

Kestrel Gold Inc.

(An Exploration Stage Company)

Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KESTREL GOLD INC.

Opinion

We have audited the accompanying financial statements of Kestrel Gold Inc. (the "Company"), which comprise:

- the statements of financial position as at September 30, 2020 and 2019;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in shareholders' equity for the years then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our 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 audit 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has incurred losses since inception and, as at September 30, 2020, had a deficit of \$15,078,665. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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.

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 audit.

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

The engagement partner on the audit resulting in this independent auditors' report is Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
December 17, 2020

Kestrel Gold Inc.
(An Exploration Stage Company)
Statements of Financial Position
As at September 30
(Expressed in Canadian Dollars)

	Note	2020	2019
Assets			
Current			
Cash	\$	363,217	\$ 90,460
Accounts receivable		11,457	6,341
		374,674	96,801
Exploration and evaluation assets	4	134,962	13,521
	\$	509,636	\$ 110,322
Liabilities			
Current			
Accounts payable and accrued liabilities	6	\$ 130,843	\$ 53,922
Shareholders' Equity			
Share capital	5	13,434,609	13,000,516
Other equity reserves		2,022,849	1,870,373
Deficit		(15,078,665)	(14,814,489)
		378,793	56,400
	\$	509,636	\$ 110,322

Approved on behalf of the Board:

Signed "Robert Solinger"
Robert Solinger, Director

Signed "Pat Lynch"
Pat Lynch, Director

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

Kestrel Gold Inc.

(An Exploration Stage Company)

Statements of Loss and Comprehensive Loss**Years Ended September 30**

(Expressed in Canadian Dollars)

	Note	2020	2019
Expenses			
Share-based payments	5,6	\$ 152,476	\$ -
Management and consulting fees	6	53,483	61,150
Professional fees		25,730	11,205
Investor relations and website		15,055	16,411
Listing and filing fees		9,389	11,530
Office and administration		6,888	2,406
Travel and promotion		1,155	1,459
Interest and bank charges		-	358
		264,176	104,519
Impairment of exploration and evaluation assets	4	-	616,025
Net Loss and Comprehensive Loss for the Year		\$ 264,176	\$ 720,544
Basic and Diluted Loss per Share		\$ 0.00	\$ 0.01
Weighted Average Number of Common Shares Outstanding		68,231,285	61,702,770

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

Kestrel Gold Inc.
(An Exploration Stage Company)
Statements of Cash Flows
Years Ended September 30
(Expressed in Canadian Dollars)

	2020	2019
Operating Activities		
Net loss for the year	\$ (264,176)	\$ (720,544)
Items not affecting cash		
Impairment of exploration and evaluation assets	-	616,025
Share-based payments	152,476	-
	(111,700)	(104,519)
Changes in non-cash working capital		
Accounts receivable	(5,116)	10,887
Accounts payable and accrued liabilities	12,471	6,535
	7,355	17,422
Cash Used for Operating Activities	(104,345)	(87,097)
Investing Activity		
Exploration and evaluation assets	(21,991)	(27,754)
Cash Used for Investing Activity	(21,991)	(27,754)
Financing Activities		
Proceeds on issuance of units, net	282,943	96,471
Proceeds on exercise of warrants	116,150	-
Cash Provided by Financing Activities	399,093	96,471
Inflow (Outflow) of Cash	272,757	(18,380)
Cash, Beginning of Year	90,460	108,840
Cash, End of Year	\$ 363,217	\$ 90,460

Supplemental cash flow information - note 11

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

Kestrel Gold Inc.

(An Exploration Stage Company)

Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number	Share capital	Other equity reserves	Deficit	Total
September 30, 2018	61,284,208	\$ 12,910,345	\$ 1,864,073	\$ (14,093,945)	\$ 680,473
Private placements	6,111,000	109,998	-	-	109,998
Share issue costs	-	(19,827)	6,300	-	(13,527)
Net loss for the year	-	-	-	(720,544)	(720,544)
September 30, 2019	67,395,208	13,000,516	1,870,373	(14,814,489)	56,400
Private placement	8,500,000	297,500	-	-	297,500
Share-based payments	-	-	152,476	-	152,476
Exercise of warrants	2,323,000	116,150	-	-	116,150
Settlement of accounts payable and accrued liabilities	1,000,000	35,000	-	-	35,000
Share issue costs	-	(14,557)	-	-	(14,557)
Net loss for the year	-	-	-	(264,176)	(264,176)
September 30, 2020	79,218,208	\$ 13,434,609	\$ 2,022,849	\$ (15,078,665)	\$ 378,793

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

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Kestrel Gold Inc. (the “Company” or “Kestrel”) was incorporated under the *Business Corporations Act* (Alberta) on April 12, 2007 and is trading on the TSX Venture Exchange (“TSX-V”) under the symbol “KGC”. The Company’s head office and records office are located at 208 – 110 12 Avenue SW, Calgary, Alberta, T2R 0G7.

