



**OLIVUT RESOURCES LTD.**

**FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018**

**(expressed in Canadian dollars)**



## Independent Auditor's Report

To the Shareholders of Olivut Resources Ltd.

### Opinion

We have audited the financial statements of Olivut Resources Ltd. (the "Company"), which comprise the statements of financial position as at October 31, 2019 and 2018, and the statements of operations and comprehensive loss, statements of cash flows and statements of changes in equity (deficiency) for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for opinion

We conducted our 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 financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Company had a working capital deficiency as of October 31, 2019 and continuing operating losses during the year ended October 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

### **Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Jessica Glendinning.

McGovern Hurley LLP

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
December 4, 2019

OLIVUT RESOURCES LTD.  
**STATEMENTS OF FINANCIAL POSITION**  
(expressed in Canadian dollars)

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As at:	October 31, 2019 \$	October 31, 2018 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 5)	294,262	1,313,624
Amounts receivable (Note 6)	27,082	11,361
Prepaid expenses and deposits (Note 7)	13,749	13,727
Current portion of loan receivable (Note 10)	<u>645</u>	<u>1,217</u>
<b>TOTAL CURRENT ASSETS</b>	<b>335,738</b>	<b>1,339,929</b>
<b>EQUIPMENT</b> (Note 9)	<b>54,573</b>	<b>68,216</b>
<b>LOAN RECEIVABLE</b> (Note 10)	<u>238,326</u>	<u>238,978</u>
<b>TOTAL ASSETS</b>	<u><u>628,637</u></u>	<u><u>1,647,123</u></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Notes 11 and 12)	<u>941,329</u>	<u>780,146</u>
<b>SHAREHOLDERS' (DEFICIENCY) EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 14(b))	19,694,005	19,694,005
<b>EQUITY RESERVES</b>		
Share options (Note 15)	3,317,184	3,299,246
<b>DEFICIT</b>	<u>(23,323,881)</u>	<u>(22,126,274)</u>
<b>TOTAL SHAREHOLDERS' (DEFICIENCY) EQUITY</b>	<u>(312,692)</u>	<u>866,977</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY</b>	<u><u>628,637</u></u>	<u><u>1,647,123</u></u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes 8 and 16)		
<b>GOING CONCERN</b> (Note 1)		

APPROVED ON BEHALF OF THE BOARD:

Signed "Leni Keough", Director

Signed "Craig Reith", Director

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.  
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(expressed in Canadian dollars)

For the years ended October 31,	2019 \$	2018 \$
Exploration expenses (Notes 8 and 12)	835,198	460,419
Administrative and general expenses (Note 12)	389,305	390,911
Share-option amortization expense (Notes 12 and 15)	17,938	40,454
Other amortization (Note 9)	<u>13,643</u>	<u>9,935</u>
Loss before the under-noted	(1,256,084)	(901,719)
Interest income	<u>38,477</u>	<u>26,293</u>
Loss before income taxes	(1,217,607)	(875,426)
Deferred income tax recovery (Note 13(a))	<u>20,000</u>	<u>4,000</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>(1,197,607)</u>	<u>(871,426)</u>
<b>NET LOSS PER SHARE - basic and diluted</b>	<u>(\$0.02)</u>	<u>(\$0.02)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b> - basic and diluted	<u>57,840,611</u>	<u>47,833,346</u>

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.  
**STATEMENTS OF CASH FLOWS**  
(expressed in Canadian dollars)

