



**Condensed Interim Financial Statements**

**For the Three and Nine Months Ended**

**July 31, 2020**

**NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited condensed interim financial statements of Southern Empire Resources Corp. have been prepared by management.

The company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

**Southern Empire Resources Corp.**

(Formerly Owl Capital Corp.)

**Statements of Financial Position**

(See Note 1 – Nature of operations)

	July 31 2020	October 31 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 5,235,103	\$ 390,818
Marketable securities, at fair value (Note 3)	2,778,054	-
Accounts receivable	25,230	-
Prepays and advances	216,681	24,194
	<b>8,255,068</b>	<b>415,012</b>
<b>Non-current assets</b>		
Reclamation bonds	37,525	
Property, plant & equipment (Note 4)	31,857	
Exploration and evaluation assets (Note 5)	7,610,543	-
<b>Total assets</b>	<b>\$ 15,934,993</b>	<b>\$ 415,012</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 86,991	\$ 35,159
Subscriptions received	\$ -	214,500
<b>Total liabilities</b>	<b>86,991</b>	<b>249,659</b>
<b>EQUITY</b>		
Common shares (Note 7)	14,868,678	360,812
Contributed surplus (Note 7)	936,147	9,696
Deficit	43,177	(205,155)
<b>Total equity</b>	<b>15,848,002</b>	<b>165,353</b>
<b>Total liabilities and equity</b>	<b>\$ 15,934,993</b>	<b>\$ 415,012</b>

Approved on behalf of the Board

“Ron Netolitzky”  
Director“Dale Wallster”  
Director

The accompanying notes are an integral part of these financial statements

**Southern Empire Resources Corp.**  
(formerly Owl Capital Corp.)  
**Statements of Loss and Comprehensive Loss**

	For the three months ended July 31		For the nine months ended July 31	
	2020	2019	2020	2019
<b>Expenses</b>				
Amortization	1,677	-	1,677	-
Management and consulting fees (Note 6)	166,000	-	338,024	-
Business and investor relations	214,785	-	255,458	-
General and administration	8,374	19	9,159	246
Professional fees	16,038	20,188	78,413	38,339
Stock-based compensation (Note 6)	-	-	936,147	-
Transfer agent and listing fees	18,325	2,289	23,265	29,063
Travel and accomodation	-	-	928	-
Shareholder communications	3,582	-	4,352	-
	<b>428,781</b>	<b>22,496</b>	<b>1,647,423</b>	<b>67,648</b>
<b>Other items</b>				
Unrealized gain(loss) on marketable securities	1,339,912	-	1,895,754	-
<b>Net and comprehensive loss</b>	<b>\$ 911,131</b>	<b>\$ (22,496)</b>	<b>\$ 248,331</b>	<b>\$ (67,648)</b>
<b>Basic and diluted loss per share (Note 7)</b>	<b>\$ 0.02</b>	<b>\$ -</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding - diluted</b>	<b>39,597,904</b>	<b>5,850,436</b>	<b>22,210,437</b>	<b>6,229,727</b>

The accompanying notes are an integral part of these financial statements

**Southern Empire Resources Corp.**  
(formerly Owl Capital Corp.)  
**Statements of Changes in Equity**

	<b>Attributable to the common shareholder</b>				
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance, October 31, 2018</b>	<b>6,220,001</b>	<b>\$ 358,202</b>	<b>\$ 10,600</b>	<b>\$ (82,361)</b>	<b>\$ 286,441</b>
Shares issued during the period	17,062	2,610	(904)	-	1,706
Net loss	-	-	-	(67,648)	(67,648)
<b>Balance, April 30, 2019</b>	<b>6,237,063</b>	<b>\$ 360,812</b>	<b>\$ 9,696</b>	<b>\$ (150,009)</b>	<b>\$ 220,499</b>
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance, October 31, 2019</b>	<b>6,237,063</b>	<b>\$ 360,812</b>	<b>\$ 9,696</b>	<b>\$ (205,155)</b>	<b>\$ 165,353</b>
Shares issued during the period	19,059,859	7,312,217	-	-	7,312,217
Cash issue costs	-	(450,727)	-	-	(450,727)
Warrants exercised	182,938	18,294	(9,696)	-	8,598
Stock options granted	-	-	936,147	-	936,147
Shares issued for property acquisition	25,426,940	7,628,082	-	-	7,628,082
Net income	-	-	-	248,333	248,333
<b>Balance, April 30, 2020</b>	<b>50,906,800</b>	<b>\$ 14,868,678</b>	<b>\$ 936,147</b>	<b>\$ 43,178</b>	<b>\$ 15,848,003</b>

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**Southern Empire Resources Corp.**  
(formerly Owl Capital Corp.)  
**Statements of Cash Flows**

