



**GRANADA GOLD MINE INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**Quarter 1 - For the three months ended**

**September 30, 2020**

**(Unaudited)**

**(Expressed in Canadian dollars)**

## GRANADA GOLD MINE INC.

Statements of Financial Position  
(Expressed in Canadian Dollars)  
(Unaudited)

	Notes	As at Sep 30, 2020	As at Jun 30, 2020 (Audited)
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		786,359	267,914
Amounts receivable	5, 17	391,978	413,569
Prepaid expenses		1,000	1,000
Short-term investments		1,238,380	-
<b>Total Current Assets</b>		<b>2,417,717</b>	682,483
Deposit, Long-term	7	171,800	171,800
Property, plant and equipment	9	280,534	142,545
<b>Total assets</b>		<b>2,870,051</b>	996,828
<b>SHAREHOLDERS' EQUITY (DEFICIENCY) AND LIABILITIES</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade, other payables and provisions	11, 14	6,236,168	6,263,483
Secured loans payable	10	1,619,774	1,619,774
<b>Total Current Liabilities</b>		<b>7,855,942</b>	7,883,257
<b>Provision for site reclamation and restoration</b>	11, 14	<b>380,079</b>	380,079
<b>Total liabilities</b>		<b>8,236,021</b>	8,263,336
<b>Shareholders' Equity (Deficiency)</b>			
Share capital	12	66,688,498	65,499,431
Reserves	12	3,856,501	3,240,654
Deficit		(75,919,969)	(72,536,067)
<b>Total Shareholders' Equity (Deficiency)</b>		<b>(5,365,970)</b>	(7,266,508)
<b>Total Liabilities and Shareholders' Equity</b>		<b>2,870,051</b>	996,828

**Nature of operations and going concern** (Note 1), **Commitments and contingencies** (Note 8, 10, 15 & 16)  
and **Subsequent events** (Note 20)

**APPROVED BY THE BOARD:**

"Frank Basa"  
Director

"Jacques Monette"  
Director

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

## GRANADA GOLD MINE INC.

Interim Statements of Loss and Comprehensive Loss  
(Unaudited)  
(Expressed in Canadian Dollars)

	Notes	Three months ended Sep 30, 2020	Three months ended Sep 30, 2019
		\$	\$
<b>Expenses</b>			
Exploration and evaluation			
Assay and testing (recovery)		(6,650)	1,199
Consulting fees		15,865	-
Core analysis		128,480	21,710
Depreciation		13,005	7,457
Drilling		456,797	29,621
Equipment		16,553	7,633
Facility expenses		23,737	16,408
Geology, geophysics and surveys		35,000	35,000
Personnel costs		25,890	18,934
Project management and engineering		493,230	122,440
Taxes, permits and licensing		1,562	612
		<b>1,203,469</b>	261,014
<b>Corporate</b>			
Accretion		-	5,000
Administrative and general expenses		9,728	8,638
Professional fees	15	173,655	155,708
Filing costs and shareholders' information		102,157	69,335
Travel		486	8,098
		<b>290,237</b>	246,779
<b>Other items</b>			
Equipment rental	15	(39,514)	(67,721)
Stock-based compensation	12	36,832	-
Realized gain on sale of marketable securities	6	(53,923)	-
Unrealized gain on marketable securities	6	(23,815)	-
Income on sale of mineral lease	6	(1,499,910)	-
		<b>(1,580,330)</b>	67,721
<b>Net comprehensive loss for the period</b>		<b>86,624</b>	(440,072)
<b>Net loss per share – basic and diluted</b>		<b>0.001</b>	(0.005)
<b>Weighted average number of shares outstanding basic and diluted</b>		<b>65,776,683</b>	80,563,574

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

## GRANADA GOLD MINE INC.

Interim Statements of Changes in Equity  
 For the periods ended September 30, 2020 and 2019  
 (Expressed in Canadian dollars)  
 (Unaudited)