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For the years ended October 31,	2019 \$	2018 \$
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net loss for the year	(1,197,607)	(871,426)
Interest income from loan receivable	(16,776)	(15,454)
Adjustments for charges (credits) not involving cash:		
Share-option amortization expense	17,938	40,454
Deferred income tax recovery (Note 13(a))	(20,000)	(4,000)
Other amortization	<u>13,643</u>	<u>9,935</u>
	(1,202,802)	(840,491)
Changes in non-cash working capital balances:		
Amounts receivable	(15,721)	(10,281)
Prepaid expenses and deposits	(22)	2,826
Accounts payable and accrued liabilities	<u>181,183</u>	<u>161,304</u>
<b>Cash flows used in operating activities</b>	<u>(1,037,362)</u>	<u>(686,642)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(56,950)
Interest income from loan receivable	16,776	15,454
Loan receivable	<u>1,224</u>	<u>1,143</u>
<b>Cash flows from (used in) investing activities</b>	<u>18,000</u>	<u>(40,353)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of common shares	-	1,908,000
Issue of flow-through shares	-	115,000
Cost of issue	<u>-</u>	<u>(62,381)</u>
<b>Cash flows from financing activities</b>	<u>-</u>	<u>1,960,619</u>
(Decrease) increase in cash and cash equivalents	(1,019,362)	1,233,624
Cash and cash equivalents, beginning of year	<u>1,313,624</u>	<u>80,000</u>
Cash and cash equivalents, end of year (Note 5)	<u><u>294,262</u></u>	<u><u>1,313,624</u></u>

See accompanying notes to the financial statements.

OLIVUT RESOURCES LTD.  
**STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**  
(expressed in Canadian dollars)

	Shares	Capital Stock	Equity Reserves Share Options	Deficit	Total
	#	\$	\$	\$	\$
	(Note 14(b))	(Note 14(b))	(Note 15)		
Balance, October 31, 2017	<b>40,946,672</b>	<b>17,757,386</b>	<b>3,258,792</b>	<b>(21,254,848)</b>	<b>(238,670)</b>
Common shares issued	16,127,272	1,908,000	-	-	1,908,000
Flow-through shares issued	766,667	91,000	-	-	91,000
Share issue costs	-	(62,381)	-	-	(62,381)
Share-option amortization expense	-	-	40,454	-	40,454
Net loss for the year	-	-	-	(871,426)	(871,426)
Balance, October 31, 2018	<b>57,840,611</b>	<b>19,694,005</b>	<b>3,299,246</b>	<b>(22,126,274)</b>	<b>866,977</b>
Share-option amortization expense	-	-	17,938	-	17,938
Net loss for the year	-	-	-	(1,197,607)	(1,197,607)
Balance October 31, 2019	<b>57,840,611</b>	<b>19,694,005</b>	<b>3,317,184</b>	<b>(23,323,881)</b>	<b>(312,692)</b>

See accompanying notes to the financial statements.



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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Olivut Resources Ltd. (the "Company" or "Olivut") is engaged in the acquisition, exploration and evaluation of mineral properties for the purpose of mining diamonds and other precious and base minerals. The Company's shares are listed on the TSX Venture Exchange ("TSXV"). The head office is located at 27010 Hwy 16, 14 Mountain Park Properties, Jasper East, Alberta. These financial statements were reviewed, approved and authorized for issue by the Board of Directors on December 4, 2019.

The Company is in the process of exploring properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current or future exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the ability of the Company to obtain financing, the preservation and confirmation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the carrying values and classification of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its liabilities in anything other than the ordinary course of operations. Such adjustments could be material.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulatory social licensing requirements, unregistered prior agreements, native land claims and non-compliance with regulatory and environmental requirements. The Company's assets and operations are subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

The Company needs equity capital financing in order to explore and evaluate its properties and for working capital requirements. Because of a working capital deficiency and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and/or to reach profitable levels of operation. There is no assurance that funds will be available on terms acceptable to the Company or at all. All of these indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**2. BASIS OF PRESENTATION**

These annual financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and have been prepared using the historical cost basis except for certain financial instruments which are carried at fair value as disclosed in these financial statements.

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Use of Judgements and Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Actual results could differ from those reported. Management believes that the estimates are reasonable.

The areas which require management to make significant judgements, estimates and assumptions in determining the reported amounts include, but are not limited to:

#### **(i) Income, Value Added, Withholding and Other Taxes**

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

#### **(ii) Share-Based Payments**

Management determines the value of share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are estimated at the date of grant using generally accepted valuation techniques. Assumptions are made and judgement used in applying valuation techniques. These assumptions and judgements include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

#### **(iii) Contingencies**

Refer to Note 16.