For the nine months ended July 31,	2020	2019
<b>Cash flows from Operating Activities</b>		
Net income (loss)	\$ 248,332	\$ (67,648)
Items not affecting cash		
Share-based compensation	936,147	-
Unrealized (gain) loss on equity investments	(1,895,755)	-
Amortization	1,677	-
Net changes in non-cash working capital items		
Accounts receivable and prepaids	(217,717)	-
Accounts payable and accrued liabilities	(162,668)	2,916
	<b>(1,089,984)</b>	<b>(64,732)</b>
<b>Cash flows from Investing Activities</b>		
Increase in property, plant and equipment	(33,534)	-
Increase in exploration and evaluation asset	(839,460)	-
Increase in reclamation bonds	(37,525)	-
	<b>(910,519)</b>	<b>-</b>
<b>Cash flow from Financing Activities</b>		
Issuance of common shares	<b>6,836,190</b>	<b>1,706</b>
Warrants exercised	<b>8,598</b>	<b>-</b>
	<b>6,844,788</b>	<b>1,706</b>
<b>Net change in cash during the period</b>	<b>4,844,285</b>	<b>(63,026)</b>
Cash, beginning of period	390,818	298,937
Cash, end of period	<b>\$ 5,235,103</b>	<b>\$ 235,911</b>

The accompanying notes are an integral part of these financial statements

## **Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

### **Notes to the Condensed Interim Financial Statements**

For the nine months ended July 31, 2020 and 2019

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#### **1. NATURE OF OPERATION**

Southern Empire Resources Corp. (“Southern Empire” or the “Company”, formerly Owl Capital Corp.) was incorporated under the *Business Corporations Act of British Columbia* on September 27, 2017. The Company was classified as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”). Owl Capital Corp.’s principal business was to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction (“Qualifying Transaction”) in accordance with Policy 2.4 of the Exchange.

On March 18, 2020 the Company completed its previously announced Qualifying Transaction by acquiring an option to earn up to a 75% interest in the Oro Cruz Gold Project located in California, an 85% interest in the Eastgate Gold Project located in Nevada and a 4.93% undiluted equity interest in Bullfrog Gold Corp., an exploration stage company listed on the Canadian Securities Exchange and OTC Markets. Upon completion of the Qualifying Transaction, Owl Capital Corp. changed its name to Southern Empire Resources Corp. For additional details, see Note 7.

On July 13, 2020 Southern Empire announced that it had entered into an agreement to acquire MAS Gold Corp. (“MAS Gold”), a gold exploration company operating in Saskatchewan, Canada. The transaction is being completed via plan of arrangement and is subject to Exchange approval and the approval of the shareholders of MAS Gold. Under the terms of the plan of arrangement, Southern Empire will issue 5,828,090 common shares to the shareholders of MAS Gold in exchange for 100% of the common shares of MAS Gold. The transaction has received initial approval from the Provincial Court of British Columbia and is proceeding to a MAS Gold shareholder meeting on October 20, 2020.

Southern Empire’s head office is located at Suite 420 – 789 West Pender Street, Vancouver, British Columbia V6C 1H2.

#### **2. BASIS OF PREPERATION**

##### **Statement of compliance**

These condensed interim financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these unaudited condensed interim financial statements be read in conjunction with the annual audited financial statements for the year ended October 31, 2019.

The financial statements of the Company for the three and nine month periods ended July 31, 2020, were authorized for issuance by Southern Empire’s board of directors on September 28, 2020.

##### **Basis of preparation**

These condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value. These financial statements are prepared in Canadian dollars, which is the Corporation’s functional currency.

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

**Notes to the Condensed Interim Financial Statements**

For the nine months ended July 31, 2020 and 2019

**3. MARKETABLE SECURITIES**

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

	<b>July 31, 2020</b>		<b>October 31, 2019</b>	
	<b>Cost</b>	<b>FMV</b>	<b>Cost</b>	<b>FMV</b>
Bullfrog Gold Corp	\$ 832,323	\$ 2,100,000	\$ -	\$ -
Warrants - Bullfrog Gold Corp.	24,676	678,054	-	-
	<b>\$ 856,999</b>	<b>\$ 2,778,054</b>	<b>\$ -</b>	<b>\$ -</b>

**4. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computers and equipment</b>
<b>Cost:</b>	
Balance at October 31, 2019 & 2018	\$ -
Additions	33,534
<b>Balance at July 31, 2020</b>	<b>33,534</b>
<b>Accumulated amortization:</b>	
Balance at October 31, 2019 & 2018	\$ -
Amortization expense	1,677
<b>Balance at July 31, 2020</b>	<b>1,677</b>
<b>Total balance at October 31, 2019</b>	<b>\$ -</b>
<b>Total balance at July 31, 2020</b>	<b>\$ 31,857</b>

## Southern Empire Resources Corp.

(formerly Owl Capital Corp.)

