AsiaBaseMetals Inc.

# FINANCIAL STATEMENTS

# FOR THE YEARS ENDED

# SEPTEMBER 30, 2019 AND 2018

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of AsiaBaseMetals Inc.

**Opinion**

We have audited the financial statements of AsiaBaseMetals Inc. (the "Company") which comprise the statements of financial position as at September 30, 2019 and 2018, and the statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Basis for Opinion**

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

**Emphasis of Matter - Material Uncertainty Related to Going Concern**

We draw attention to Notes 1 and 2(c) of the accompanying financial statements, which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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**INDEPENDENT AUDITORS' REPORT**

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
January 24, 2020

**ASIABASEMETALS INC.**

**STATEMENTS OF FINANCIAL POSITION**

**AS AT SEPTEMBER 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

| | | **2019** | | **2018** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash | $ | 75,126 | $ | 233,589 |
| Amounts receivable | | 15,165 | | 5,194 |
| Prepaid expenses | | 17,920 | | 31,276 |
| | | 108,211 | | 270,059 |
| Reclamation deposit (Note 7) | | 10,000 | | - |
| Exploration and evaluation assets (Note 6) | | 23,204 | | 23,204 |
| | $ | 141,415 | $ | 293,263 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities (Note 10) | $ | 144,900 | $ | 31,045 |
| **EQUITY (DEFICIENCY)** | | | | |
| Share capital (Note 8) | | 3,336,905 | | 2,994,736 |
| Share-based payment reserves | | 980,258 | | 761,555 |
| Accumulated deficit | | (4,320,648) | | (3,494,073) |
| | | (3,485) | | 262,218 |
| | $ | 141,415 | $ | 293,263 |

CORPORATE INFORMATION AND NATURE OF CONTINUANCE OF OPERATIONS (Note 1)
SUBSEQUENT EVENTS (Note 14)

Approved by the Board on January 24, 2020:

*"Raj Chowdhry"*
Director

*"Ioannis Tsitos"*
Director

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

**ASIABASEMETALS INC.**

**STATEMENTS OF COMPREHENSIVE LOSS**

**FOR YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|---|---|---|
| EXPENSES | | |
| Management fees (Note 10) | $ 256,263 | $ 163,950 |
| Share-based payments (Note 10) | 218,703 | 96,664 |
| Exploration, net | 169,747 | 57,619 |
| Professional fees | 70,510 | 65,686 |
| Office, administration, and miscellaneous | 57,233 | 27,238 |
| Travel | 25,529 | 4,326 |
| Regulatory and transfer agent fees | 22,449 | 15,913 |
| Property investigation | 5,060 | 538 |
| Interest and bank charges | 715 | 681 |
| Foreign exchange loss (gain) | 366 | (60) |
| LOSS FROM OPERATIONS | (826,575) | (432,555) |
| OTHER ITEMS | | |
| Write down of mineral property (Note 6) | - | (9,201) |
| | - | (9,201) |
| COMPREHENSIVE LOSS FOR THE YEAR | $ (826,575) | $ (441,756) |
| LOSS PER SHARE – BASIC AND DILUTED | $ (0.02) | $ (0.01) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 38,742,974 | 36,512,568 |

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

**ASIABASEMETALS INC.**

**STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

| | Common Shares (Note 8) | | | | |
|---|---|---|---|---|---|
| | Number of Common Shares | Amount | Share-based Payment Reserves | Accumulated Deficit | Total |
| Balances at October 1, 2017 | 36,200,532 | $ 2,809,669 | $ 664,891 | $ (3,052,317) | $ 422,243 |
| Private Placement, net of issuance costs | 849,500 | 167,567 | - | - | 167,567 |
| Warrants exercised | 150,000 | 17,500 | - | - | 17,500 |
| Share-based payments | - | - | 96,664 | - | 96,664 |
| Net loss and comprehensive loss | - | - | - | (441,756) | (441,756) |
| Balances at September 30, 2018 | 37,200,032 | $ 2,994,736 | $ 761,555 | $ (3,494,073) | $ 262,218 |
| Private Placement, net of issuance costs | 2,890,295 | 342,169 | - | - | 342,169 |
| Share-based payments | - | - | 218,703 | - | 218,703 |
| Net loss and comprehensive loss | - | - | - | (826,575) | (826,575) |
| Balances at September 30, 2019 | 40,090,327 | $ 3,336,905 | $ 980,258 | $ (4,320,648) | $ (3,485) |

