



# Southern Empire

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RESOURCES  
CORP.

## **Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended**

**July 31, 2021**

**(Unaudited - Expressed in Canadian Dollars)**

### **Notice of Non-review of Condensed Interim Financial Statements**

In accordance with the Canadian Securities Administrators' National Instrument 51-102 – Continuous Disclosure Obligations, Southern Empire Resources Corp. discloses that the accompanying condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management.

The attached condensed interim consolidated financial statements for the three months and nine months ended July 31, 2021 have been reviewed and approved by Southern Empire's Audit Committee and the Board of Directors but have not been reviewed by Southern Empire's auditors.

**Southern Empire Resources Corp.**  
(Formerly Owl Capital Corp)  
**Statements of Financial Position**  
(See Note 1 – Nature of operations)

	July 31 2021	October 31 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 26,952	\$ 3,667,214
Equity investments, at fair value (Note 3)	4,604,863	3,216,760
Accounts receivable and prepaid expenses	78,714	113,709
Prepays and advances	66,947	208,388
	<b>4,777,476</b>	<b>7,206,071</b>
<b>Non-current assets</b>		
Reclamation bonds (5)	87,459	79,755
Equipment (4)	22,740	29,342
Exploration and evaluation assets (Note 5)	10,344,150	8,567,492
<b>Total assets</b>	<b>\$ 15,231,825</b>	<b>\$ 15,882,660</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 244,747	\$ 144,689
<b>Total liabilities</b>	<b>244,747</b>	<b>144,689</b>
<b>EQUITY</b>		
Common shares (Note 7)	14,850,332	14,850,332
Contributed surplus (Note 7)	1,117,442	936,147
Deficit	(980,696)	(48,508)
<b>Total equity</b>	<b>14,987,078</b>	<b>15,737,971</b>
<b>Total liabilities and equity</b>	<b>\$ 15,231,825</b>	<b>\$ 15,882,660</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	
	2021	2020	2021	2020
<b>Expenses</b>				
Amortization	2,201	1,677	6,602	1,677
Management and consulting fees (Note 6)	126,000	166,000	378,000	338,024
Business and investor relations	36,541	214,785	294,356	255,458
General and administration	12,487	8,374	33,483	9,159
Professional fees	10,930	16,038	25,079	78,413
Property research	5,984	-	33,199	-
Stock-based compensation (Note 6)	47,774	-	181,295	936,147
Transfer agent and listing fees	4,377	18,325	18,166	23,265
Travel and accomodation	-	-	-	928
Shareholder communications	6,000	3,582	16,403	4,352
	<b>252,294</b>	<b>428,781</b>	<b>986,583</b>	<b>1,647,423</b>
<b>Other items</b>				
Unrealized gain(loss) on marketable securities	(1,338,650)	1,339,912	42,812	1,895,754
Gain (loss) on sale of marketable securities	11,629	-	11,629	-
<b>Net and comprehensive loss</b>	<b>\$ (1,579,315)</b>	<b>\$ 911,131</b>	<b>\$ (932,142)</b>	<b>\$ 248,331</b>
<b>Basic and diluted loss per share</b> (Note 6)	<b>\$ (0.03)</b>	<b>\$ 0.02</b>	<b>\$ (0.02)</b>	<b>\$ 0.01</b>
<b>Weighted average number of common shares outstanding - diluted</b>	<b>50,906,800</b>	<b>39,597,904</b>	<b>50,906,800</b>	<b>22,210,437</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**

	<u>Attributable to the common shareholders</u>				
	Number of shares	Amount \$	Contributed Surplus	Deficit	Total Equity
<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 asset acquisitio	25,426,940	7,628,082	-	-	\$ 7,628,082
Net loss	-	-	-	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>
	Number of shares	Amount \$	Contributed Surplus	Deficit	Total Equity
<b>Balance, October 31, 2020</b>	<b>50,906,800</b>	<b>\$ 14,850,332</b>	<b>\$ 936,147</b>	<b>\$ (48,508)</b>	<b>\$ 15,737,971</b>
Stock options granted	-	-	181,295	-	\$ 181,295
Net income	-	-	-	(932,143)	(932,143)
<b>Balance, April 30, 2021</b>	<b>50,906,800</b>	<b>\$ 14,850,332</b>	<b>\$ 1,117,442</b>	<b>\$ (980,651)</b>	<b>\$ 14,987,123</b>

The accompanying notes are an integral part of these financial statements

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

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**Cash flows from Operating Activities**

