



ULTRA RESOURCES INC.

(the “Company”)

(Formerly Ultra Lithium Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Ultra Lithium Inc.

Opinion

We have audited the accompanying consolidated financial statements of Ultra Lithium Inc. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, 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 Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 of the consolidated financial statements, which indicates that the Company has an accumulated deficit of \$14,395,092 and expects to incur further losses. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 auditor's 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 Consolidated Financial Statements

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

In preparing the consolidated 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated 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 consolidated 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 auditor's report is David Harris.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 27, 2020

Ultra Resources Inc.

(Formerly Ultra Lithium Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	<i>Note</i>	October 31, 2019	October 31, 2018
		\$	\$
Assets			
Current assets:			
Cash and cash equivalents		927,528	870,877
Amounts receivable		13,481	8,216
Prepaid expenses and deposits		24,200	10,350
Marketable securities	4	11,000	401,500
		976,209	1,290,943
Noncurrent assets:			
Exploration advance	5	5,024	82,717
Exploration and evaluation assets	5	1,814,795	1,996,184
		2,796,028	3,369,844
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade payables and accrued liabilities	7	81,002	132,107
		81,002	132,107
Shareholders' equity:			
Share capital	6	16,027,519	14,701,651
Reserves	6	1,082,599	1,019,619
Deficit		(14,395,092)	(12,483,533)
		2,715,026	3,237,737
		2,796,028	3,369,844

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

"Weiguo Lang" Director
Weiguo Lang

"Cao Shao Guo" Director
Cao Shao Guo

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

Ultra Resources Inc.

(Formerly Ultra Lithium Inc.)

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Year ended October 31,

	<i>Note</i>	2019	2018
		\$	\$
Expenses:			
Bank charges and interest		5,099	10,485
Consulting fees		75,384	21,965
General exploration		10,500	31,446
Management fees	7	102,500	90,000
Share based payments	6	-	204,460
Office, rent and administration		130,521	95,806
Professional fees	7	117,077	102,979
Stock exchange and filing fees		14,686	53,646
Transfer agent fees		8,070	9,488
Travel and promotion		77,784	60,899
		(541,621)	(681,174)
Other income (expenses):			
Interest income		8,856	7,198
Impairment of exploration and evaluation assets	5	(954,158)	(233,283)
Remeasurement gain (loss) on marketable securities	4	(390,500)	381,500
Reversal of accounts payable		-	20,164
Foreign exchange gain (loss)		(34,136)	(13,438)
		(1,369,938)	162,141
Loss for the year		(1,911,559)	(519,033)
Other comprehensive income (loss):			
Foreign currency translation		24,120	14,596
Comprehensive loss for the year		(1,887,439)	(504,437)
Basic and diluted loss per share		(0.02)	(0.01)
Weighted average number of common shares			
- basic and diluted		82,355,978	69,830,578

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

Ultra Resources Inc.

(Formerly Ultra Lithium Inc.)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Note	Share Capital		Reserves			Total shareholder's equity	
		Common shares	Amount	Equity reserve	Foreign currency translation	Total		Deficit
		#	\$	\$	\$	\$		\$
Balance, October 31, 2017		64,722,249	13,187,148	789,526	74,282	863,808	(11,964,500)	2,086,456
Private placement		4,833,000	1,208,250	-	-	-	-	1,208,250
Shares issued for property acquisition	5(c)	140,732	25,000	-	-	-	-	25,000
Share issue cost		-	(6,791)	-	-	-	-	(6,791)
Warrants exercised		533,333	160,000	-	-	-	-	160,000
Options exercised		510,000	128,044	(63,245)	-	(63,245)	-	64,799
Share based payments		-	-	204,460	-	204,460	-	204,460
Comprehensive loss for the year		-	-	-	14,596	14,596	(519,033)	(504,437)
Balance, October 31, 2018		70,739,314	14,701,651	930,741	88,878	1,019,619	(12,483,533)	3,237,737
Private placement		22,883,413	1,373,005	-	-	-	-	1,373,005
Finders fees		2,205,833	132,350	38,860	-	38,860	-	171,210
Share issue cost		-	(179,487)	-	-	-	-	(179,487)
Comprehensive loss for the year		-	-	-	24,120	24,120	(1,911,559)	(1,887,439)
Balance, October 31, 2019		95,828,560	16,027,519	969,601	112,998	1,082,599	(14,395,092)	2,715,026

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

Ultra Resources Inc.