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

**ASIABASEMETALS INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|---|---|---|
| CASH PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES | | |
| Net loss for the year | $ (826,575) | $ (441,756) |
| Items not involving cash | | |
| Share-based payments | 218,703 | 96,664 |
| Write down of mineral property | - | 9,201 |
| Change in non-cash working capital items | | |
| Amounts receivable | (9,971) | (3,102) |
| Prepaid expenses | 13,356 | (31,123) |
| Accounts payable and accrued liabilities | 113,855 | 6,945 |
| Cash used in operating activities | (490,632) | (363,171) |
| INVESTING ACTIVITIES | | |
| Reclamation deposit | (10,000) | - |
| Exploration and evaluation costs | - | (11,075) |
| Cash used in investing activities | (10,000) | (11,075) |
| FINANCING ACTIVITIES | | |
| Proceeds from private placement, net | 342,169 | 167,567 |
| Proceeds from exercise of warrants | - | 17,500 |
| Cash provided by financing activities | 342,169 | 185,067 |
| CHANGE IN CASH DURING THE YEAR | (158,463) | (189,179) |
| CASH, BEGINNING OF YEAR | 233,589 | 422,768 |
| CASH, END OF YEAR | $ 75,126 | $ 233,589 |
| Supplemental Cash Flow Information | | |
| Income taxes paid | $ - | $ - |
| Interest paid | $ - | $ - |

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

1. CORPORATE INFORMATION AND NATURE OF CONTINUANCE OF OPERATIONS

AsiaBaseMetals Inc. (the "Company") was incorporated on August 11, 2009 under the laws of British Columbia. The Company is a growth company focused on the exploration and development of zinc and base metals. In addition, the Company is exploring business opportunities in the cannabis sector and on June 5, 2019, the Company entered into a cooperation agreement (the "Agreement") with a city within the European Union (the "City"), pursuant to which the Company and the City will cooperate to explore opportunities to obtain a license to undertake activities for growing and selling cannabis for medical purposes. The address of the Company's corporate office and principal place of business is 6153 Glendalough Pl., Vancouver, British Columbia, V6N 1S5, Canada.

At September 30, 2019, the Company had not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition of the resource property. The outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of presentation

The financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Going Concern

These financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception and had an accumulated deficit of $4,320,648 at September 30, 2019. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Cash and cash equivalents

Cash in the statements of financial position is comprised of cash in banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

e) Exploration and evaluation assets

Exploration expenditures are expensed as incurred and direct costs of exploration and evaluation assets, such as property acquisition costs and leases are capitalized. Exploration and evaluation assets are assessed for impairment at the end of each reporting period and if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development expenditure and costs of the respective mineral property.

Development costs incurred on a mineral property are deferred once management has determined, based on a feasibility study, that, a property is capable of economical commercial production as a result of having established proven and probable reserves. Development costs are carried at cost less accumulated depletion and accumulated impairment charges. Exploration expenditures incurred prior to determining that a property has economically recoverable resources are expensed as incurred.

The Company reviews the carrying values of mineral properties and development costs regularly with a view to assessing whether there has been any impairment in value, or whenever events or changes in circumstances that indicate the carrying value may not be recoverable. In the event the estimated discounted cash flows expected from its use or eventual disposition is determined to be insufficient to recover the carrying value of the property, the carrying value is written down to the estimated recoverable amount.