Net income (loss)	\$ (932,143)	\$ 248,332
Items not affecting cash		
Amortization	6,602	1,677
Share-based compensation	181,295	936,147
(Gain) loss on sale of marketable securities	(11,629)	-
Unrealized (gain) loss on equity investments	(42,812)	(1,895,755)
Net changes in non-cash working capital items		
Accounts receivable	34,996	(217,717)
Prepays	141,442	-
Accounts payable and accrued liabilities	100,059	(162,668)
	<b>(522,190)</b>	<b>(1,089,984)</b>

**Cash flows from Investing Activities**

Purchase of marketable securities	(1,355,343)	-
Increase in reclamation bond	(7,704)	(37,525)
Sale of marketable securities	21,633	-
Increase in property and equipment	-	(33,534.00)
Increase in exploration and evaluation asset	(1,776,658)	(839,460)
	<b>(3,118,072)</b>	<b>(910,519)</b>

**Cash flow from Financing Activities**

Issuance of common shares	-	6,836,190
Warrants exercised	-	8,598
	-	<b>6,844,788</b>

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**Net change in cash during the period** **(3,640,262)** **4,844,285**

Cash, beginning of period 3,667,214 390,818

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Cash, end of period **\$ 26,952 \$ 5,235,103**

The accompanying notes are an integral part of these financial statements

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

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**1. NATURE OF OPERATION**

Southern Empire Resources Corp. (“Southern Empire” or the “Company”; formerly Owl Capital Corp.) was incorporated pursuant to the *Business Corporations Act of British Columbia* on September 29, 2017. Southern Empire is an exploration stage company focused on the acquisition, exploration and development of resource properties in North America.

As an exploration stage company, Southern Empire does not have revenues and may incur operating losses. As at July 31, 2021, Southern Empire had working capital of \$4,532,729 (October 31, 2020 - \$7,061,382). Management has assessed that this working capital is sufficient to continue as a going concern beyond one year. If the going concern assumption were not appropriate for these financial statements, it could be necessary to restate the Company’s assets and liabilities on a liquidation basis. These condensed interim consolidated financial statements were prepared on the basis that Southern Empire will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

Owl Capital Corp. was classified as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”) and its 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 Qualifying Transaction with Eros Resources Corp. (“Eros”) and Demerara Gold Corp (“Demerara”) whereby the Company acquired all of their rights, titles and interest in the Oro Cruz Property, located in Imperial County, California and the Eastgate Property located in Churchill County, Nevada from Eros and Demerara respectively as well as marketable securities in Augusta Gold Corp. (“Augusta”; formerly Bullfrog Gold Corp.), an exploration stage company, from Eros.

Pursuant to the Qualifying Transaction, the Company acquired:

- a) From Eros, Eros’s entire right, title and interest, being an undivided 45% interest in the Eastgate Property;
- b) From Demerara, Demerara’s entire right, title and interest, being an undivided 40% interest, in the Eastgate Property, Churchill County, Nevada;
- c) From each of Demerara and Bell Mountain Exploration Corp. (“Bell”, a wholly-owned subsidiary of Eros), the assignment of a Letter Agreement dated February 28, 2019 with Lincoln Mining Corp. and Lincoln Gold US Corp. pursuant to which each of Demerara and Bell may acquire a 37.5% interest (aggregate 75% interest) in the Oro Cruz Property, Imperial County, California; and
- d) From Eros, 8,750,000 common shares and 7,750,000 common share purchase warrants in the capital of Augusta.

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

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**1. NATURE OF OPERATIONS (Continued)**

In consideration, the Company issued 25,426,940 common shares as follows:

- a) 2,901,275 shares to Eros with respect to the acquisition of a 45% interest in the Eastgate Property;
- b) 2,579,000 shares to Demerara with respect to the acquisition of a 40% interest in the Eastgate Property;
- c) 8,545,000 shares to Demerara and 8,545,000 shares to Eros with respect to the acquisition of an exclusive option to acquire an aggregate 75% interest in the Oro Cruz Property;
- d) 2,856,665 shares to Eros with respect to the acquisition of the 8,750,000 common shares and 7,750,000 common shares purchase warrants in Augusta.

Upon completion of the Qualifying Transaction, Owl Capital Corp. changed its name to Southern Empire Resources Corp. and began trading on the Exchange on March 24, 2020 with the trading symbol SMP. For additional details concerning the Qualifying Transaction, see Note 7.

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

**2. BASIS OF PREPERATION**

**Basis of presentation, principals of consolidation and statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements, including International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting.