	Number of Shares	Share Capital	Reserves	Deficit	Total Equity (Deficit)
		\$	\$	\$	\$
<b>Balances, June 30, 2019</b>	71,308,020	62,613,721	<b>3,729,725</b>	<b>(72,536,067)</b>	<b>(6,192,621)</b>
Private placements	-	652,050	369,240	-	1,021,290
Issued for compensation	-	-	22,004	-	22,004
Share issue costs	-	-	(2,144)	-	(2,144)
Options granted and vested	-	-	156,971	-	156,971
Issued for property	-	-	-	-	-
Net loss for the period	-	-	-	(719,813)	(719,813)
<b>Balances, September 30, 2019</b>	<b>71,308,020</b>	<b>63,265,771</b>	<b>3,762,871</b>	<b>(72,742,955)</b>	<b>(5,714,313)</b>
Private placements	23,253,800	1,028,585	990,687	-	2,019,272
Share issue costs	-	(72,615)	(2,030)	-	(2,030)
Options expired	-	-	(233,184)	-	(233,184)
Warrants expired	-	1,277,690	(1,277,690)	-	-
Compensation warrants	-	-	-	-	-
Net loss for the period	-	-	-	(3,496,822)	(3,496,822)
<b>Balances, June 30, 2020</b>	<b>94,561,820</b>	<b>65,499,431</b>	<b>3,240,654</b>	<b>(76,006,593)</b>	<b>(7,266,508)</b>
Private placements	7,156,521	1,710,000	-	-	1,710,000
Share issue costs	-	(113,968)	-	-	(113,968)
Warrant exercise	1,317,000	91,451	78,349	-	169,800
Option exercise	75,000	11,250	-	-	11,250
Warrant valuation	-	(509,666)	509,666	-	-
Stock-based compensation	-	-	36,832	-	36,832
Net income for the period	-	-	-	86,624	86,624
<b>Balances, September 30, 2020</b>	<b>103,110,341</b>	<b>66,688,498</b>	<b>3,865,501</b>	<b>(75,919,969)</b>	<b>(5,365,970)</b>

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

**GRANADA GOLD MINE INC.**  
**Statements of Cash Flows**  
**For the three months ended September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**

	Notes	Three months ended	
		Sep 30, 2020	Sep 30, 2019
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Income (loss) before tax		86,624	(440,072)
Adjustments for:			
Depreciation		13,005	7,454
Stock option compensation	12	36,832	-
Unrealized gain on marketable securities		(23,815)	-
Realized gain on sale of marketable securities	6	(53,923)	-
Value of shares received from sale of mineral lease	6	(1,499,910)	-
Operating cash flows before movements in working capital			
(Increase) decrease in amounts receivables		21,591	(52,923)
(Increase) decrease trade, other payables and provisions		(27,314)	134,422
<b>Cash used in operating activities</b>		<b>(1,446,910)</b>	<b>(351,119)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment		(150,995)	-
<b>Cash used investing activities</b>		<b>(150,995)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares		1,710,000	925,380
Share issue costs		(113,968)	(7,000)
Option exercise		11,250	-
Warrants exercise		169,800	-
<b>Proceeds from sale of marketable securities</b>		<b>339,268</b>	<b>-</b>
<b>Cash financing activities</b>		<b>2,116,350</b>	<b>918,380</b>
<b>Increase (decrease) in cash</b>		<b>518,445</b>	<b>567,261</b>
<b>Cash – beginning of period</b>		<b>267,914</b>	<b>168,267</b>
<b>Cash – end of period</b>		<b>786,359</b>	<b>735,528</b>

**Supplemental cash flow information**

Marketable securities received from sale of mineral lease	\$ 1,499,910	\$ -
Broker's warrants issued as finder's fees	\$ 169,800	\$ -

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**GRANADA GOLD MINE INC.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2020**  
(Expressed in Canadian Dollars)  
(Unaudited)

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

Granada Gold Mine Inc. (“Granada” or the “Company”) is domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly-traded-company with its shares listed on the TSX Venture Exchange (“TSXV”), the Frankfurt Stock Exchange, and the US over the counter (“OTC”) market. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company’s head office is located at 3028 Quadra Court, Coquitlam, British Columbia, V3B 5X6.