Once a mine has achieved commercial production, mineral properties and development costs are depleted on a units-of-production basis over the life of the mine.

f) Share-based payment transactions

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in share-based payment reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in statement of loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in share-based payments expense.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions, for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Share-based payment transactions (continued)

When the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

g) Share Capital

The Company records proceeds from the issuance of its common shares as equity. Proceeds received on the issuance of units, consisting of common shares and warrants are allocated between the common share and warrant component. The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted price on the issuance date. The remaining proceeds, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. Management does not expect to record a value to the warrant in most equity issuances as unit private placements are commonly priced at market or at a permitted discount to market. If the warrants are issued as share issuance costs, the fair value of agent's warrants are measured using the Black-Scholes option pricing model and recognized in equity as a deduction from the proceeds.

h) Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. At the time flow-through shares are issued, there may be a potential premium paid on the flow-through shares calculated based on the share issuance price and the market price at the time of closing. A liability is recognized for the premium on the flow-through shares and is subsequently reversed and recorded as other income as the Company incurs qualifying Canadian exploration expenses.

i) Foreign Currency

Transactions and balances in currencies other than the Canadian dollar, the currency of the primary economic environment in which the Company operates ("the functional currency"), are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange prevailing on the statement of financial position date are recognized in the statement of comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

At each financial position reporting date presented, the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

k) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

l) Income taxes

i) Current income tax

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the statement of financial position date, and includes any adjustments to tax payable or receivable in respect of previous years.

ii) Deferred tax

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of goodwill, or assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income taxes (continued)

ii) Deferred tax (continued)

In instances where the Company has sufficient deductible temporary differences available to offset the deferred income tax liability created from renouncing qualifying expenditures, the realization of the deductible temporary differences will be shown as a deferred income tax recovery in operations in the period of renunciation.

Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

m) Financial assets

All financial assets are initially recognized at fair value plus, in the case of a financial asset not measured at fair value through profit and loss (“FVTPL”), transaction costs.

Financial assets are subsequently measured at: (i) FVTPL; (ii) fair value through other comprehensive income (“FVOCI”) or (iii) amortized cost. The classification is based on whether the contractual cash flow characteristics represent “solely payments of principal and interest” as well as the business model under which the financial assets are managed. The Company’s cash is measured at FVTPL.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

n) Financial liabilities

All financial liabilities are are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities measured at amortized cost are initially recognized at fair value less directly attributable transaction costs. The Company’s accounts payable are measured at amortized cost.

A financial liability is derecognized when the contractual obligation under the liability is discharged, cancelled or expires or its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include deferred income taxes, share-based payments, assessment of decommissioning provision and assessment of impairment of exploration and evaluation assets.

(i) Impairment

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

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

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective or assessments with a significant risk of material adjustment in the next year.

(ii) Going Concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 2(c).

(Expressed in Canadian Dollars)

4. ADOPTION OF NEW OR AMENDED ACCOUNTING STANDARDS

The Company adopted the following new standards, along with any consequential amendments effective October 1, 2018:

IFRS 9 – *Financial Instruments*

IFRS 9, "Financial Instruments" was effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaced the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The Company adopted this new standard as of its effective date of October 1, 2018 on a retrospective basis. The adoption of IFRS 9 did not impact the carrying value of any of the Company's financial assets or liabilities on the date of transition.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and the new measurement under IFRS 9:

| | IAS 39 Classification | IFRS 9 Classification |
|---|---|---|
| **Financial assets** | | |
| Cash | FVTPL | FVTPL |
| **Financial liabilities** | | |
| Accounts payable | Other financial liabilities | Amortized cost |

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 "Revenue from Contracts with Customers" was effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a comprehensive five-step model framework for the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. There was no impact on the Company's financial statements from the adoption of IFRS 15.

## 5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and amended standards issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these new and amended standards when they become effective.

New accounting standards effective for annual periods on or after October 1, 2019:

IFRS 16 – *Leases*

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17.

IFRIC 23 - *Uncertainty over Income Tax Treatments*

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of these standards and interpretations is not expected to have a material effect on the Company's future results and financial position.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

| | | **2019 $** | | **2018 $** |
|---|---|---|---|---|
| Gnome Zinc | $ | 11,688 | $ | 11,688 |
| Jean Iron Ore | $ | 11,516 | $ | 11,516 |
| Total | $ | 23,204 | $ | 23,204 |

**Gnome Zinc, BC**

On September 30, 2009, Tintina Resources Inc. ("Tintina") transferred its interest in the Gnome Zinc project and $500,000 in cash to the Company as part of its reorganization. Tintina also transferred its right, title and interest in the Gnome Zinc project to purchase a 1% NSR royalty for $2,000,000 up to the period ending on March 11, 2020. The transaction was recorded as a shareholder transfer at Tintina's carrying value of the Gnome Zinc project of $146,748 and an increase in cash of $500,000.