The principal business activities include the acquisition, exploration and evaluation of mineral properties. The Company is exploring and evaluating mineral properties in the Yukon Territory and British Columbia, Canada, with the aim of bringing these properties to production. The underlying value of the mineral properties are dependent upon, among other things, the existence of economically recoverable reserves, the ability of Kestrel to secure financing to complete the exploration and development of its properties, the receipt of necessary permits and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable. Kestrel is considered to be an exploration stage company, as it has not yet generated any revenue from operations.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business for the foreseeable future as they come due. The Company has incurred losses since inception and as at September 30, 2020, has a deficit of \$15,078,665 (2019 - \$14,814,489). The ability of Kestrel to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate equity or debt financing. These conditions may cast significant doubt about the Company’s ability to continue as a going concern.

There is no assurance at this time that Kestrel will be able to obtain the necessary financing to continue operations. If the Company is unable to obtain suitable financing in the near future, it will be necessary for management to examine other strategic alternatives to continue operations and enhance shareholder value, including, but not limited to, seeking creditor protection, seeking a joint venture partner, relinquishing its rights to properties or projects deemed uneconomical, the possible sale of some or all of the Company’s assets, or the merger, amalgamation or sale of Kestrel with or to a larger, better financed entity.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and the related adverse public health developments have adversely affected workforces, economies, and financial markets, leading to a global economic downturn. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID- 19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. This may impact the Company’s ability to obtain additional financing to support exploration activities.

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

2. Basis of Presentation

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These financial statements have been prepared in accordance with IFRS, as issued by the IASB. Significant accounting policies are described in note 3.

These financial statements are presented in Canadian dollars, unless otherwise stated, which is the Company's functional currency.

These financial statements were authorized for issue by the Board of Directors on December 17, 2020.

3. Significant Accounting Policies

(a) Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgments.

Critical accounting estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Restoration, rehabilitation and environmental provisions (asset retirement obligations ("ARO"))

Decommissioning and restoration obligation provisions represent management's best estimate of the present value of the future costs. Significant estimates and assumptions are made in determining the amount of obligation provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible disturbance; and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditures differing from the amounts currently provided.

Assumptions used in the calculation of the fair value assigned to share-based payments

The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(a) Critical Accounting Estimates and Judgments (continued)

Critical accounting judgments

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing expenditures, meet its liabilities for the ensuring year, and to fund planned and contractual exploration programs involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Economic recoverability and profitability of future economic benefits of mineral property interests

Management has determined that exploration, evaluation and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. Where future economic benefits and economic recovery are determined to be below the carrying value, management has assessed impairment. Management uses several criteria in its assessment, including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans or the estimates of fair value based on market participants.

Recoverability of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements.

(b) Exploration and Evaluation Assets

All costs related to the acquisition of, exploration for and development of mineral properties, net of recoveries, are capitalized on a property-by-property basis. If economically recoverable ore reserves are developed, capitalized costs of the related property will be reclassified as mineral assets and will be amortized using the unit-of-production method. When a property is abandoned, all related costs are written off to profit or loss. If, after management review, it is determined that the carrying amount of an exploration and evaluation asset is impaired, that property is written down to its estimated fair value. An exploration and evaluation asset is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

From time to time, the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is recorded in profit or loss.

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(c) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to profit or loss in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. The Company has no significant AROs to record in the financial statements.

(d) Share-based Payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options granted to employees is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees, including finders' warrants, share-based payments are measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued.

(e) Loss per Share

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Since the Company has net losses, the exercise of outstanding options, warrants and convertible debentures has not been included in this calculation, as it would be anti-dilutive.

(f) Valuation of Equity Units Issued in Private Placements and Non-Monetary Consideration

The Company has adopted a 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 measured component, usually the common shares, and then the residual value, if any, to the warrants.

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(f) Valuation of Equity Units Issued in Private Placements and Non-Monetary Considerations (continued)

Share issue costs are netted against gross proceeds.

Shares issued for non-monetary consideration are recorded at an amount based on the fair value of the goods or services received. If the fair value of the goods or services received cannot be reliably measured, the consideration is recorded at an amount based on the quoted market value of the Company's shares on the date of share issuance. Shares to be issued, which are contingent upon future events or actions, are recorded by the Company when it is reasonably determinable that the shares will be issued.