**1.1 Going concern**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company had cash and cash equivalents of \$786,359 at September 30, 2020 (June 30, 2020: \$267,914), but management cannot provide assurance that the Company will ultimately achieve profitable operations, or raise additional debt and/or equity capital.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to obtain additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations.

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 regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company’s property interests may also be subject to increases in taxes and royalties, and renegotiation of contracts.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

As at September 30, 2020, the Company had not yet achieved profitable operations, has an accumulated deficit, has a working capital deficiency and expects to incur further losses in the

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development of its business.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses and a significant working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern.

**Novel Coronavirus (“COVID-19”)**

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

**2. BASIS OF PREPARATION**

**(a) Basis of Presentation Statement of Compliance**

These financial statements have been prepared on the historic cost basis, except certain financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**(b) Statement of Compliance**

The interim financial statements of the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, ‘Interim Financial Reporting’ using accounting policies consistent 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”).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may ultimately differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in Note 4.

**GRANADA GOLD MINE INC.**  
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**(c) Functional and Presentation Currency**

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

For the purpose of the financial statements, the results and financial position are expressed in Canadian dollars. Transaction in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are presented in the statement of loss. The Company does not have any foreign operations.

**(d) Approval of the financial statements**

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 26, 2020.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out in the Company's audited financial statements for the year ended June 30, 2020 have been applied consistently to these interim condensed consolidated financial statements.

**4. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which were set out in the Company's audited financial statements for the year ended June 30, 2020.



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**5. AMOUNTS RECEIVABLE**

	<b>September 30, 2020</b>	June 30, 2020
	\$	\$
Rental revenue receivable	<b>53,984</b>	75,575
Sales taxes receivable	<b>119,407</b>	119,407
Mining tax credits receivable	<b>218,587</b>	218,587
	<b>391,978</b>	413,569

The above amounts receivable are net of expected credit losses of \$Nil (June 30, 2020 - \$Nil).

**6. SHORT-TERM INVESTMENTS**

The Company's available-for-sale investments and share purchase warrants are as follows:

	<b>As at September 30, 2020</b>	
	<b>Cost</b>	<b>Fair Value</b>
	\$	\$
Canada Silver Cobalt Works Inc. 2,381,500 shares	<b>1,214,565</b>	<b>1,238,380</b>
<b>Total short-term investments</b>	<b>1,214,565</b>	<b>1,238,380</b>

On July 10, 2020, the Company sold a 50% interest in certain mineral leases to CCW for total consideration of \$1,499,910 payable through the issuance of 2,941,000 units of CCW to the Company. Each unit is comprised of one common shares of CCW and one share price warrant to acquire one common share of CCE at a price of \$0.55 for a period of 5 years.

During the period ended September 30, 2020, the Company sold a total of 559,500 shares of CCW for a total proceeds of \$339,268, resulting in a gain of \$53,923.

**7. DEPOSIT – LONG-TERM**

As at September 30, 2020 and 2019, the Company has a non-interest-bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site.

**8. EXPLORATION AND EVALUATION PROJECTS**

The Company has determined that as at September 30, 2020 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified as mining properties. Accordingly, the Company has expensed all exploration and evaluation expenditures in the year. As of September 30, 2020, and 2019, the Company did not hold any assets classified as mining properties.

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Granada Property, Quebec, Canada

The Company holds a 100% interest to certain mining leases and claims. The mining leases are subject to a 2% Gross Metal Royalty ("GMR"), ½ of which may be purchased for \$1,000,000 and a 1% Net smelter royalty (NSR) and 23 of the original mining claims are subject to a 1% NSR. Additionally, there is a 2% NSR on 4 properties optioned from the D2D3 Group ("D2D3") in 2010, half of which may be purchased for \$1,000,000.