During the year ended September 30, 2018, 10 of the 11 mineral claims were forfeited and subsequently re-staked. As a result of the forfeited claims the Company recorded a write down of $9,201 on the property during the year.

As at September 30, 2019, the Gnome Zinc Property consists of 11 mineral claims covering 5,254 hectares of land.

Expenditures for the years ended September 30, 2019 and 2018 are as follows:

| | | **October 1, 2018** | | **Acquisition Costs** | | **Impairment** | | **September 30, 2019** |
|---|---|---|---|---|---|---|---|---|
| Gnome Zinc | $ | 11,688 | $ | - | $ | - | $ | 11,688 |

| | | **October 1, 2017** | | **Acquisition Costs** | | **Impairment** | | **September 30, 2018** |
|---|---|---|---|---|---|---|---|---|
| Gnome Zinc | $ | 9,814 | $ | 11,075 | $ | (9,201) | $ | 11,688 |

**Jean Property**

On April 24, 2015, the Company entered into a purchase agreement (the "Agreement") with Great Lakes Resources Ltd. ("Great Lakes") to acquire an undivided 100% right, title and interest in the Jean Iron Ore Project ("Jean Property") from Great Lakes for 37,500 common shares. The Jean Property is an iron ore exploration property consisting of 17 claims totalling 1,824 hectares located in the Thunder Bay Mining District of Ontario. The Agreement was approved by the TSX Venture Exchange ("TSX.V") on May 12, 2015 and 37,500 common shares were issued to Great Lakes to complete the purchase.

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

**Jean Property (continued)**

As part of the Agreement the Company and Great Lakes terminated the previous option agreement entered into on August 25, 2014 and approved by the TSX.V on November 12, 2014 under which Great Lakes had granted the Company an option to acquire the Jean Property. Consideration under the terminated option agreement was 9,375 common shares (issued on November 13, 2014) and a total exploration work permit of $160,000 on or before September 30, 2016.

On March 14, 2017, the Company staked three additional claim covering 16 hectares of land. On April 9, 2018, the Ontario Ministry of Northern Development of Mines altered their numbering method and size of claims and thus the Company's 16 outstanding old mineral claims were converted to 108 new claims. During the year ended September 30, 2018, the Company forfeited 20 claims covering approximately 272 hectares of land.

As at September 30, 2019, the Jean Property consists of 78 mineral claims covering 1,584 hectares of land.

Expenditures for the years ended September 30, 2019 and 2018 are as follows:

| | October 1, 2018 | Acquisition Costs | September 30, 2019 |
|---|---|---|---|
| Jean Iron Ore | $ 11,516 | $ - | $ 11,516 |

| | October 1, 2017 | Acquisition Costs | September 30, 2018 |
|---|---|---|---|
| Jean Iron Ore | $ 11,516 | $ - | $ 11,516 |

7. RECLAMATION DEPOSIT

On July 23, 2019, the Company paid $10,000 for a reclamation bond to the Minister of Finance for the Province of British Columbia ("the Province") with respect to the exploration drilling on the Gnome Property. This amount was determined by the Province to be sufficient to meet all anticipated reclamation requirements.