### Notes to the Condensed Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

#### 5. EXPLORATION AND EVALUATION ASSETS

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

	<b>Oro Cruz California</b>	<b>Eastgate Nevada</b>	<b>Total</b>
October 31, 2018 & 2019	\$ -	\$ -	\$ -
Acquisition and renewal	5,318,987	1,644,083	6,963,070
Property maintenance	152,813	-	152,813
Geology and geophysics	53,402	47,002	100,404
Camp & field work	7,944	305,239	313,183
Environmental and permitting	73,232	7,841	81,073
<b>July 31, 2020</b>	<b>\$ 5,606,378</b>	<b>\$2,004,165</b>	<b>\$7,610,543</b>

#### Oro Cruz Gold Project

Upon completion of the Qualifying Transaction, Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Gold Project, located in Imperial County, California. The Oro Cruz mine (also historically known as the Cross, Golden Cross or Tumco mine), is a former gold producer within the historical Cargo Muchacho – Tumco Mining District situated on the property approximately 14 miles southeast of the currently operating Mesquite gold mine of Equinox Gold Corp.

The Oro Cruz Gold Project is comprised of a total of 271 Bureau of Land Management (“BLM”) unpatented lode mining claims, covering approximately 2,160 hectares, 13 BLM unpatented placer mining claims covering approximately 105 hectares, and two State of California Mineral Prospecting Permits covering approximately 518 hectares, all located in Imperial County California.

#### Eastgate Gold Project

Upon completion of the Qualifying Transaction, Southern Empire acquired an 85% interest in the Eastgate Gold Project, located in Churchill County, Nevada. Comprised of 101 unpatented BLM lode mining claims covering approximately 817 hectares, the Eastgate Gold Project features a well-developed hydrothermal quartz vein system hosting precious metals.

## Southern Empire Resources Corp.

(formerly Owl Capital Corp.)

### Notes to the Condensed Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

#### 6. RELATED PARTY TRANSACTIONS

##### Compensation of key executive personnel

For the nine months ended July 31,	2020	2019
Management fees to officers	\$ 251,000	\$ -
Directors' fees	-	-
Share-based compensation to directors and officers	936,147	-
	<u>\$ 1,187,147</u>	<u>\$ -</u>

As at July 31, 2020, \$149,975 (October 31, 2019 - \$ Nil) was included in accounts payable owing to directors, officers, and companies controlled or affiliated with directors and officers of the Company in relation to fees and reimbursement of expenses.

#### 7. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.  
Unlimited preferred shares issuable in series.
- b) Issued and outstanding: 50,906,800 common shares
- c) Financings:

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 10,911,197 common shares at a price of \$0.30 per share for gross proceeds of \$3,273,359.

On April 16, 2020, 80,125 share purchase warrants were exercised at a price of \$0.10 per share for total proceeds of \$8,012.

On May 6, 2020, 102,813 share purchase warrants were exercised at a price of \$0.10 per share for total proceeds of \$10,281.

On June 12, 2020, Southern Empire issued 8,043,861 common shares at a price of \$0.50 per share for gross proceeds of \$4,021,930.

- d) Escrowed shares:

As at July 31, 2020, 26,682,246 common shares were held in escrow, of which:

- 4,447,041 are to be released on September 21, 2020
- 4,447,041 are to be released on March 19, 2021
- 4,447,041 are to be released on September 20, 2021
- 4,447,041 are to be released on March 19, 2022
- 4,447,041 are to be released on September 19, 2022
- 4,447,041 are to be released on March 19, 2023

## Southern Empire Resources Corp.

(formerly Owl Capital Corp.)

### Notes to the Condensed Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

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#### 7. SHARE CAPITAL (continued)

##### c) Stock options:

The Directors of the Company adopted a stock option plan on March 18, 2020 (the “Option Plan”). The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of Southern Empires’ common shares issued and outstanding at the time such options are granted. Options may be granted under the Option Plan to such directors, officers, employees, management or consultants of Southern Empire and its affiliates, if any, as the Board of Directors

may from time to time designate. The Option Plan provides that the number of Common Shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued common shares, if the individual is a director, officer, employee or consultant, or 2% of the issued common shares, if the individual is engaged in providing investor relations services, in a twelve month basis, unless disinterested shareholder approval is obtained. All options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause; or (iii) one year from the date of death or disability.

During the period ended April 30, 2020, Southern Empire granted 4,250,000 stock options exercisable at \$0.30 per option for a term of five years from the date of issuance to directors, officers, and consultants of Southern Empire. The options vested immediately. During the period ended April 30, 2020, the Company has recorded \$936,147 of share-based compensation.