(g) Income Taxes

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous periods.

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. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

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.

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

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(h) Financial Instruments

Financial assets

Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized cost

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

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the financial asset is measured at amortized cost determined using the effective interest method, net of impairment loss, if necessary. The Company has no financial assets classified as measured at amortized cost.

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

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the financial asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. The Company has no financial assets classified as measured at FVTOCI.

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

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. After initial recognition, the financial asset is measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company classifies cash as measured at FVTPL.

Derecognition of financial assets

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

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

Financial liabilities

Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method. The Company classifies accounts payable and accrued liabilities as measured at amortized cost.

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company has no financial liabilities classified as measured at fair value through profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of loss and comprehensive loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statement of loss and comprehensive loss as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

(i) Mining Exploration Recoveries

The Company recognizes mining exploration recoveries in the period in which there is reasonable expectation, based on management's estimate, of receiving a refund. The amount of receivable is subject to review and approval by the relevant authorities and is adjusted for in the period when such approval is confirmed.

(j) Adoption of New Accounting Standards

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

(k) Future Accounting Changes

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on its financial statements would not be significant.

4. Exploration and Evaluation Assets

Title to Exploration and Evaluation Asset Interests

Title to exploration and evaluation asset interests involve certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

	King Solomon Dome \$	Val-Jual \$	Clear Creek \$	Dease Lake \$	Total \$
September 30, 2018	5,000	474,839	73,618	54,640	608,097
Exploration expenditures	8,521	6,391	3,200	3,337	21,449
Impairment	-	(481,230)	(76,818)	(57,977)	(616,025)
September 30, 2019	13,521	-	-	-	13,521
Acquisition costs	12,441	-	-	-	12,441
Exploration expenditures	109,000	-	-	-	109,000
September 30, 2020	134,962	-	-	-	134,962

Kestrel Gold Inc.

(An Exploration Stage Company)

Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

4. Exploration and Evaluation Assets (continued)

King Solomon Dome

On October 31, 2010, the Company entered into an option agreement pursuant to which it acquired the right to earn a 100% interest in the three individual properties located in the Yukon Territory's Klondike Goldfields: King Solomon Mine, Gold Run Creek Property and Dominion Mountain Property, collectively known as the King Solomon Dome Project ("KSD"). Each individual property is subject to a 2.5% net smelter return royalty, one-half of which can be purchased by the Company for \$1,000,000.

Kestrel's Yukon Mineral Exploration Program ("YMEP") application was approved by the Yukon government in July 2020. Under the YMEP program, the Yukon government provides successful grant applicants with funding to support mineral exploration activities. The Company's application was for \$53,700 which will be reimbursed by the Yukon government at a rate of 60% of the expenditures to a maximum of \$32,200. Receipt of the grant is expected in calendar 2021 upon submission of final report.

Subsequent Events

Grabben and Sixtymile

On October 26, 2020, Kestrel entered into option agreements to earn a 100% interest in the Grabben Gold and Sixtymile properties located within the Yukon portion of the Tintina Gold Belt.

To exercise the options and earn a 100% interest in each individual property Kestrel will issue 1,000,000 common shares, 200,000 due on signing, make cash payments totalling \$100,000, \$5,000 due on signing, and complete \$600,000 of exploration work, \$80,000 by the first anniversary of signing, over a four-year term. Each property is subject to a 2% NSR, 50% of which can be purchased by Kestrel for \$1,000,000. All share issuances, cash payments and exploration work requirements are at the sole discretion of Kestrel.

QCM

On December 15, 2020, Kestrel entered into an option agreement to earn a 100% interest in the QCM property located in northern British Columbia.

To exercise the option and earn a 100% interest in the property Kestrel will issue 4,000,000 common shares, 400,000 due on signing, make cash payments totalling \$150,000, \$10,000 due on signing, and complete \$1,400,000 of exploration work, \$50,000 by the first anniversary of signing, over a four-year term. Each property is subject to a 2% NSR, 50% of which can be purchased by Kestrel for \$1,000,000. All share issuances, cash payments and exploration work requirements are at the sole discretion of Kestrel.

Impairment

During the year ended September 30, 2019, the Company was unable to pay the fiscal 2019 option payments, totaling \$140,000, on the Val-Jual, Clear Creek and Dease Lake properties and, accordingly, the properties were returned to option holder and the properties were impaired to \$nil, in accordance with Level 3 of the fair value hierarchy.

Kestrel Gold Inc.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

5. Share Capital

(a) Authorized

Unlimited common shares without par value.
Unlimited preferred shares, issuable in series.