#### **(iv) Impairment of Financial Assets**

The recoverability of loans receivable is assessed when events occur indicating impairment. Recoverability is based on factors such as failure to pay interest on time and failure to pay the principal. An impairment loss is recognized in the period when it is determined that the carrying amount of the assets will not be recoverable. See Note 3(m).

#### **(b) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, balances in accounts with banks and guaranteed investment certificates issued by Canadian chartered banks that are cashable or that have original maturities of three months or less.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Currency Translation**

The functional and reporting currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit and loss.

**(d) Acquisition, Exploration, Evaluation and Development of Mineral Property Interests**

Exploration and evaluation costs including property acquisition costs are expensed as incurred.

Development costs are expensed until it has been established that a mineral deposit is commercially viable and a mine development decision has been made by the Company. Thereafter, the Company capitalizes expenditures subsequently incurred to develop the mine, prior to the start of mining operations.

**(e) Provisions**

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. The Company does not have any significant provisions as of October 31, 2019 or October 31, 2018.

**(f) Rehabilitation Provision**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground and/or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is expensed under exploration expenses. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of operations. The Company does not have any material rehabilitation provisions as of October 31, 2019 or October 31, 2018.

**(g) Equipment**

Equipment is stated at acquisition cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of the consideration given to acquire or construct an asset and includes direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Equipment (Continued)**

When parts of an item of equipment have different lives, they are accounted for as separate items (major components) of equipment.

Equipment is amortized over the estimated useful lives of the assets on the declining balance basis using the following annual rates:

Drill rig	- 20% declining balance
Compressor	- 20% declining balance

The carrying value of equipment is assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the equipment's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell the equipment and the equipment's value in use.

**(h) Flow-Through Financing**

The proceeds from the issuance of common shares with flow-through tax benefits to the shareholders ("flow-through shares") are segregated as follows: the premium investors pay for the flow-through feature, if any, is recorded as a liability and included in accounts payable and accrued liabilities; the remaining net proceeds are recorded as share capital. Upon renunciation to the investor of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the liability previously recorded in accounts payable is reversed with any difference being recorded as a deferred tax recovery (expense). To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

**(i) Share-Based Payments**

Equity-settled share-based payments to directors, employees and consultants that meet the definition of an employee under IFRS are measured at the fair value of the equity instruments at the grant date.

The Company has a share option plan that provides for vesting of rights under the plan in tranches over a period of time. Each tranche is recognized on a graded-vesting basis over the period in which options vest and is recorded as a charge to operations and a credit to equity reserves. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. When options are exercised the consideration received plus the related share-based payments reserve is credited to share capital. The equity reserve relating to options cancelled or forfeited before vesting is credited to operations and after vesting directly to retained earnings (deficit).

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

**(j) Interest Income**

Interest income is recognized on a time-proportion basis using the effective interest rate method.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Taxation**

**(i) Current Tax**

Income tax expense, if any, represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**(ii) Deferred Tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reduced to the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

**(l) (Loss) Per Share**

Basic (loss) per share is calculated by dividing (loss) attributable to common shares by the weighted average number of shares outstanding during the period.

Diluted (loss) per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options with exercise prices below the average market price for the year.

For the years ended October 31, 2019 and 2018 all outstanding options were excluded from the computation of diluted loss per share because their effect would have been anti-dilutive.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Financial Instruments**

**Financial assets and liabilities**

**Accounting policy under IFRS 9 applicable for accounting annual periods beginning November 1, 2018**

**Financial assets**

**Initial recognition and measurement**

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Other amounts receivable held for collection of contractual cash flows are measured at amortized cost.

**Subsequent measurement – financial assets at amortized cost**

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the statements of operations.

**Subsequent measurement – financial assets at FVPL**

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in other income or expense in the statements of operations. The Company does not measure any financial assets at FVPL.

**Subsequent measurement – financial assets at FVOCI**

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of operations when the right to receive payments is established.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Financial Instruments (Continued)**

**Derecognition**

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

**Impairment of financial assets**

The Company's only financial assets subject to impairment are amounts receivable and loan receivable, which are measured at amortized cost. At each reporting date, an assessment is made whether there is objective evidence that a financial asset is impaired based on expected credit loss information. For the Company's financial assets measured at amortized cost, loss allowances are determined based on expected credit losses over the asset's lifetime. Expected losses are an estimate of credit losses considering possible default events over the expected life of a financial asset. All impairment losses are recognized in the statements of operations. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, which are measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

**Subsequent measurement – financial liabilities at amortized cost**

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense in the statements of operations.

**Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statements of operations.

**Fair Value**

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on 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 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Accounting policy under IAS 39 applicable for accounting annual periods ending prior to November 1, 2018**

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, was as follows:

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Financial Instruments (Continued)**

Financial instruments are defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following categories at their initial recognition:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; or
- available-for-sale investments.

Financial liabilities are classified into the following categories at their initial recognition:

- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

Financial assets and liabilities are initially measured at fair value, plus, in the case of a financial asset or liability not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the financial asset or liability.

Financial assets are subsequently measured after initial recognition at fair value, except for financial assets classified as held-to-maturity investments or loans and receivables, which are subsequently measured at amortized cost using the effective interest rate method. Financial liabilities measured at fair value through profit or loss are subsequently measured after recognition at fair value. All other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial assets are derecognized when:

- the contractual rights to the cash flows from the financial asset expire;
- the contractual rights to the cash flows from the financial asset are retained, but a contractual obligation to pay the cash flows to another party without material delay is assumed by the Company; or
- when the Company transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligations are discharged, cancelled, or expire.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of all financial assets is reduced by any impairment loss, with the exception of financial assets classified as loans and receivables, where the carrying amount is reduced through the use of an allowance account. When these assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in the statement of operations.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Financial Instruments (Continued)**

the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

Certain new standards and interpretations were adopted by the Company during 2019, including IFRS 2, *Share-based payments* and IFRS 9, *Financial Instruments*. These new standards and changes did not have a material impact on the Company's financial statements.

Effective November 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, which resulted in the changes as described below. In accordance with the transitional provisions in the standard, the Company adopted this standard retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at November 1, 2018. There were no effects on opening balances at November 1, 2018 with respect to the adoption of this policy.

**IFRS 9, *Financial Instruments***

IFRS 9 replaces International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) FVPL or FVOCI; establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	<b>Financial instrument classification</b>	
	<b>Under IAS 39</b>	<b>Under IFRS 9</b>
<b>Financial assets</b>		
Cash	Loans and receivables	Amortized cost
Cash equivalents	Held-for-trading	FVPL
Amounts receivable	Loans and receivables	Amortized cost
Loan receivable	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended October 31, 2018 was accounted for in accordance with the Company's previous accounting policy under IAS 39. Note 3 *Significant Accounting Policies* outlines the current and previous accounting policies pertaining to financial instruments.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for the Company's accounting annual periods beginning on or after November 1, 2019 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

**4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)**

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 - Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

**5. CASH AND CASH EQUIVALENTS**

	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Cash in accounts at Canadian chartered banks	294,262	19,278
Cash in Guaranteed Investment Certificates issued by a Canadian Chartered Bank	-	1,294,346
	<u>294,262</u>	<u>1,313,624</u>

**6. AMOUNTS RECEIVABLE**

	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	<b>\$</b>	<b>\$</b>
GST input tax credit	<u>27,082</u>	<u>11,361</u>

**7. PREPAID EXPENSES AND DEPOSITS**

	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Insurance premiums	11,522	11,740
Deposit for future conference	2,227	1,987
	<u>13,749</u>	<u>13,727</u>

## 8. MINERAL PROPERTY AND EXPLORATION EXPENDITURES

The Company has a 100% interest in the HOAM Project located in the Mackenzie Region, Northwest Territories, Canada (the "HOAM Project"). This interest is subject to a 1.5% net smelter return royalty ("NSR"), 50% of which is held by a director and officer of the Company.

On July 6, 2018 the Company signed an option agreement (the "Option Agreement") with Talmora Diamond Inc. ("Talmora") to earn 50% in Talmora's Seahorse Project (the "Seahorse Project"), located in the Northwest Territories, by spending \$1,200,000 (in a combination of cash and in-kind expenses) over two years on exploration expenditures and making a \$200,000 payment to Talmora (the "Option Payment"). The Company is not required to spend the full \$1,200,000 if the Company decides not to exercise the option. Olivut is the operator during the option period. This interest is subject to a 1% NSR on certain land.