**9. PROPERTY, PLANT AND EQUIPMENT**

	Equipment	Truck	Total
	\$	\$	\$
<b>COST</b>			
As at June 30, 2020	112,463	75,098	187,561
Additions	87,964	63,030	150,994
Disposals	-	-	-
<b>As at September 30, 2020</b>	<b>200,427</b>	<b>138,128</b>	<b>338,555</b>
<b>ACCUMULATED AMORTIZATION</b>			
As at June 30, 2020	22,487	22,529	45,016
Change for the period	6,698	6,307	13,005
<b>As at September 30, 2020</b>	<b>29,185</b>	<b>28,836</b>	<b>58,021</b>
<b>NET BOOK VALUE</b>			
As at June 30, 2020	89,976	52,569	142,545
<b>As at September 30, 2020</b>	<b>171,242</b>	<b>109,292</b>	<b>280,534</b>

**10. SECURED LOANS PAYABLE**

On August 4, 2015, the Company entered into two loan agreements and a Supply and Services agreement for proceeds totaling \$800,000.

The first loan agreement is with an existing shareholder and is a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The second loan is from a company owned by a director of the Company and comprises a \$100,000 demand loan also over a three-year term at an interest rate of 8% calculated monthly and payable annually. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

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The third agreement is a Supply and Services non-interest bearing loan for \$500,000 over the 12 months following the execution of the loan agreement from a company owned by a director of the Company. The lender has the option to obtain loan principal repayments including interest as applicable, in gold valued at US \$800 per ounce if the Company reaches commercial production. The Supply and Services loan is to be used for specific projects on the property. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 11, 2015 and January 8, 2016, the Company entered into a second and third loan agreement with an existing shareholder for a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 22, 2017, the Company entered into convertible loan agreements with existing shareholders for demand loans for proceeds of \$250,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender. The outstanding principal amount of the loan is convertible into common shares of the Company at the option of the lender at any time at a conversion price of \$0.05 per share for the first year and then \$0.10 per share starting in the second year and until maturity. The conversion feature has been classified as an equity instrument with an estimated value of \$74,856 and has been included in equity reserves on the statement of financial position. The liability portion of the convertible debentures was estimated to be \$175,144 and will be accreted to its face value over the 3 year term of the loan using an effecting interest rate of 20%. Accretion and interest expense relating to these loans totalled \$52,936 for the year ended June 30, 2020 (2019 - \$43,281).

The Granada Gold property is registered as security against these loans. As a triggering event has not taken place, no value has been attributed to the derivative relating to the right of the lenders to demand repayment in gold valued at US \$800 per ounce.

Loan activity for the periods ended September 30, 2020 and year ended June 30, 2020 is as follows:

	<b>September 30, 2020</b>	June 30, 2020
Opening balance	\$ 1,619,774	\$ 1,464,926
Interest accrual	-	125,552
Accretion	-	29,296
Repayments	-	-
Closing balance	<b>\$ 1,619,774</b>	1,619,774

**GRANADA GOLD MINE INC.**  
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(Expressed in Canadian Dollars)  
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**11. TRADE AND OTHER PAYABLES AND PROVISIONS**

	September 30, 2020	June 30, 2020
Trade payable	\$ 240,569	\$ 421,231
Due to related parties (Note 14)	1,007,002	847,955
Part XII.6 taxes and interest (i)	866,042	866,042
Flow-through indemnification provision (ii)	4,122,555	4,128,255
	<b>\$ 6,236,168</b>	<b>\$ 6,263,483</b>

- (i) The Company has estimated potential Part XII.6 taxes in relation to unspent flow-through expenditures for fiscal years 2011 to 2017. During the period ended September 30, 2020, the Company had accrued an additional \$Nil (June 30, 2020 - \$113,256) for Part XII.6 taxes, interest and penalties on the shortfall. See Note 15.
- (ii) The Company has estimated potential indemnity in relation to unspent flow-through expenditures for fiscal years 2011 to 2017. During the period ended September 30, 2020, the Company accrued an additional \$Nil (June 30, 2020 – \$930,887) for indemnification and interest on the shortfall. See Note 15.