(b) Issued

Year ended September 30, 2020

- (i) On September 2, 2020, the Company completed a private placement of 8,500,000 units at a price of \$0.035 per unit, for gross proceeds of \$297,500. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.07 per share for a period of two years.

In connection with the private placement, Kestrel incurred cash share issue costs totaling \$14,557.

- (ii) On August 31, 2020, the Company settled an amount owing to an officer and director, of \$35,000. Kestrel issued 1,000,000 common shares with a fair value of \$0.035 per share.
- (iii) During the year ended September 30, 2020, the Company issued 2,323,000 common shares on the exercise of warrants at a price of \$0.05 per share for total gross proceeds of \$116,150.

Year ended September 30, 2019

- (iv) On September 5, 2019, the Company completed a private placement of 6,111,000 units at a price of \$0.018 per unit, for gross proceeds of \$109,998. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.05 per share for a period of five years.

In connection with the private placement, Kestrel incurred cash share issue costs totaling \$13,527 and issued 333,440 finder's warrants with the same terms as the private placement warrants, fair valued at \$6,300.

(c) Subsequent to September 30, 2020

- (i) On November 16, 2020, the Company issued 3,875,000 units at a price of \$0.08 per unit, for gross proceeds of \$310,000. Each unit is comprised of one common share and one half a common share purchase warrant exercisable at \$0.16 per share for a period of 18 months and a price of \$0.20 for an additional six months.
- (ii) Subsequent to September 30, 2020, the Company entered into option agreements to earn a 100% interest in the Grabben and Sixtymile properties and issued a total of 400,000 (200,000 for each agreement) common shares (note 4).
- (iii) Subsequent to September 30, 2020, 80,000 warrants exercisable at \$0.05 were exercised for gross proceeds of \$4,000.

Kestrel Gold Inc.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

5. Share Capital (continued)

(d) Stock Option Plan

On July 19, 2007, the Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase common shares of the Company provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director, officer or employee will not exceed 5% of the issued and outstanding common shares and the number of common shares for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, technical consulting arrangement or employment was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. The stock option plan is ratified annually by the shareholders of the Company at the annual general meeting.

As at September 30, 2020 and 2019, the following stock options were outstanding and exercisable:

Expiry Date	Exercise Price	2020	2019
		Number of Options	Number of Options
April 4, 2022	\$0.05	1,650,000	1,650,000
July 28, 2025	\$0.05	4,450,000	-
		6,100,000	1,650,000

Continuity of stock options is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at September 30, 2018 and 2019	1,650,000	\$0.05
Issued	4,450,000	\$0.05
Balance at September 30, 2020	6,100,000	\$0.05

The weighted average remaining contractual life for stock options outstanding at September 30, 2020 is 3.9 years (2019 – 2.5 years).

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

5. Share Capital (continued)

(d) Stock Option Plan (continued)

During the year ended September 30, 2020, the Company granted 4,450,000 options to directors, officers and consultants, exercisable until July 28, 2025 at an exercise price of \$0.05 per option and vesting on grant. Of this, 2,850,000 was issued to key management (note 6). The fair value of the options granted was \$152,476, determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020
Expected life (years)	5
Grant date fair value per share	\$0.04
Interest rate	0.32%
Volatility	180%
Dividend yield	0%

The expected volatility is based on historical prices of the Company. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the expense recorded in the accompanying statements of loss and comprehensive loss.

During the year ended September 30, 2019, no stock options were granted.

Subsequent to September 30, 2020

Subsequent to September 30, 2020, the Company issued 350,000 stock options to a consultant of the Company, exercisable until October 19, 2025 at an exercise price of \$0.10 per option and vesting on grant.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

5. Share Capital (continued)

(e) Share Purchase Warrants

As at September 30, 2020 and 2019, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	2020	2019
		Number of Warrants	Number of Warrants
February 27, 2020	\$0.05	-	6,156,000
March 4, 2020	\$0.05	-	1,600,000
April 5, 2020	\$0.05	-	14,483,666
September 2, 2022	\$0.07	8,500,000	-
September 5, 2024	\$0.05	4,121,440	6,444,440
		12,621,440	28,684,106

Continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at September 30, 2018	28,671,666	\$0.07
Expired	(6,432,000)	\$0.05
Issued Private Placement	6,444,440	\$0.05
Balance at September 30, 2019	28,684,106	\$0.06
Exercised	(2,323,000)	\$0.05
Expired	(22,239,666)	\$0.05
Issued Private Placement	8,500,000	\$0.07
Balance at September 30, 2020	12,621,440	\$0.06

The weighted average remaining contractual life for warrants outstanding at September 30, 2020 is 2.6 years (2019 – 1.5 years).