Subsidiaries are entities controlled by the Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases. These condensed interim consolidated financial statements include the accounts of Southern Empire and its wholly owned subsidiary, SMP Gold Corp., a company incorporated in Nevada, USA. All inter-company transactions and balances were eliminated in preparing these financial statements. The accounting policies of subsidiaries are changed if necessary to align them with the policies adopted by Southern Empire.

These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the years ended October 31, 2020 and 2019, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements were prepared by management and reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on September 30, 2021.

**Southern Empire Resources Corp.**  
(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**3. EQUITY INVESTMENTS**

As at July 31, 2021 and October 31, 2020, the Corporation's investments consist of equity interests in companies involved with gold exploration:

	July 31, 2021		October 31, 2020	
	Cost	FMV	Cost	FMV
Augusta Gold Corp.	\$ 2,149,603	\$ 4,571,122	\$ 832,323	\$ 2,362,500
Lincoln Gold Mining Inc.	\$ 25,300	\$ 29,900	\$ 25,300	\$ 48,300
Warrants - Augusta Gold Corp.	\$ -	\$ -	\$ 24,676	\$ 793,874
Warrants - Lincoln Gold Mining Inc.	-	\$ 3,840	-	\$ 12,086
	<b>\$ 2,174,903</b>	<b>\$ 4,604,862</b>	<b>\$ 882,299</b>	<b>\$ 3,216,760</b>

**4. EQUIPMENT**

	Computers and equipment
<b>Cost:</b>	
Balance at October 31, 2019	\$ -
Additions	33,534
Balance at October 31, 2020	33,534
Additions	-
<b>Balance at July 31, 2021</b>	<b>33,534</b>
<b>Accumulated amortization:</b>	
Balance at October 31, 2019	\$ -
Amortization expense	4,192
Balance at October 31, 2020	4,192
Amortization expense	6,602
<b>Balance at July 31, 2021</b>	<b>10,794</b>
<b>Total balance at October 31, 2020</b>	<b>\$ 29,342</b>
<b>Total balance at July 31, 2021</b>	<b>\$ 22,740</b>

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**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, 2019			
Acquisition and renewal	\$ 5,901,224	\$ 1,644,083	\$ 7,545,307
Property maintenance	161,728	24,111	185,839
Geology and geophysics	148,638	47,170	195,808
Drilling and assay	-	345,612	345,612
Camp and field work	8,247	9,779	18,026
Environmental and permitting	269,060	7,840	276,900
October 31, 2020	\$ 6,488,897	\$ 2,078,595	\$ 8,567,492
Acquisition and renewal	100,000	-	100,000
Property maintenance	210,688	-	210,688
Geology and geophysics	384,356	-	384,356
Drilling and assay	-	-	-
Metallurgy	36,359	-	36,359
Engineering	117,714	-	117,714
Camp and field work	190,631	-	190,631
Environmental and permitting	744,614	7,704	736,910
<b>July 31, 2021</b>	<b>\$ 8,273,259</b>	<b>\$ 2,070,891</b>	<b>\$ 10,344,150</b>

**Oro Cruz Project**

Upon completion of the Qualifying Transaction, Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Project, located in Imperial County, California. On June 22, 2020 Southern Empire entered into an option agreement to acquire the remaining 25% of the Oro Cruz Project from Ronald Netolitzky, bringing its total potential interest to 100%. The Oro Cruz Project option agreements are summarized as follows:

Southern Empire holds the option agreement with Lincoln Gold US Corp. ("Lincoln") to acquire a total of a 75% interest in the Oro Cruz Project from Lincoln. The pertinent business terms of this option agreement follow:

Cash payments to Lincoln:

- US\$10,000 initial payment (paid)
- US\$25,000 paid on or before February 15, 2020 (paid)
- US\$25,000 paid on or before February 15, 2021 (paid)
- US\$25,000 paid on or before February 15, 2022 (paid)
- US\$25,000 paid on or before February 15, 2023 (paid)

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

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**5. EXPLORATION AND EVALUATION ASSETS (continued)**

Cash payments to ADGIS, Inc. (“ADGIS”) who granted an underlying option (the “Hercules Claims”) to Lincoln:

- US\$50,000 by May 15, 2019 (paid)
- US\$50,000 by April 15, 2020 (paid)
- US\$100,000 by April 15, 2021 (paid)
- US\$100,000 by April 15, 2022
- US\$100,000 by April 15, 2023

Exploration expenditures:

- US\$200,000 acknowledged as incurred to October 1, 2019 (incurred)
- US\$400,000 cumulative to be incurred before October 1, 2020 (incurred)
- US\$700,000 cumulative to be incurred before October 1, 2021 (incurred)
- US\$1,000,000 cumulative to be incurred before October 1, 2022
- US\$1,600,000 cumulative to be incurred before October 1, 2023

Royalties:

- 2% net smelter return royalty (“NSR”) from production within the Hercules Claims boundary (the “Hercules Royalty”)
- 1% NSR on production within a 1-mile radius of the Hercules Claims boundary (“Radius Royalty”)
- Southern Empire can reduce the Hercules Royalty by 0.5% and the Radius Royalty by 0.5% collectively with a cash payment of US\$500,000 to ADGIS.
- Southern Empire can reduce the Hercules Royalty by an additional 0.5% with an additional payment of US\$500,000 to ADGIS.

*Ronald K. Netolitzky Option Agreement*

On June 22, 2020 Southern Empire entered into an option agreement with Mr. Ronald K. Netolitzky (“Netolitzky”), a director of Southern Empire, to acquire the remaining 25% of the Oro Cruz Gold Project in exchange for cash payments of \$440,000. Option payments are due as follows:

- \$140,000 on TSX Venture Exchange approval (paid)
- \$100,000 on or before the first anniversary date, August 4, 2021 (paid)
- \$100,000 on or before the second anniversary date, August 4, 2022
- \$100,000 on or before the third anniversary date, August 4, 2023

*Oro Cruz - American Girl Mine Property*

On September 14, 2020 Southern Empire executed a purchase and sale agreement (the “PSA”) to acquire the American Girl Mine Property from Mackenzie Corporation, a company controlled by the President and CEO of Southern Empire. In accordance with the terms of the PSA, Southern Empire acquired a 100% interest in seven privately owned, patented mining claims and 10 Bureau of Land Management claims covering the former American Girl mine by paying a total of US\$330,000 to Mackenzie Corporation.

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**5. EXPLORATION AND EVALUATION ASSETS (continued)**

Reclamation bond

Southern Empire holds a \$79,755 (2020 - \$79,755) reclamation bond with the Bureau of Land Management with respect to its California properties and a \$7,704 (2019 - \$nil) reclamation bond with the Bureau of Land Management with respect to its Nevada properties.

**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. The Eastgate Gold Project is subject to a 3% Net Smelter Royalty payable to Blue Ridge Gold LLC, a privately held company that was the original property vendor.

**6. Related party transactions**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of Southern Empire. Key management personnel consist of executive and non-executive members of the Company's Board of Directors, and corporate officers. The remuneration of key management personnel are as follows:

For the six months ended July 31,	2021	2020
Management fees to officers	\$ 297,000	\$ 152,000
Share-based compensation to directors and officers	83,380	663,013
	<u>\$ 380,380</u>	<u>\$ 815,013</u>

**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) Transactions:

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 10,899,197 common shares at a price of \$0.30 per share for gross proceeds of \$3,273,759. As at October 31, 2019 Southern Empire had received \$214,500 in subscriptions in relation to its Qualifying Transaction.

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 2,856,665 common shares to acquire 8,750,000 common shares and 7,750,000 common share purchase warrants of Augusta Gold Corp. (Note 3).

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

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**7. SHARE CAPITAL** (continued)

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 22,570,276 common shares to acquire its interest in the Oro Cruz and Eastgate gold projects.

On April 16, 2020, 80,125 share purchase warrants were exercised at a price of \$0.10 per common share for total proceeds of \$8,012. Southern Empire transferred \$4,247 of contributed surplus to share capital pursuant to the warrant exercise.

On May 6, 2020, 102,813 share purchase warrants were exercised at a price of \$0.10 per common share for total proceeds of \$10,282. Southern Empire transferred \$5,449 of contributed surplus to share capital pursuant to the warrant exercise.

On June 12, 2020, Southern Empire issued 8,043,861 common shares at a price of \$0.50 per share for gross proceeds of \$4,021,931.

On June 12, 2020, Southern Empire issued 116,800 common shares as finders fee compensation in conjunction with its \$0.50 financing.

During the year ended October 31, 2019 the Company issued 17,062 common shares for gross proceeds of \$1,706 pursuant to the exercise of warrants. The Company transferred \$904 of contributed surplus to share capital pursuant to the warrant exercise.

d) Escrowed shares:

As at July 31, 2021, 17,788,163 common shares were held in escrow, of which:

- 4,447,044 are to be released on September 20, 2021
- 4,447,044 are to be released on March 20, 2022
- 4,447,044 are to be released on September 20, 2022
- 4,447,031 are to be released on March 20, 2023

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 any twelve month period, 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 July 31, 2021, Southern Empire granted 400,000 stock options exercisable at \$0.30 per option for a term of five years from the date of issuance to a director.