**12. SHARE CAPITAL**

**12.1 Authorized share capital**

The Company has an authorized share capital of an unlimited number of shares with no par value.

As at September 30, 2020, the Company had 103,110,341 common shares issued and outstanding (June 30, 2020: 94,561,820).

**12.2 Share issuance**

**a) Private Placements**

- On September 27, 2019, the Company closed a private placement in which it issued 9,253,800 units at \$0.10 for gross proceeds of \$925,380. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.15 for a period of three years. Finder's fees totaling \$39,900 and 469,000 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.15 per share for three years.
- On January 3, 2020, the Company closed a private placement financing raising gross proceeds of \$200,000. A total of 2,000,000 units were issued with each unit consisting of one common share in the capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one share of the Company for a period of two years from closing at an exercise price of \$0.15 per share.
- On May 8 and 12, 2020, the Company closed a private placement in which it issued an aggregate of 12,000,000 units at a price of \$0.10 per unit. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one share of the Company for a period of two

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years from closing at an exercise price of \$0.12 per share. Finder's fees were paid in connection with the private placement in the amount of \$25,715 cash and 157,150 broker warrants on the same terms as the private placement warrants.

Certain director of the Company participated in this private placement by acquiring 825,000 units for \$82,500.

- On July 21, 2020, the Company closed a flow-through private placement financing raising gross proceeds of \$800,000. A total of 3,200,000 flow-through units were issued with each unit consisting of one common share in the capital of the Company. Finder's fees were paid in connection with the private placement in the amount of \$56,000 cash and 224,000 finder warrants exercisable at \$0.25 per share for two years from closing.
- On August 27 and September 4, 2020, the Company closed a private placement in which it issued an aggregate of 3,956,521 units at a price of \$0.23 per unit. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one share of the Company for a period of three years from closing at an exercise price of \$0.28 per share. Finder's fees were paid in connection with the private placement in the amount of \$9,668.05 cash and 42,035 finder warrants on the same terms as the private placement warrants.

**b) Exercise of Options**

- During the period ended September 30, 2020, the Company issued 75,000 common shares related to the exercise of 75,000 stock options at an exercise price of \$0.15 per share.

**c) Exercise of Warrants**

- During the period ended September 30, 2020, the Company issued 1,710,000 common shares related to the exercise of 1,710,000 warrants at an exercise price between \$0.12 to \$0.18 per share.

**12.3 Stock option plan**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. 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 which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

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The following is a summary of the changes in the Company's stock option activities for the period ended September 30, 2020 and year June 30, 2020:

	September 30, 2020		June 30, 2020	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of period	7,702,375	\$ 0.280	5,252,375	\$ 0.310
Granted	200,000	0.150	3,275,000	0.110
Exercised	(75,000)	0.150	-	-
Expired	-	-	(825,000)	0.260
Cancelled	-	-	-	-
<b>Outstanding, end of period</b>	<b>7,827,375</b>	<b>0.230</b>	<b>7,702,375</b>	<b>0.280</b>
<b>Exercisable, end of period</b>	<b>7,827,375</b>	<b>0.230</b>	<b>7,702,375</b>	<b>0.280</b>

The following table summarizes information regarding stock options outstanding and exercisable as at September 30, 2020:

Exercise price	Number of options outstanding	Number of options exercisable	Weighted-average remaining contractual life (years)	Weighted-average exercise price
<b>Options</b>				
\$0.100 - \$0.175	4,075,000	4,075,000	4.89	0.128
\$0.300 - \$0.400	3,752,375	3,752,375	3.15	0.329
<b>Total</b>	<b>7,827,375</b>	<b>7,827,375</b>		