Cumulative cash exploration expenditures made by the Company are as follows:

	HOAM \$	Seahorse \$	Other <sup>(2)</sup> \$	Total \$
Total to October 31, 2017	14,920,121	-	949,088	15,869,209
Year ended October 31, 2018	47,817	412,602	-	460,419
Total to October 31, 2018	14,967,938	412,602 <sup>(1)</sup>	949,088	16,329,628
Year ended October 31, 2019	33,755	801,443	-	835,198
Total to October 31, 2019	15,001,693	1,214,045	949,088	17,164,826

Notes:

1. Includes the Option Payment.
2. Projects where the Company's interests have been terminated.

## 9. EQUIPMENT

	\$
Cost as at October 31, 2017	91,288
Additions, 2018	56,950
Cost as at October 31, 2018 and 2019	<u>148,238</u>
Accumulated amortization October 31, 2017	70,087
Charge for the period	9,935
Accumulated amortization October 31, 2018	80,022
Charge for the period	13,643
Accumulated amortization as at October 31, 2019	<u>93,665</u>
Net book value as at October 31, 2018	68,216
Net book value as at October 31, 2019	54,573

**10. LOAN RECEIVABLE**

On May 25, 2007, the Company loaned \$250,000 to an unrelated corporation that is providing services to the Company. The loan bears interest at 7% per annum and is secured by a general security agreement covering all assets of the borrower. Repayment terms include monthly payments of interest and principal of \$1,500 with the balance due May 25, 2017. The Company entered into a loan extension agreement with the borrower extending the loan receivable for a period of three years to May 25, 2020. All other terms and conditions remain unchanged. At maturity, the loan may be repaid by the borrower with cash or may be refinanced by the Company. It has been presented as a long-term asset as management expects it to be refinanced for a term longer than one year.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	\$	\$
Corporate payables and accrued liabilities (Note 12)	915,254	743,067
Flow-through premium (Note 14(b))	-	20,000
Exploration expense payables	26,075	17,079
	<u>941,329</u>	<u>780,146</u>

**12. RELATED PARTY TRANSACTIONS**

The remuneration of directors and key management personnel during the period was as follows:

	<b>Years ended October 31,</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Salaries and remuneration	223,500 <sup>(1)</sup>	227,000 <sup>(1)</sup>
Benefits	22,553	26,726
Share-option amortization expense	11,782	25,517
	<u>257,835</u>	<u>279,243</u>

Note 1: Salaries and remuneration expense includes a net accrued expense of \$175,655 (2018 - \$134,912) for salary earned by the President and CEO, which the President and CEO has elected to defer and which was unpaid as at October 31, 2019.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

No bonuses were paid in the years ended October 31, 2019 and 2018. Independent non-executive directors are not remunerated other than the benefits received, if any, from the granting of share options.

In addition to salaries and benefits, during the year ended October 31, 2019 a total of \$228,800 (2018 - \$57,000) for exploration consulting expenditures, and \$9,600 (2018 - \$9,600) for administrative and general expenses included in the statements of operations were accrued or paid to directors and officers of the Company or persons or companies related to or controlled by them. The directors and officers of the Company or persons or companies related to or controlled by them were also reimbursed at cost for expenses incurred on behalf of the Company.

**12. RELATED PARTY TRANSACTIONS (Continued)**

In addition, there is a management contract with the President and CEO (Note 16(b)) and an NSR agreement (Note 8).

Amounts included in accounts payable and accrued liabilities owed to directors and officers of the Company or persons or companies related to or controlled by them are as follows:

	<b>Amounts owed to related parties, as at</b>	
	<u><b>October 31, 2019</b></u>	<u><b>October 31, 2018</b></u>
	<b>\$</b>	<b>\$</b>
Officers and directors	<u>903,286</u>	<u>718,452</u>

Included in the amount owing to officers and directors as at October 31, 2019 is \$874,414 (October 31, 2018 - \$698,759) representing unpaid salary and vacation pay owing to the Company's President and CEO.