(Formerly Ultra Lithium Inc.)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Year ended October 31,

	2019	2018
	\$	\$
Operations:		
Loss for the year	(1,911,559)	(519,033)
Items not involving cash:		
Share based payments	-	204,460
Impairment of exploration and evaluation assets	954,158	233,283
Remeasurement loss (gain) on marketable securities	390,500	(381,500)
Reversal of accounts payable	-	(20,164)
Changes in non-cash working capital items:		
Amounts receivable	(5,265)	3,283
Prepaid expenses and deposits	(13,850)	4,182
Trade payables and accrued liabilities	(9,379)	43,446
	(595,395)	(432,043)
Financing:		
Share issued for cash	1,373,005	1,433,049
Share issuance costs	(8,277)	(6,791)
	1,364,728	1,426,258
Investing:		
Exploration and evaluation assets	(712,762)	(1,002,716)
Exploration advance	-	(82,717)
Proceeds from property option agreements	-	40,000
	(712,762)	(1,045,433)
Change in cash and cash equivalents	56,571	(51,218)
Effects of foreign exchange translation on cash	80	262
Cash and cash equivalents, beginning of year	870,877	921,833
Cash and cash equivalents, end of year	927,528	870,877
Supplementary information:		
Exploration and evaluation assets in trade payables and accrued liabilities	-	41,726
Exploration advance allocated to expenditure of exploration assets	77,693	-
Shares issued for property acquisition	-	25,000
Finders units issued	171,210	-
Exercised options	-	63,245
Cash and cash equivalents consist of:		
Cash	479,328	560,877
Guaranteed investment certificates	448,200	310,000
	927,528	870,877

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

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 1 – NATURE AND CONTINANCE OF OPERATIONS

Ultra Resources Inc. (the “Company”; formerly Ultra Lithium Inc.) was incorporated on November 27, 2004 under the Business Corporations Act of British Columbia and is engaged in the acquisition, exploration and evaluation of exploration and evaluation assets. On December 2, 2019, the Company changes its name to Ultra Resources Inc. The Company’s common shares are listed for trading on Tier 2 of the TSX Venture Exchange (the “Exchange”) under the symbol “ULT”.

The head office and principal address of the Company are located at 2735 Carolina Street, Vancouver, BC, Canada, V5T 3T3. The Company’s records office and registered office address is located at Suite 700 - 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The Company’s ability to continue as a going concern and the recoverability of the amounts shown for exploration and evaluation assets are dependent upon the ability of the Company to raise additional financing in order to complete the exploration and development of its resource properties, the discovery of economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company’s exploration and evaluation assets. As a resource company in the exploration stage, the ability of the Company to complete its acquisition, exploration and development will be affected principally by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means.

These consolidated financial statements have been prepared on a basis of accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has a history of losses with no operating revenue other than interest income and had a working capital of \$895,207 as at October 31, 2019 (2018 - \$1,158,836) and accumulated deficit of \$14,395,092 (2018 - \$12,483,533) and expects to incur further losses in the development of its business. The Company requires additional financing in order to fund working capital requirements and operations for the upcoming fiscal year. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms. These material uncertainties may cast significant doubt on the entity’s ability to continue as a going concern.

These consolidated financial statements do not reflect any adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were authorized for issue on February 27, 2020 by the Directors of the Company. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(a) Basis of presentation and consolidation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ultra Lithium (USA) Inc. (“ULI USA”), Ultra Balkans D.O.O. Beograd (“ULI Balkans”) and Ultra Dragon Holdings Inc. (“Ultra Dragon”). All intercompany balances and transactions are eliminated on consolidation.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, apart from those requiring estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include:

- the determination of the element of costs recorded as exploration and evaluation assets and determination of reclamation obligations;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the year in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting years include the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

(i) Share-based payments

Share-based payments, as measured with respect to stock options granted and re-priced, are estimated by reference to the Black-Scholes pricing model; a detailed discussion of management's estimates with respect to the pricing model is found in Note 6.

(ii) Impairment testing

The Company has reviewed its exploration and evaluation assets for indications of impairment and determined that there is no such indication.

(iii) Deferred income tax amounts

The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company's consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company. The functional currency of ULI USA is the US dollar; the functional currency of ULI Balkans is the Serbian Dinar; and the functional currency of Ultra Dragon is the Canadian dollar.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in profit and loss.

(iii) Consolidated entities

The results and financial position of consolidated entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Shareholder's equity is translated at historical rates of exchange at the reporting date;
- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses are translated at average exchange rates for the year; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

(d) Cash and Cash Equivalents

Cash and cash equivalents consists of cash balances and short-term highly liquid investments which are readily convertible into cash and that are subject to an insignificant risk of changes in value.