8. SHARE CAPITAL

a) Authorized: The Company is authorized to issue an unlimited number of common shares without par value.

b) Issued and outstanding as at September 30, 2019: 40,090,327 (2018 – 37,200,032) common shares.

i. On October 24, 2017, the Company closed a non-brokered private placement of 97,500 flow-through shares at a price of $0.20 per share, raising gross proceeds of $19,500. The Company incurred share issuance costs of $4,747. The shares were subject to a four month hold period which expired on February 25, 2018.

ii. On May 16, 2018, the Company closed a non-brokered private placement of 480,000 common shares at a price of $0.167 per share, raising gross proceeds of $80,000. The Company incurred share issuance costs of $4,632. The shares were subject to a four month hold period which expired on September 17, 2018.

iii. On August 16, 2018, the Company closed a non-brokered private placement of 185,000 flow-through common shares at a price of $0.285 per share and 87,000 non-flow-through common shares at a price of $0.285 per share, raising gross proceeds of $77,520. The Company incurred share issuance costs of $74. The shares were subject to a four month hold period which expired on December 17, 2018.

iv. On September 9, 2018, the Company issued 150,000 common shares on the exercise of warrants for proceeds of $17,500.

v. On January 11, 2019, the Company closed a non-brokered private placement of 625,000 flow-through common shares at a price of $0.16 per share and 356,250 non-flow-through common shares at a price of $0.16 per share, raising gross proceeds of $157,000. The Company incurred share issuance costs of $5,742. The shares were subject to a four month hold period which expired on May 12, 2019.

vi. On April 24, 2019, the Company closed a non-brokered private placement of 1,909,045 units at a price of $0.105 per unit, raising gross proceeds of $200,450. Each unit is comprised of one common share of the Company and one transferrable common share purchase warrant, with each warrant entitling the holder to purchase an additional common share at an exercise price of $0.14 per share for a period of two years from the date of issuance. The Company incurred $9,539 of share issuance costs. All securities issued under the private placement were subject to a four month hold period which expired on August 25, 2019.

9. STOCK OPTION PLAN, SHARE-BASED PAYMENTS AND WARRANTS

The Company adopted a rolling stock option plan (the “Plan”) to grant options to directors, senior officers, employees, independent contractors and consultants of the Company. The Plan reserves for issuance up to 10% of the issued and outstanding share capital of the Company from time to time, and provides that it is solely within the discretion of the Board or, if the Board so elects, by a committee consisting of not less than two of its members appointed by the Board, to determine who should receive options and in what amounts.

Options granted under the Plan for a term not to exceed 10 years from the date of their grant and are exercisable at a price not less than the discounted market price (which is the market price less a discount of 25% for a closing price of up to $0.33, a discount of 20% for a closing price of $0.34 to $1.33, and a discount of 15% for a closing price above $1.34, subject to a minimum of $0.07).

(Expressed in Canadian Dollars)

9. STOCK OPTION PLAN, SHARE-BASED PAYMENTS AND WARRANTS (continued)

On October 23, 2017, the Company granted a director 75,000 stock options exercisable at a price of $0.24 per share for a period of 2 years. All options vested on the grant date.

On July 23, 2018, the Company granted directors and advisory board members 1,112,500 stock options exercisable at $0.30 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on January 23, 2019 and the remaining 25% vesting on July 23, 2019.

On September 10, 2018, the Company granted a consultant 150,000 stock options exercisable at a price of $0.39 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on March 10, 2019 and the remaining 25% vesting on September 10, 2019.

On February 11, 2019, the Company granted to directors and advisory board members 1,312,500 stock options exercisable at a price of $0.30 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on August 11, 2019 and the remaining 25% vesting on February 11, 2020.

On May 21, 2019, the Company granted an advisory board member 150,000 stock options exercisable at a price of $0.30 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on November 21, 2019 and the remaining 25% vesting on May 21, 2020.

On July 16, 2019, the Company granted a director 225,000 stock options exercisable at a price of $0.55 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on January 16, 2020 and the remaining 25% vesting on July 16, 2020.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options. The weighted average fair value of the options granted during the year ended September 30, 2019 was $0.13 (2018 - $0.24). For purposes of the calculations, the following weighted average assumptions were used under the Black-Scholes model:

| | **2019** | **2018** |
|---|---|---|
| Exercise price | $ 0.30 - 0.55 | $ 0.24 - 0.39 |
| Share price at grant date | 0.235 – 0.53 | 0.22 – 0.36 |
| Risk free interest rate | 1.56 – 1.81% | 1.45 – 2.09% |
| Expected dividend yield | 0% | 0% |
| Expected forfeiture rate | 0% | 0% |
| Expected stock price volatility | 93 - 109% | 100 - 115% |
| Expected life of options | 2 years | 2 years |

