nil (October 31, 2019 - $ Nil) was included in accounts payable owing to directors, officers, and companies controlled or affiliated with directors and officers of Southern Empire in relation to fees and reimbursement of expenses.

Included in accounts receivable are $76,900 of advances receivable from MAS Gold Corp., a company that shares common directors and management with Southern Empire. The balance is unsecured, non-interest bearing and is due on demand. Subsequent to year-end, the balance was repaid to Southern Empire in full.

7. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.
Unlimited preferred shares issuable in series.

b) Issued and outstanding: 50,906,800 common shares

c) Transactions:

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 10,899,197 common shares at a price of $0.30 per share for gross proceeds of $3,273,759. As at October 31, 2019 Southern Empire had received $214,500 in subscriptions in relation to its Qualifying Transaction.

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 2,856,665 common shares to acquire 8,750,000 common shares and 7,750,000 common share purchase warrants of Augusta Gold Corp. (Note 3).

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 22,570,276 common shares to acquire its interest in the Oro Cruz and Eastgate gold projects.

On April 16, 2020, 80,125 share purchase warrants were exercised at a price of $0.10 per common share for total proceeds of $8,012. Southern Empire transferred $4,247 of contributed surplus to share capital pursuant to the warrant exercise.

7. SHARE CAPITAL (continued)

On May 6, 2020, 102,813 share purchase warrants were exercised at a price of $0.10 per common share for total proceeds of $10,282. Southern Empire transferred $5,449 of contributed surplus to share capital pursuant to the warrant exercise.

On June 12, 2020, Southern Empire issued 8,043,861 common shares at a price of $0.50 per share for gross proceeds of $4,021,515.

On June 12, 2020, Southern Empire issued 116,800 common shares as finders fee compensation in conjunction with its $0.50 financing.

During the year ended October 31, 2019 the Company issued 17,062 common shares for gross proceeds of $1,706 pursuant to the exercise of warrants. The Company transferred $904 of contributed surplus to share capital pursuant to the warrant exercise.

d) Escrowed shares:

As at October 31, 2020, 22,235,207 common shares were held in escrow, of which:

- 4,447,044 are to be released on March 20, 2021
- 4,447,044 are to be released on September 20, 2021
- 4,447,044 are to be released on March 20, 2022
- 4,447,044 are to be released on September 20, 2022
- 4,447,031 are to be released on March 20, 2023

e) Stock options:

The Directors of Southern Empire adopted a stock option plan on March 13, 2020 (the “Option Plan”). The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of Southern Empires’ common shares issued and outstanding at the time such options are granted. Options may be granted under the Option Plan to such directors, officers, employees, management or consultants of Southern Empire and its affiliates, if any, as the Board of Directors may from time to time designate. The Option Plan provides that the number of Common Shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued common shares, if the individual is a director, officer or employee 2% of the issued common shares, if the individual is a consultant or is engaged in providing investor relations services, in a twelve month basis, unless disinterested shareholder approval is obtained. All options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause; or (iii) one year from the date of death or disability.

During the year ended October 31, 2020, Southern Empire granted 4,250,000 stock options exercisable at $0.30 per option for a term of five years from the date of issuance to directors, officers, and consultants of Southern Empire. The options vested immediately. During the year ended October 31, 2020, the Company has recorded $936,147 of share-based payments.

(expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

Stock options (continued):

The following weighted average assumptions were used for the valuation of stock options:

	October 31, 2020
Risk-free interest rate	0.93%
Expected life of options	5 years
Annualized volatility	80%
Dividend rate	0.00%
Forfeiture rate	0.00%
Weighted average fair value per option	$ 0.22

The changes in the stock options for the year ended October 31, 2020 are as follows:

	Number		Weighted Average Exercise Price $
Balance at October 31, 2019 & 2018	-	$	-
Granted	4,250,000		0.30
Balance, October 31, 2020	4,250,000	$	0.30
Exercisable, October 31, 2020	4,250,000	$	0.30

The balance of options outstanding as at October 31, 2020 is as follows:

Expiry Date	Number	Exercise Price $	Remaining Life - Years
March 18, 2025	4,250,000	$0.30	4.38

(expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

f) Warrants

A summary of the outstanding and exercisable common share purchase warrants during the period is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, October 31, 2018	200,000	$ -
Exercised	(17,062)	0.10
Balance, October 31, 2019	**182,938**	**0.10**
Exercised	(182,938)	0.10
Balance, October 31, 2020	**-**	**$ -**

g) Contributed surplus

A summary of the contributed surplus activity is as follows:

	October 31, 2020	October 31, 2019
Balance, opening	$ 9,696	$ 10,600
Warrants exercised	$ (9,696)	$ (904)
Fair value of stock options granted	936,147	-
Balance, ending	**$ 936,147**	**$ 9,696**

h) Per share amounts

For the years ended October 31,	2020	2019
Net income (loss) attributable to common shareholders	$ 156,647	($122,794)
Weighted average number of common shares - basic	35,255,595	6,231,606
Weighted average number of common shares - diluted	37,721,666	6,231,606
Basic income (loss) per common share - basic	$ 0.00	($0.02)
Basic income (loss) per common share - diluted	$ 0.00	($0.02)

All stock options and warrants were excluded from the diluted weighted average number of shares calculation for the year ended October 31, 2019, as their effect would have been anti-dilutive.

(expressed in Canadian dollars)

8. INCOME TAXES

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory tax rate to the amounts recognized in the statements of income (loss) for the years ended October 31, 2020 and 2019:

	2020	2019
Statutory tax rate	27.00%	27.00%
Income (loss) for the year before income taxes	$156,647	$(122,794)
Expected income tax expense (recovery)	42,000	(33,154)
Permanent differences	(62,000)	-
Share issuance costs	(132,000)	-
Adjustment to prior years provision versus statutory returns and expiry of non-capital losses	(12,000)	33,154
Change in unrecognized deductible temporary differences	164,000	-
Total income tax expense (recovery)	$ -	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2020 $	**Expiry Date Range**	**2019 $**	**Expiry Date Range**
Temporary Differences				
Property and equipment	4,000	No expiry date	-	No expiry date
Share issue costs	406,000	2021 to 2024	25,319	2020 to 2022
Non-capital losses available for future periods	398,000	2037 to 2040	177,035	2037 to 2039
Canada	398,000	2037 to 2040	177,035	2037 to 2039

(expressed in Canadian dollars)

9. CAPITAL MANAGEMENT

Southern Empire includes equity in the definition of capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of Southern Empire's management to sustain future development of business.

Southern Empires properties are in the exploration stage. As such, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, Southern Empire will spend its existing working capital and raise additional funds as needed. Southern Empire will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes to the Company's approach to capital management during the years ended October 31, 2020 and 2019. Southern Empire is not subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosure purposes, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as in prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table are financial assets measured at fair value by level within the fair value hierarchy:

Oct. 31, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 3,667,214	$ -	$ -	$ 3,667,214
Marketable securities	$ 2,410,800	$ 805,960	$ -	$ 3,216,760
Reclamation bonds	$ 79,755	$ -	$ -	$ 79,755

Oct. 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 390,818	$ -	$ -	$ 390,818

Southern Empire holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to concentration risk, credit risk, currency risk, price risk, commodity price risk and liquidity risk. Southern Empire manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(expressed in Canadian dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Concentration risk – as at October 31, 2020, all of Southern Empire's cash is held at one Canadian national financial institution. As a result, the Company was exposed to all of the risks associated with those institutions. Concentration risk also exists in marketable securities because Southern Empires investment portfolio primarily consists of the securities of one issuer.

b) Credit risk – Southern Empire is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in financial loss to the Company. The Company manages exposure to credit risk by adopting credit risk guidelines that limit transactions according to counterparty credit worthiness. The maximum exposure associated with accounts receivable is the carrying value.

c) Currency risk – Relates to Southern Empires operations in the United States and is subject to fluctuations in exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Southern Empire does not have material monetary assets or liabilities in foreign currencies.

d) Price risk – Southern Empire's investments designated as FVTPL are publicly traded. A 1% change in the quoted share price would not significantly impair the fair value of the investment. Changes are recorded through profit or loss.

e) Commodity price risk – The value of Southern Empires exploration and evaluation assets is related to the price of commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.

f) Liquidity risk – Currently, Southern Empires capital is sufficient to meet business requirements in the next 12 months when taking into account cash flows from operations and the Company's holdings of cash. Future operations or exploration programs may require additional financing primarily through equity markets, or through joint venture partnerships.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash transactions for the years ended October 31,	**2020**	**2019**
Properties acquired for common shares	$ 6,771,083	$ -
Marketable securities acquired for common shares	$ 857,000	$ -
Finders fees paid for with common shares	$ 58,400	$ -
Exploration and evaluation cost included in accounts payable	$ 103,839	$ -

Southern Empire paid no cash for interest or income taxes in all years presented

12. SUBSEQUENT EVENT

On February 16, 2021, Southern Empire granted 750,000 incentive stock options to Directors, Officers and Consultants. Each option is exercisable for the purchase of one common share for five years, at a price of $0.30 per share.