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**7. SHARE CAPITAL** (continued)

During the period ended April 30, 2021, Southern Empire granted 750,000 stock options exercisable at \$0.30 per option for a term of five years from the date of issuance to directors, officers and consultants to Southern Empire. The options vested immediately. Stock based compensation in the amount of \$133,521 was recorded.

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

	<b>Three and nine months ended July 31, 2021</b>
Risk-free interest rate	0.57 - 0.82%
Expected life of options	5 years
Annualized volatility	80%
Dividend rate	0.00%
Forfeiture rate	0.00%

During the year ended October 31, 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. These 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.**  
(formerly Owl Capital Corp.)  
**Notes to the Condensed Consolidated Interim Financial Statements**  
For the nine months ended July 31, 2021 and 2020

**7. SHARE CAPITAL** (continued)

The changes in the stock options for the period ended July 31, 2021 are as follows:

	<b>Number</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance at October 31, 2020</b>	4,250,000	\$ 0.30
Granted	1,150,000	
Forfeited	(400,000)	0.30
<b>Balance, July 31, 2021</b>	<b>5,000,000</b>	<b>0.30</b>
<b>Exercisable, July 31, 2021</b>	<b>5,000,000</b>	<b>\$ 0.30</b>

The balance of options outstanding as at July 31, 2021 is as follows:

<b>Expiry Date</b>	<b>Number</b>	<b>Exercise Price - \$</b>	<b>Remaining Life - Years</b>
March 18, 2025	3,850,000	\$0.30	3.88
Feb 16, 2026	750,000	\$0.30	4.76
March 11, 2026	100,000	\$0.30	4.58
June 10, 2026	400,000	\$0.30	4.92

**d) Warrants**

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

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, October 31, 2019</b>	182,938	\$ 0.10
Exercised	(182,938)	0.10
<b>Balance, October 31, 2020</b>	-	-
Exercised	-	-
<b>Balance, July 31, 2021</b>	<b>-</b>	<b>\$ -</b>

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**7. SHARE CAPITAL** (continued)

## e) Contributed surplus

A summary of the contributed surplus activity is as follows:

	<b>July 31, 2021</b>	<b>October 31, 2020</b>
<b>Balance, beginning of period</b>	\$ 936,147	\$ 9,696
Warrants exercised	-	(4,245)
Fair value of stock options granted	181,295	936,147
<b>Balance, End of period</b>	<b>\$ 1,117,442</b>	<b>\$ 941,598</b>

f) Per share amounts

<u>For the nine months ended July 31,</u>	<b>2021</b>	<b>2020</b>
Net income (loss) attributable to common shareholders	\$ (932,142)	\$ 815
Weighted average number of common shares - basic	50,906,800	14,828,610
Weighted average number of common shares - diluted	50,906,800	14,818,610
Basic loss per common share - basic	\$ (0.02)	\$ (0.04)
Basic loss per common share - diluted	\$ (0.02)	\$ (0.04)

All stock options and warrants were excluded from the diluted weighted average number of shares calculation for the nine months ended July 31, 2021 and 2020, as their effect would have been anti-dilutive.

**8. CAPITAL MANAGEMENT**

Southern Empire includes equity 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.

Southern Empires properties 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, Southern Empire 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 nine months ended July 31, 2021 and 2020. Southern Empire is not subject to externally imposed capital requirements.

**Southern Empire Resources Corp.**

(formerly Owl Capital Corp.)

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

For the nine months ended July 31, 2021 and 2020

**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).

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

July 31, 2021	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 26,952	\$ -	\$ -	\$ 26,952
Marketable securities	\$ 4,601,022	\$ 3,840	\$ -	\$4,604,862
Reclamation bonds	\$ 87,459	\$ -	\$ -	\$ 87,459
<hr/>				
October 31, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 3,667,214	\$ -	\$ -	\$3,667,214
Marketable securities	\$ 2,410,800	\$ 805,960	\$ -	\$3,216,760
Reclamation bonds	\$ 79,755	\$ -	\$ -	\$ 79,755

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, 2021, 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 Empire's investment portfolio consists of the securities of two issuers.
- 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 Empire's 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.

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

For the nine months ended July 31, 2021 and 2020

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

- 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.

**10. SUBSEQUENT EVENTS**