(Expressed in Canadian Dollars)

9. STOCK OPTION PLAN, SHARE-BASED PAYMENTS AND WARRANTS (continued)

Stock option transactions are summarized as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance at September 30, 2017 | 2,475,000 | $ 0.21 |
| Issued | 1,337,500 | $ 0.31 |
| Expired | (975,000) | $ 0.20 |
| Balance at September 30, 2018 | 2,837,500 | $ 0.26 |
| Issued | 1,687,500 | $ 0.33 |
| Expired | (1,500,000) | $ 0.22 |
| Balance at September 30, 2019 | 3,025,000 | $ 0.32 |

The following table summarizes stock options outstanding and exercisable at September 30, 2019:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price $ | Number of Options | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price $ | Number Exercisable | Weighted Average Exercise Price $ |
| 0.24 | 75,000 | 0.06 | 0.24 | 75,000 | 0.24 |
| 0.30 | 1,112,500 | 0.81 | 0.30 | 1,112,500 | 0.30 |
| 0.39 | 150,000 | 0.95 | 0.39 | 150,000 | 0.39 |
| 0.30 | 1,312,500 | 1.37 | 0.30 | 984,375 | 0.30 |
| 0.30 | 150,000 | 1.64 | 0.30 | 75,000 | 0.30 |
| 0.55 | 225,000 | 1.79 | 0.55 | 112,500 | 0.55 |
| | 3,025,000 | 1.16 | 0.32 | 2,509,375 | 0.31 |

The stock options outstanding at September 30, 2019 will expire between October 23, 2019 and July 16, 2021.

Warrant transactions are summarized as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Balance at September 30, 2017 | 512,145 | $ 0.11 |
| Exercised | (150,000) | $ 0.12 |
| Balance at September 30, 2018 | 362,145 | $ 0.10 |
| Issued | 1,909,045 | $ 0.14 |
| Balance at September 30, 2019 | 2,271,190 | $ 0.13 |

The warrants issued during the year ended September 30, 2019 expire on April 24, 2021 and have an exercise price of $0.14. The balance of unexercised warrants as at September 30, 2019 have a weighted average remaining contractual life of 1.64 years and is composed of 75,000 warrants with an exercise price of $0.03 that expire on April 13, 2021, 287,145 warrants with an exercise price of $0.12 that expire on November 18, 2021 and 1,909,045 warrants with an exercise price of $0.14 that expire on April 24, 2021.

(Expressed in Canadian Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS

During the years ended September 30, 2019 and 2018, the following amounts were incurred or paid to officers and directors and/or their related companies:

i) The Company incurred $6,263 (2018 - $13,950) for consulting fees to the Chief Financial Officer ("CFO").

ii) The Company incurred $250,000 (2018 - $150,000) for management fees and bonus to a company controlled by an officer.

As at September 30, 2019 and 2018, the following balances were due to officers and directors and/or related companies:

i) Included in accounts payable is $Nil (2018 - $1,122) due to the CFO and $21,648 (2018 – $5,957) due to the CEO of the Company. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

On April 1, 2015 the Company entered into an agreement with a company controlled by a director to provide CEO services at a rate of $12,500 per month ($150,000 per year) for an indefinite term. The agreement can be terminated without cause by the Company with a fourteen (14) month cash payment in the amount of $175,000.

On June 5, 2019, in consideration for the CEO's services in locating, arranging and consummating the cooperation agreement described in Note 1, the Company entered into an agreement with the CEO to impose a perpetual royalty obligation of 2.5% of gross revenue generated by a subsidiary or such other entity which holds the licenses for growing and selling cannabis for medical purposes under the cooperation agreement.

**Key management personnel compensation:**

Key management personnel include the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and directors of the Company. The remuneration of directors and officers of the Company is as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Management fees | $ | 250,000 | $ | 150,000 |
| CFO fees | | 6,263 | | 13,950 |
| Share based payments | | 144,250 | | 62,528 |
| **Total remuneration** | $ | 400,513 | $ | 226,478 |

Key management personnel receive compensation in the form of short-term employee benefits, share-based payments, separation payment, and post-employment benefits. Short-term benefits include management fees paid to the CEO and the CFO of the Company for their services in their roles.