The weighted average fair value of the options granted during the period ended September 30, 2020 was estimated at \$36,832 per option (2019: Nil) at the grant date using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the calculation were:

	30 September 2020	30 September 2019
Risk free interest rate	0.31%	-
Expected life	5 years	-
Expected volatility	150.50%	-
Expected dividend per share	-	-

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**12.4 Share purchase warrants**

The following is a summary of the changes in the Company's share purchase warrants for the periods ended September 30, 2020 and year ended June 30, 2020:

	September 30, 2020		June 30, 2020	
	Number of warrants	Weighted-average exercise price	Number of warrants	Weighted-average exercise price
Outstanding, beginning of year	31,183,422	\$ 0.090	20,117,565	\$ 1.090
Granted	4,208,556	0.280	23,879,950	0.080
Exercised	(1,317,000)	0.130	-	-
Expired	-	-	(12,814,093)	1.090
Cancelled	-	-	-	-
<b>Outstanding, end of period</b>	<b>33,874,978</b>	<b>1.00</b>	31,183,422	0.090

During the period ended September 30, 2020, in conjunction with the private placements, the Company issued a total of 4,208,556 share purchase warrants.

The following table summarizes information regarding share purchase warrants outstanding and exercisable as at September 30, 2020:

Exercise price	Number of warrants outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price
<b>Share purchase warrants</b>			
\$0.120	11,323,816	0.89	\$0.120
\$0.150	11,480,800	0.89	\$0.150
\$0.180	6,861,806	0.25	\$0.180
\$0.280	4,208,556	0.65	\$0.280
<b>Total</b>	<b>33,874,978</b>	<b>1.89</b>	<b>\$1.000</b>

The weighted average fair value of the warrants granted during the period ended 30 September 2020 was estimated at \$0.171 per warrant at the grant date using the Black-Scholes Pricing Model. The weighted average assumptions used for the calculation were:

	30 September 2020	30 September 2019
Risk free interest rate	0.42%	-
Expected life	2 to 3 years	-
Expected volatility	117.09%	-
Expected dividend per share	-	-

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**13. LOSS PER SHARE**

The calculation of basic and diluted loss per share is based on the following data:

	<b>Three months ended September 30, 2020</b>	Three months ended September 30, 2019
Net income (loss) for the period	\$ 86,624	\$ (440,072)
Weighted average number of shares – basic and diluted	65,776,683	80,563,574
<b>Loss per share, basic and diluted</b>	<b>\$ (0.001)</b>	<b>\$ (0.005)</b>

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and warrants were anti-dilutive for the periods ended 30 September 2020 and 2019.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred the following non-cash investing and financing transactions:

During the period ended September 30, 2020, the Company paid finder's fees on private placements by issuance of shares and share purchase warrants (Note 12).

On July 10, 2020, the Company sold a 50% interest in certain mineral leases to CCW for total consideration of \$1,499,910 payable through the issuance of 2,941,000 units of CCW to the Company. Each unit is comprised of one common shares of CCW and one share price warrant to acquire one common share of CCE at a price of \$0.55 for a period of 5 years (Note 6).

**15. RELATED PARTY TRANSACTIONS**

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors (executive and non-executive), President and Chief Executive Officer and Chief Financial Officer are key management personnel.