(e) Exploration and Evaluation Assets

These assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are in the exploration or pre-development stage.

Exploration and evaluation activity begins when the Company obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility and the assessment of commercial viability of an identified mineral resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties, and the costs of the Company's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Decommissioning Obligations

A liability for a decommissioning obligation, such as site reclamation costs, is recorded when a legal or constructive obligation exists and is recognized in the period in which it is incurred. The Company records the estimated present value of future cash flows associated with decommissioning as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized decommissioning costs will be amortized to expense over the life of the related assets using the units-of-production method. The liability is accreted to reflect the passage of time and adjusted to reflect changes in the timing and amount of estimated future cash flows.

As at October 31, 2019 and 2018, the Company does not have material decommissioning obligations.

(g) Impairment of Non-Financial Assets

The carrying amount of the Company's non-financial assets (which include exploration and evaluation assets) is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. An impairment loss with respect to goodwill is never reversed.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

(h) Share Capital

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves. Warrants that are issued as payment for agency fees or other transaction costs (Finder's Warrants) are assigned a value based on the Black- Scholes pricing model and included in reserves.

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting period are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Share-Based Payments

The Company has a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized to expense over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

(k) Loss Per Share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

All potential dilutive common shares are anti-dilutive for the years presented.

(l) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

(i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(m) Financial Instruments

Effective November 1, 2018, the Company adopted IFRS 9 Financial instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 has been applied retrospectively and did not result in a change to measurement of financial instruments, in either the current or prior periods.

Financial assets

The classification of financial assets depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The Company classifies its financial assets into one of the following categories as follows:

(i) Amortized cost

The Company classifies its financial assets at amortized cost only if both of the following conditions are met:

- the financial asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets are measured at fair value plus directly attributable transaction costs at initial recognition and are subsequently measured at amortized costs using effective interest method less any provisions for impairment.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Fair value through other comprehensive income (“FVOCI”)

The Company classifies its equity investments at FVOCI for which are not held for trading and the Company has made an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income rather than profit or loss as these are strategic investments. Upon disposal of these equity investments, any balance within the other comprehensive income reserve for these equity investments is reclassified to retained earnings/deficit and is not reclassified to profit or loss. In addition, the other comprehensive income reserve for an impaired equity investment is not reclassified to profit or loss.

(iii) Fair value through profit or loss (“FVPL”)

The Company classifies the following financial assets at FVPL:

- equity investments that are held for trading;
- equity investments for which the Company has not elected to recognize fair value gains and losses through other comprehensive income;
- debt investments that do not qualify for measurement at either amortized cost or at FVOCI; and
- derivative financial instruments.

The Company has classified its cash and cash equivalents and marketable securities as fair value through profit or loss, receivables as amortized cost. The company has no assets classified as fair value through other comprehensive income.

Financial Liabilities

The Company classifies its financial liabilities as subsequently measured at amortized cost or FVPL. Financial liabilities are subsequently measured at amortized cost, except for those at FVPL such as derivative financial instruments and contingent consideration payables. The FVPL option can be elected for financial liabilities if:

- it eliminates or significantly reduces an accounting mismatch;
- the financial liability is part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract.

This irrevocable election is made at initial recognition and these financial liabilities cannot be reclassified out of the category while they are held or issued. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at FVPL will recognize changes in fair value attributable to the Company’s own credit risk in other comprehensive income instead of profit or loss, unless this would create an accounting mismatch.

The Company’s non-derivative financial liabilities include its trades payable and accrued liabilities, which are designated as other liabilities.

Impairment of Financial Assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9 (5.5.15), which requires expected lifetime losses to be recognized from initial recognition of the financial assets.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The criteria used to determine risk of default and to estimate expected credit losses include:

- delinquencies in payments;
- significant financial difficulty of the debtor;
- it becomes probable that the debtor will enter bankruptcy; or
- significant changes in macroeconomic factors that indicate future defaults will vary and measurable changes in estimated future cash flows will result, provided that such information is observable and available without undue cost or effort.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

The following IFRS standards have been recently issued by the IASB or IFRIC. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

(b) IFRS 16 – Leases:

On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company does not expect the adoption of this standard will have a material impact on the Company's consolidated financial statements

NOTE 4 – MARKETABLE SECURITIES

Marketable securities are comprised of common shares in public companies received pursuant to option agreements.