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

	<b>Three and nine months ended July 31, 2020</b>
Risk-free interest rate	0.93%
Expected life of options	5 years
Annualized volatility	80%
Dividend rate	0.00%
Forfeiture rate	0.00%

**Southern Empire Resources Corp.**

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**Notes to the Condensed Interim Financial Statements**

For the nine months ended July 31, 2020 and 2019

**7. SHARE CAPITAL** (continued)

The changes in the stock options for the period ended July 31, 2020 are as follows:

	Number	Weighted Average Exercise Price \$
<b>Balance at October 31, 2019 &amp; 2020</b>	-	\$ -
Granted	4,250,000	0.30
Balance, July 31, 2020	4,250,000	0.30
Exercisable, July 31, 2020	4,250,000	\$ 0.30

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

Expiry Date	Number	Exercise Price - \$	Remaining Life - Years
March 18, 2025	4,250,000	\$0.30	4.88

## d) Warrants

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

<b>Balance, October 31, 2018</b>	200,000	\$ -
Exercised	(17,062)	0.10
<b>Balance, April 30, 2019 and October 31, 2019</b>	<b>182,938</b>	<b>0.10</b>
Exercised	(182,938)	0.10
<b>Balance, July 31, 2020</b>	<b>-</b>	<b>\$ 0.10</b>

## e) Contributed surplus

A summary of the contributed surplus activity is as follows:

	July 31, 2020	October 31, 2019
<b>Balance, beginning of period</b>	\$ 9,696	\$ 10,600
Warrants exercised	\$ (9,696)	\$ (904)
Fair value of stock options granted	936,147	-
<b>Balance, End of period</b>	<b>\$ 936,147</b>	<b>\$ 9,696</b>

## Southern Empire Resources Corp.

(formerly Owl Capital Corp.)

### Notes to the Condensed Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

#### 7. SHARE CAPITAL (continued)

##### f) Per share amounts

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Net income (loss) attributable to common shareholders	\$ 248,332	█	\$ (45,152)
Weighted average number of common shares - basic	22,210,437		6,226,032
Weighted average number of common shares - diluted	24,939,097		6,226,032
Basic income (loss) per common share - basic	\$ 0.01	█	\$ (0.01)
Basic income (loss) per common share - diluted	█ \$ 0.01	█	\$ (0.01)

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

#### 8. CAPITAL MANAGEMENT

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes to the Company's approach to capital management during the periods ended June 30, 2020 and 2019. Southern Empire is not subject to externally imposed capital requirements.

#### 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

## Southern Empire Resources Corp.

(formerly Owl Capital Corp.)

### Notes to the Condensed Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

#### 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following table sets for the Company's financial assets measured at fair value by level within the fair value hierarchy.

<b>July 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets:				
Cash	\$ 5,235,103	\$ -	\$ -	\$ 5,235,103
Investments	\$ 2,100,000	\$ 678,054	\$ -	\$ 2,778,054

  

<b>October 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets:				
Cash	\$ 390,818	\$ -	\$ -	\$ 390,818

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

- a) Concentration risk – as at July 31, 2020, all of Southern Empire's cash is held at one Canadian national financial institution. As a result, the Company was exposed to all of the risks associated with those institutions. Concentration risk also exists in marketable securities because Southern Empires investment portfolio consists of the securities of one issuer.
- b) Credit risk – Southern Empire is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in financial loss to the Company. The Company manages exposure to credit risk by adopting credit risk guidelines that limit transactions according to counterparty credit worthiness. The maximum exposure associated with accounts receivable is the carrying value.
- c) Currency risk – Relates to Southern Empires operations in the United States and is subject to fluctuations in exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Southern Empire does not have material monetary assets or liabilities in foreign currencies.
- d) Price risk – Southern Empires investments designated as FVTPL are traded on the Canadian Securities Exchange. A 1% change in the quoted share price would not significantly impair the fair value of the investment. The change would be recorded through profit or loss.
- e) Commodity price risk – The value of Southern Empires exploration and evaluation assets is related to the price of commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.
- f) Liquidity risk – Currently, Southern Empires capital is not sufficient to meet long term business requirements when taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. Future operations or exploration programs may require additional financing primarily through equity markets, or through joint venture partnerships.

**Southern Empire Resources Corp.**  
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**Notes to the Condensed Interim Financial Statements**  
For the nine months ended July 31, 2020 and 2019

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**10. SUPPLEMENTAL CASH FLOW INFORMATION**

The following table summarizes the net changes in non-cash working capital items related to operating activities:

<b>For the nine months ended July 31,</b>	<b>2020</b>	<b>2019</b>
Accounts receivable and prepaid expenses	█ \$ (217,717)	\$ -
Accounts payable and accrued liabilities	(162,668)	-
	█ \$ <b>(380,385)</b>	\$ -

  

<b>Non-cash transactions:</b>	<b>2020</b>	<b>2019</b>
Properties acquired for common shares	\$ 6,771,083	\$ -
Investments acquired for common shares	\$ 857,000	\$ -