The remuneration to key management personnel during the periods ended September 30, 2020 and 2019 is as follows:

	<b>September 30, 2020</b>	September 30, 2019
Key management compensation	\$162,805	\$187,215
Stock-based compensation	-	-



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<b>\$162,805</b>	\$187,215
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- a) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the three months ended September 30, 2020, the total amount for such services provided was \$110,001 (2019 – \$110,001) of which \$110,000 (2019 – \$110,000) was recorded in exploration expenses and \$1 (2019 - \$1) in professional fees.
- b) The Company retains the services of two officers and two directors to carry out administrative services. During the period ended September 30, 2020, the total amount for such services provided was \$80,216 (2019 – \$77,079) which was recorded in professional fees.
- c) As of September 30, 2020, the Company owed \$1,007,002 (June 30, 2020 - \$848,502) to a company of which a senior officer or director is also a senior officer or director. These amounts are unsecured, non-interest bearing and due on demand.
- d) During the period ended September 30, 2020, the Company recorded \$39,514 in equipment rental revenue (2019 – \$62,721) from a company of which a senior officer is also a senior officer.

## **16. RECLAMATION OBLIGATION**

The Company's provision for closure and reclamation costs is based on management's estimates of the costs to rehabilitate the area explored as well as an estimate of the future timing of the costs to be incurred.

The Company has assessed its total provision to be \$380,079 (June 30, 2020 - \$380,079) based on a total future liability of approximately \$386,970, a discount rate of 0.36% and an inflation rate of 1.8%. Reclamation is estimated to occur in 5 years.

## **17. COMMITMENTS AND CONTINGENCIES**

### Environmental obligations

The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. As at September 30, 2020 and to the best knowledge of its management, the Company is, in conformity with the laws and regulations.

### Flow-through obligations

The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- i) Two years following the flow-through investment;
- ii) One year after the Company has renounced the tax deductions relating to the exploration work.

During the period ended September 30, 2020, the Company received \$800,000 from flow-through

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share issuances. The Company believes the full amount will be spent on qualified exploration expenditures.

The Company has indemnified the subscribers of current and previous flow-through offerings against any tax related amounts that become payable by shareholders in the event the Company does not meet its expenditure commitment. See Note 10.

Canada Revenue Agency audit

The Canada Revenue Agency (“CRA”) is auditing certain of the Company’s corporate tax returns and flow-through filings from 2012 to 2017 and has assessed that the Company had flow-through shortfalls in certain of those years. Accordingly, the Company has recorded a provision for the estimated cost to indemnify flow-through share subscribers for their possible personal income tax reassessments.

In estimating the liability, the Company has assumed the following:

- The subscribers would be taxable at the highest marginal personal tax rate;
- That all non-corporate subscribers are eligible for the federal 15% investment tax credit; and
- That Quebec subscribers are eligible for the 150% or 120% additional CEE deduction.

The ultimate amount owing and the timing of any payments to investors are highly uncertain as they are dependent on each taxpayer’s individual tax situation as well as if, or when, they are reassessed by the CRA.

The Company has also accrued the estimated Part XII.6 tax and similar Quebec tax on the potential shortfalls.

The CRA has also assessed penalties of approximately \$2,200,000 which the Company has not accrued. The Company believes the assessment of these penalties is without merit and has filed Notices of Objection to dispute the assessment. The outcome of the Notices of Objection cannot be determined at this time and accordingly, no amounts have been accrued in these financial statements relating to the penalties.

A continuity of the provision for the shareholder indemnity for the period ended September 30, 2020 and year ended June 30, 2020 is as follows:

	<b>September 30, 2020</b>	June 30, 2020
Opening balance	<b>\$3,273,631</b>	\$3,273,631
Accrual for additional provision and interest	-	930,887
Reimbursements to investors	-	(76,263)
Ending balance	<b>\$3,273,631</b>	\$3,273,631

Service agreements

The Company has consulting service agreements with related parties (certain officers and directors).

- i) Effective January 1, 2007, and amended December 1, 2010, May 16, 2013 and March 1, 2015, the Company entered into a management agreement with Grupo Moje Limited (“Grupo”), a company owned by a director and officer of the Company to provide management services of Frank Basa in consideration for a nominal annual fee of \$1.