Amounts owing to the related parties are unsecured and non-interest bearing with no fixed terms of repayment.

**13. INCOME TAXES**

**a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 25% (2018 – 25%) are as follows:

	<u>2019</u>	<u>2018</u>
	<b>\$</b>	<b>\$</b>
Loss before income taxes	<u>(1,217,607)</u>	<u>(875,426)</u>
Expected income tax (benefit) based on statutory rates	(305,000)	(219,000)
Adjustments to benefit resulting from:		
Share-option amortization expense	4,000	10,000
Flow-through renunciation	(20,000)	(4,000)
Other	-	(3,000)
Change in benefit of tax assets not recognized	301,000	212,000
Deferred income tax (recovery)	<u>(20,000)</u>	<u>(4,000)</u>

**b) Deductible Temporary Differences**

The temporary differences that give rise to deferred income tax assets that have not been recognized at October 31 are as follows:

	<u>2019</u>	<u>2018</u>
	<b>\$</b>	<b>\$</b>
Non-capital losses	1,930,000	1,864,000
Equipment	114,000	101,000
Share issue costs	37,000	96,000
Exploration properties	15,454,000	14,390,000
Total	<u>17,535,000</u>	<u>16,451,000</u>

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**13. INCOME TAXES (Continued)**

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Company can use the benefits.

**c) Tax Loss Carry-Forwards**

As at October 31, 2019, the Company had approximately \$200,000 of Canadian Development Expenditures, \$14,305,000 of Canadian Exploration Expenditures and \$949,000 of cumulative foreign resources expenses, which, under certain circumstances, may be utilized to reduce taxable income of future years. Also, as at October 31, 2019, the Company had approximately \$1,930,000 of non-capital losses in Canada, which, under certain circumstances, may be utilized to reduce taxable income in future years. These non-capital losses expire as follows:

<u>Year of Expiry</u>	<u>Amount</u>
2024	\$ 145,000
2025	258,000
2026	283,000
2027	132,000
2028	132,000
2029	121,000
2030	111,000
2031	110,000
2032	20,000
2033	119,000
2034	50,000
2035	104,000
2036	105,000
2037	95,000
2038	66,000
2039	79,000
	<u>\$1,930,000</u>

In addition, as at October 31, 2019, the Company had approximately \$321,000 of federal input tax credits, which, under certain circumstances, may be utilized to reduce federal income taxes in future years.

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**14. CAPITAL STOCK**

The capital stock is as follows:

**a) Authorized**

Unlimited number of common shares without par value.

**b) Issued**

57,840,611 common shares

	<b>Common Shares</b>	<b>Amount</b>
	<b>#</b>	<b>\$</b>
Balance, October 31, 2017	40,946,672	17,757,386
Private placement of common shares	16,893,939	2,023,000
Premium for flow-through tax benefits	-	(24,000)
Share issue costs	-	(62,381)
	<hr/>	<hr/>
Balance, October 31, 2018 and 2019	<u>57,840,611</u>	<u>19,694,005</u>

On July 25, 2018, the Company issued a total of 900,000 common shares at a price of \$0.12 per common share through a non-brokered private placement for aggregate gross proceeds of \$108,000.

On July 6, 2018, the Company issued a total of 13,166,667 common shares through a non-brokered private placement for aggregate gross proceeds of \$1,600,000. The private placement comprised the placements of (i) 666,667 flow-through shares for proceeds of \$100,000 at a price of \$0.15 per flow-through share and (ii) 12,500,000 common shares for proceeds of \$1,500,000 at a price of \$0.12 per common share. The \$0.03 per share premium on the flow-through shares (the "flow-through premium") gives rise to a deferred income tax recovery of \$20,000.

On December 22, 2017, the Company issued a total of 2,827,272 common shares through a non-brokered private placement for aggregate gross proceeds of \$315,000. The private placement comprised the placements of (i) 100,000 flow-through shares for proceeds of \$15,000 at a price of \$0.15 per flow-through share and (ii) 2,727,272 common shares for proceeds of \$300,000 at a price of \$0.11 per common share. The \$0.04 per share premium on the flow-through shares gives rise to a deferred income tax recovery of \$4,000.