The Company applies the fair value method using option pricing models in accounting for its warrants issued as compensation. The expected volatility is based on historical prices of the Company. The risk-free rate of return is the yield on a zero-coupon Canadian treasury bill of a term consistent with the assumed warrant life. The expected average warrant term is the average expected period to exercise, based on the historical activity patterns.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

5. Share Capital (continued)

(e) Share Purchase Warrants (continued)

There were no finders' warrants issued during the year ended September 30, 2020. The fair value of finders' warrants issued during the year ended September 30, 2019 was calculated using the following weighted average assumptions:

	2020	2019
Expected life (years)	n/a	5.00
Interest rate	n/a	1.28%
Volatility	n/a	191%
Dividend yield	n/a	0%

6. Related Party Transactions

The Company entered into the following transactions with related parties during the years ended September 30, 2020 and 2019:

Debt Settlement

	2020	2019
Debt settled through issuance of shares	\$ 35,000	\$ -

On August 31, 2020, Kestrel entered into an agreement, with an officer and director, to settle amounts owing of \$35,000 by issuing 1,000,000 common shares with a fair value of \$0.035 per share.

Key Management Compensation

Key management personnel are individuals responsible for planning, directing and controlling the activities of the Company, and include certain directors and officers. Key management compensation comprises:

	2020	2019
Short-term benefits	\$ 45,000	\$ 50,000
Share-based payments - note 5	\$ 94,500	\$ -

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended September 30, 2020 and 2019.

Short-term benefits comprise of management fees.

As at September 30, 2020, \$11,173 (2019 - \$38,792) is included in accounts payable and accrued liabilities due to related parties.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

6. Related Party Transactions (continued)

All advances and amounts due to related parties have repayment terms similar to the Company's other accounts payable and accrued liabilities and are unsecured and without interest.

All of the above transactions and balances are in the normal course of operations.

7. Income Taxes

The reconciliation of income tax at the Canadian statutory rate of 27% (2019 – 27%) with the reported taxes is as follows for the years ended September 30:

	2020	2019
Loss before tax	\$ 264,176	\$ 720,544
Statutory income tax rate	27%	27%
Expected income tax recovery	71,328	194,547
Items non-deductible for tax purposes	(41,324)	(74)
Adjustment related to prior years	(4,868)	585,036
Unused tax losses and tax offsets	(15,844)	(771,286)
Origination and reversal of temporary differences	(9,292)	(8,223)
Income tax recovery	\$ -	\$ -

The Company recognizes tax benefits on losses or other deductible amounts where it is probable that taxable income will be able to utilize deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2020	2019
Non-capital loss carry-forward	\$ 8,619,000	\$ 8,236,000
Share issue costs	68,000	98,000
Depreciable capital properties	95,000	100,000
Mineral property interests	4,824,000	5,115,000
Net capital loss carry-forward	30,000	30,000
	\$ 13,636,000	\$ 13,579,000

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

7. Income Taxes (continued)

The Company has capital losses of \$30,000 (2019 - \$30,000), which can be carried forward indefinitely, and non-capital losses of \$9,235,000 (2019 - \$8,236,000) that may be carried forward to apply against future years' income for Canadian income tax purposes in certain jurisdictions. These losses expire as follows:

2028	\$	31,000
2029		113,000
2030		542,000
2031		2,570,000
2033		1,090,000
2034		806,000
2035		782,000
2036		514,000
2037		709,000
2038		974,000
2039		377,000
2040		111,000
	\$	8,619,000

8. Capital Management

The Company considers its capital under management to be comprised of shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains a conservative capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, based on available funds to the Company and changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares or debt securities. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's approach to capital management during the year ended September 30, 2020.

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Notes to Financial Statements

Years Ended September 30, 2020 and 2019

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9. Financial Instruments and Risk

The Company's financial instruments consists of cash and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. Cash is measured based on Level 1 of the fair value hierarchy.

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

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Company had cash of \$363,217 (2019 - \$90,460) and current liabilities of \$130,843 (2019 - \$53,922). The Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company will be required to raise additional equity or debt to settle the Company's financial liabilities and continue its exploration and administrative activities.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity prices. The Company is not subject to significant market risk.

10. Segment Information

The Company has one operating segment, mineral exploration and evaluation. All of the Company's non-current assets are located in Canada.

11. Supplemental Cash Flow Information

	2020		2019	
Fair value of finders' warrants issued	\$	-	\$	6,300
Exploration and evaluation assets included in accounts payable	\$	99,450	\$	-
Shares issued for debt	\$	35,000	\$	-
Interest paid	\$	-	\$	-
Income taxes paid	\$	-	\$	-