11. INCOME TAXES

The Company has losses carried forward of approximately $2,702,000 available to reduce income taxes in future years. The losses expire between 2030 and 2039. The Company also has certain allowances in respect of resource development and exploration costs, which, subject to certain restrictions, are available to be offset against future taxable income. The Company has not recognized any deferred income tax assets. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(Expressed in Canadian Dollars)

11. INCOME TAXES (continued)

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

| | 2019 | 2018 |
|---|---|---|
| Canadian statutory income tax rate | 27.00% | 26.75% |
| Income tax recovery at statutory rate | $ 223,175 | $ 118,172 |
| Effect of income taxes of: | | |
| Permanent and other differences | (103,370) | (24,893) |
| Effect of change in tax rates | - | 869 |
| Tax benefits not recognized | (119,805) | (94,148) |
| Deferred income tax recoverable | $ - | $ - |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at September 30, 2019 and 2018 are presented below:

| | 2019 | 2018 |
|---|---|---|
| Non-capital loss carry-forwards | $ 729,576 | $ 609,773 |
| Share issuance costs | 6,473 | 5,340 |
| Resource properties | 104,246 | 105,377 |
| Unrecognized deferred tax assets | (840,295) | (720,490) |
| | $ - | $ - |

12. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject to.

The Company considers the aggregate of its equity as capital. As at September 30, 2019, the Company had capital resources consisting of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

The Company's investment policy is to invest its cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through its current operating year.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

*Financial Instruments and Fair Value Measurements*

IFRS 13 – *Fair Value Measurement*, establishes 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 - 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).

Assets measured at fair value on a recurring basis were presented on the Company's statement of financial position as at September 30, 2019 as follows:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets For Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Financial assets** | | | | |
| Cash | $ 75,126 | $ – | $ – | $ 75,126 |

*Financial Risk*

(i) Credit Risk

Credit risk arises from non-performance by counterparties of contractual financial obligations. The Company's maximum credit risk is primarily attributable to its cash. The Company limits its exposure to credit loss for cash by placing such instruments with financial institutions.

As at September 30, 2019, the Company's maximum exposure to credit risk is the carrying value of cash of $75,126.

(ii) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient financial resources to meet liabilities when due. As at September 30, 2019, the Company had working capital deficit of $36,689. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(iii) Interest Rate Risk

In management's opinion, the Company's interest rate risk is minimal as the Company does not have any bank indebtedness that bear interest at fixed or variable rates.

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK - continued

*Financial Risk – continued*

(iv) Foreign Currency Risk

The Company is exposed to currency fluctuations in the acquisition of foreign currencies. The Company holds insignificant balance in cash in foreign currencies (US dollars) and is therefore not exposed to significant gains or losses on foreign exchange. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar would have an insignificant effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at September 30, 2019 and 2018, a change of 10% +/- in US dollar would not result in a significant impact to the statements of loss and comprehensive loss.

(v) Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities may be subject to risks associated with fluctuations in the market price of commodities.

14. SUBSEQUENT EVENTS

On October 25, 2019, the Company granted a director, 225,000 stock options exercisable at a price of $0.40 per share for a period of 2 years. The options are subject to vesting conditions with 50% of the options vesting on the grant date, 25% vesting on April 25, 2020 and the remaining 25% vesting on October 25, 2020.

On November 1, 2019, the Company cancelled the 225,000 stock options granted on July 16, 2019.

On November 6, 2019, the Company issued 51,418 units at a deemed price of $0.35 per unit in settlement of outstanding debt of $17,996. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of $0.38 per share for a period of two years.

On November 18, 2019, the Company closed a non-brokered private placement of 1,945,000 units at a price of $0.18 per unit for gross proceeds of $350,100. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of $0.25 per share for a period of two years. The units are subject to a four month hold period which expires on March 19, 2020.