**15. EQUITY RESERVES**

**Share options**

	Number of Options #	Weighted Average Exercise Price \$	Estimated Amortized Grant Date Fair Value of Options \$
October 31, 2017	4,072,500	0.989	3,258,792
Options granted	150,000	0.110	-
Share-option amortization expense on options granted	-	-	40,454
October 31, 2018	4,222,500	0.817	3,299,246
Options granted	1,275,000	0.050	-
Share-option amortization expense on options granted	-	-	17,938
October 31, 2019	<u>5,497,500</u>	0.639	<u>3,317,184</u>

The Company's share option plan (the "Plan") provides for the granting of share options to independent directors (who receive no other compensation from the Company), officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years at exercise prices not less than the closing sale price of the Company's shares on the TSXV on the trading day immediately preceding the date the options are granted and are not transferable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued shares.

The fair value attributed to the options when granted is charged to share-option amortization expense and added to equity reserves over the period the options vest. \$17,938 was charged to share-option amortization expense during the year ended October 31, 2019 (2018 - \$40,454).

The following is a summary of share options outstanding at October 31, 2019:

Expiry Date	Outstanding Share Options #	Exercisable Share Options #	Estimated Grant Date Fair Value \$	Exercise Price \$
June 26, 2022	2,332,500	2,332,500	3,148,876	1.400
December 15, 2024	1,090,000	1,090,000	109,000	0.110
October 25, 2027	650,000	650,000	45,500	0.075
October 16, 2028 <sup>(1)</sup>	150,000	100,000	15,000	0.110
October 28, 2029 <sup>(2)</sup>	1,275,000	-	51,000	0.050
Total October 31, 2019	<u>5,497,500</u>	<u>4,172,500</u>	<u>3,369,376</u>	

Note 1: Options vest in three installments: 1/3 vested on April 16, 2019, 1/3 vested on October 16, 2019 and the remaining 1/3 will vest on April 16, 2020.

Note 2: Options vest in three installments: 1/3 vest on April 29, 2020, 1/3 vest on October 29, 2020 and the remaining 1/3 vest on April 29, 2021.



**15. EQUITY RESERVES (Continued)**

The estimated grant date fair value is calculated using the Black-Scholes option pricing model. Options granted in the years ended October 31, 2019 and 2018 were valued using the following assumptions:

	2019	2018
Expected dividend yield	0%	0%
Risk-free interest rate	1.60%	2.49%
Expected volatility	90.2%	93.8%
Expected life	10 years	10 years

The share price used in the calculation is \$0.05 (2018 - \$0.11), the market price on the day prior to the granting of the options. The volatility used in the calculation is based on the historic volatility of the Company's shares on the TSXV.

The weighted average remaining contractual life of options as of October 31, 2019 is 5.7 years (October 31, 2018 – 5.3 years). The weighted average exercise price of options exercisable as at October 31, 2019 is \$0.8257 (October 31, 2018 - \$0.8864).

**16. COMMITMENTS AND CONTINGENCIES**

**a) Environmental Contingencies**

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**b) Management Contracts**

The Company is party to a management contract. Minimum contract commitments remaining under the agreement are approximately \$660,000, including \$220,000 due within one year. Upon the occurrence of certain events such as a change in control, the contract requires payment of up to \$1,000,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

**c) Flow-Through Shares**

Pursuant to the issuance of 666,667 flow-through shares on July 6, 2018, the Company renounced \$100,000 of qualified exploration expenditures with an effective date of December 31, 2018.

The Company is required to expend this amount on qualified exploration expenditures by December 31, 2019. As of October 31, 2019, the Company believes it has expended this entire amount on qualified exploration expenditures.

Pursuant to the issuance of 100,000 flow-through shares on December 22, 2017, the Company has renounced \$15,000 of qualified exploration expenditures with an effective date of December 31, 2017.

The Company is required to expend this amount on qualified exploration expenditures by December 31, 2018. As of October 31, 2019, the Company believes it has expended this entire amount on qualified exploration expenditures.

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**16. COMMITMENTS AND CONTINGENCIES (Continued)**

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that may become payable by the subscribers as a result of the Company not meeting the expenditure commitment.