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This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 480 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

- ii) Effective January 1, 2014, the Company entered into a management agreement with Mineral Recovery Management Systems Corp. ("MRMSC"), a company controlled by Frank Basa and Elaine Basa, to provide project management, engineering and geological services to the Company in consideration of \$25,000 per month for the services of Frank Basa and \$11,666.67 per month for the services of Elaine Basa. Either party may terminate this agreement by giving a four months' notice to the other, subject to certain provisions of the agreement.
- iii) Effective March 1, 2011 and amended February 1, 2012 and March 1, 2015, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$192,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

Claims, lawsuits and other complaints

The Company is subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity. The outcome of these litigations cannot be reasonably determined, as a result, no amounts have been accrued as at September 30, 2020.

## **18. FINANCIAL RISK MANAGEMENT**

### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, including commodity price risk;
- foreign currency exchange risk;
- interest rate risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

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**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfills its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team. There have been no changes in the risks, objectives, policies and procedures during the periods ended September 30, 2020 and 2019.

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

**a) Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. Management believes the risk of loss to be minimal.

**b) Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations. Management believes that the credit risk with respect to financial instruments included in receivables is minimal.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation. The Company generates cash flow primarily from its financing activities.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to

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understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

### **Classification of Financial Instruments**

As at September 30, 2020 and 2019, the Company does not have any financial assets measured at fair value and that require classification within the fair value hierarchy.

### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate risk, and commodity prices will affect the Company's income, the value of its evaluation and exploration properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### **a) Commodity price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world. As the Company is still in the exploration and evaluation stage, the fluctuation of gold and silver prices does not have a significant impact on the Company.

#### **b) Foreign currency exchange risk**

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's functional and reporting currency is the Canadian dollar. The movement on US rates related to the Canadian dollar may impact the future economic feasibility of the Company's mining interests. As the Company is still in the exploration and evaluation stage, the fluctuation of the US dollar does not have a significant impact on the Company.

#### **c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

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**d) Canada Silver Cobalt Works Inc. units receivable**

In September 2015, the Company completed a share purchase agreement with Canada Silver Cobalt Works ("CCW"), formerly Canada Cobalt Works Inc. and Castle Silver Resources Inc. a publicly traded company, whereby CCW agreed to acquire all of the issued and outstanding common shares of CSM, the Company's wholly-owned subsidiary. The Company and CCW have certain directors and officers in common.

In consideration, CCW issued an aggregate of 10,000,000 units, in four equal instalments of 2,500,000 units per year over a three-year period. Each unit consisted of one common share and one common share purchase warrant, each exercisable at \$0.10 for a one-year period. The fair value of the final 2,500,000 units receivable by the Company as at June 30, 2018 was estimated to be \$3,517,656 based on the trading price of the common shares and a Black Scholes valuation performed on the warrants as of that date. These units were received during 2019 and were distributed to the shareholders of the Company as a dividend.

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- i) The Company receives low interest rates on its cash balances and carries debt with fixed interest rates. As such, the Company does not have significant interest rate risk.
- ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign currency risk.
- iii) The Company's receivables are composed primarily of refundable sales taxes owing from the government of Canada. As such, the Company does not have significant credit risk relating to its receivables.

**19. CAPITAL MANAGEMENT DISCLOSURES**

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 and evaluation projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise and ability to raise financing of the Company's management to sustain future development of the business.

The Company considers its capital to be shareholders' equity, which is comprised of common shares, reserves and deficit, which as at September 30, 2020 totalled a shareholders' deficiency of \$5,365,970 (June 30, 2020 – \$7,266,508).

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

The Company currently has no significant source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this

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approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended September 30, 2020 and year ended June 30, 2020.

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 6 months.

As of September 30, 2020, the Company may not be compliant with all of the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

## **20. SUBSEQUENT EVENTS**

**October 23, 2020**, the Company has appointed Robert Guanzon as the new CFO of Canada Silver Cobalt due to the passing of the former CFO, Tom Devlin.

**November 24, 2020**, the Company has issued 200,000 units stock option @ \$0.16 to consultant.