**d) Operating Lease**

The Company committed to an operating lease for equipment rental, which expires on July 1, 2021. Minimum lease payments for successive fiscal years ending October 31 are as follows:

Year	Amount \$
2020	2,772
2021	1,386
	<u>4,158</u>

**17. CAPITAL MANAGEMENT**

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

The properties in which the Company currently has an interest are in the exploration stage. Accordingly, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for its administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if reasonably available. The Company 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, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended October 31, 2019 or 2018. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of six months. As of October 31, 2019, the Company is not compliant with these policies of the TSXV. The final impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

**18. FINANCIAL RISK FACTORS**

There were no changes in the years ended October 31, 2019 or 2018 that occurred that were attributed to financial risk. The Company's financial risk exposures and the impact on the Company's financial instruments are summarized below:

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**18. FINANCIAL RISK FACTORS (Continued)**

**a) Liquidity Risk**

As at October 31, 2019, the Company had a cash and cash equivalents balance of \$294,262 (October 31, 2018 - \$1,313,624) to settle accounts payable and accrued liabilities of \$941,329 (October 31, 2018 - \$780,146) which includes \$874,414 (October 31, 2018 - \$698,759) of unpaid salary and vacation pay owing to the Company's President and CEO that she has elected to defer and that is non-interest bearing with no fixed terms of repayment. As at October 31, 2019, all of the Company's financial liabilities have contractual maturities of less than one year, with the exception of the equipment lease as described in Note 16(d). The Company's ability to continue operations and fund its business is dependent on management's ability to secure additional financing and the continued deferral of some or all of the President and CEO's salary. Although the Company has been successful in the past in obtaining financing, there can be no assurance that additional funding will be available, or available under terms favourable to the Company, or that the President and CEO will continue to elect to defer some or all of her salary. The Company will need to rely on new sources of equity financing, if available, to meet its ongoing working capital requirements. Failure to obtain additional financing would result in delay or the indefinite postponement of further exploration and the development of the HOAM and/or Seahorse Projects, as well as the loss of prospecting permits and/or mineral claims and the risk of the Company failing to continue as a going concern.

**b) Credit Risk**

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and a loan receivable. The Company has no significant credit risk arising from operations. Cash and cash equivalents consist of bank deposits with Canadian chartered banks and guaranteed investment certificates issued by a Canadian chartered bank. The loan receivable as described in Note 10 is secured by all assets of the borrower.

**c) Market Risk**

**(i) Interest Rate Risk**

The Company's current policy is to invest its cash and cash equivalents balances in investment-grade short-term guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company considers interest rate risk to be minimal. The loan receivable is at a fixed interest rate and it is expected that future financings, if any, would be secured from equity placements rather than debt obligations.

**(ii) Foreign Currency Risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes that the foreign exchange risk from currency conversions is negligible.

**(iii) Price Risk**

The Company is exposed to price risk with respect to commodity prices. Although the Company has no influence on commodity prices, it closely monitors commodity prices to determine appropriate courses of action.

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**18. FINANCIAL RISK FACTORS (Continued)**

**d) Fair Value**

The carrying amounts for cash, amounts receivable, accounts payable and accrued liabilities on the statements of financial position approximate fair value because of the limited terms of these instruments. The fair value of the loan receivable approximates carrying value as the interest rate approximates the current rate for similar instruments.

The Company's financial instruments that are carried at fair value consist of cash equivalents that do not have quoted market prices. They have been classified as level 2 within the fair value hierarchy.

**e) Sensitivity to Financial Risks**

The Company considers interest rate risk to be minimal. The loan receivable (Note 10) has a fixed interest rate of 7% and the Company does not carry interest bearing debt. It is expected that future financings, if any, would be secured from equity placements rather than debt obligations. Based on the cash and cash equivalents held by the Company as at October 31, 2019, a 1% increase or decrease in the interest rate would generate a respective increase or decrease in interest income of approximately \$3,000 annually.

The Company does not hold any balances in foreign currencies to give rise to foreign exchange risk.

Price risk is remote since the Company is not a producing entity.