	October 31, 2019	October 31, 2018
	\$	\$
Opening fairvalue	401,500	20,000
Unrealized gain (loss)	(390,500)	381,500
Ending fairvalue	11,000	401,500

See note 5(a)

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

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(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets are comprised of:

	South Big Smoky Valley, Nevada	Georgia Lake Ontario	Forgan Lake, Ontario	La Borita, Argentina	Antofagasta, Argentina	La Rioja, Argentina	Archivarca, Argentina	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, October 31, 2017	1,050,919	154,806	-	-	-	-	-	1,205,725
Acquisition costs	-	-	50,000	70,345	213,856	4,186	3,586	341,973
Exploration and evaluation expenditures	19,726	52,840	-	48,752	577,232	8,201	718	707,469
Option payments	(40,000)	-	-	-	-	-	-	(40,000)
Impairment	(114,186)	-	-	(119,097)	-	-	-	(233,283)
Foreign exchange	14,300	-	-	-	-	-	-	14,300
Subtotal	(120,160)	52,840	50,000	-	791,088	12,387	4,304	790,459
Balance, October 31, 2018	930,759	207,646	50,000	-	791,088	12,387	4,304	1,996,184
Acquisition costs	-	-	66,000	-	131,253	34,906	-	232,159
Exploration and evaluation expenditures	9,357	536	101,180	-	280,018	135,477	-	526,568
Option payments	(10,000)	-	-	-	-	-	-	(10,000)
Impairment	(954,158)	-	-	-	-	-	-	(954,158)
Foreign exchange	24,042	-	-	-	-	-	-	24,042
Subtotal	(930,759)	536	167,180	-	411,271	170,383	-	(181,389)
Balance, October 31, 2019	-	208,182	217,180	-	1,202,359	182,770	4,304	1,814,795

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

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For the year ended October 31, 2019

NOTE 5 – EXPLORATION AND EVALUATION ASSETS (Continued)

Exploration and evaluation costs were as follows:

	South Big Smoky Valley, Nevada	Georgia Lake Ontario	Forgan Lake, Ontario	La Borita, Argentina	Antofagasta, Argentina	La Rioja, Argentina	Archivarca, Argentina	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
	\$	\$	\$	\$	\$	\$	\$	\$
For the year ended October 31, 2019								
Assays	-	-	113	-	14,100	12,740	-	26,953
Drilling	5,214	-	40,247	-	-	-	-	45,461
Exploration expense	-	-	17,207	-	86,852	48,903	-	152,962
Geology and geophysics	-	-	39,823	-	25,806	23,265	-	88,894
Licenses, permits, claim fees and taxes	4,143	-	-	-	14,580	11,725	-	30,448
Local office and administration	-	-	-	-	80,126	12,218	-	92,344
Travel	-	536	3,790	-	58,554	26,626	-	89,506
Total	9,357	536	101,180	-	280,018	135,477	-	526,568
For the year ended October 31, 2018								
Assays	-	-	-	1,703	44,704	-	-	46,407
Drilling	8,357	26,549	-	-	-	-	-	34,906
Exploration expense	-	-	-	7,168	66,205	3,698	698	77,769
Geology and geophysics	500	21,000	-	15,200	353,946	-	-	390,646
Licenses, permits, claim fees and taxes	10,869	2,925	-	-	-	1,439	-	15,233
Local office and administration	-	-	-	12,477	49,053	32	20	61,582
Travel	-	2,366	-	12,204	63,324	3,032	-	80,926
Total	19,726	52,840	-	48,752	577,232	8,201	718	707,469

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

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(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 5 – EXPLORATION AND EVALUATION ASSETS (Continued)

(a) South Big Smoky Valley, Nevada

The Company entered into a mineral property acquisition agreement dated February 22, 2010, through its wholly-owned subsidiary, ULI USA, to acquire a 100% interest in certain claims comprising the South Big Smoky Valley Property located in Esmeralda County, Nevada. As consideration, the Company paid \$155,745 (US\$150,000) and issued 1,500,000 common shares at a fair value of \$85,000. The Company issued an aggregate of 300,000 common shares at a fair value of \$18,000 to arm's length parties as finders' fees related to this acquisition. During the year ended October 31, 2013, the Company staked additional claims in the South Big Smoky Valley area for \$90,701. During the year ended October 31, 2016, the Company staked additional claims in the South Big Smoky Valley area for \$60,270.

In December 2016, the Company entered into an option agreement with Metron Capital Corp. ("MCC") granting MCC the right to acquire certain mineral claims in the South Big Smoky Property. During the year ended October 31, 2019, MCC served the notice of termination of the option agreement to the Company. As at October 31, 2019, the Company has received in total \$55,000 cash (2018: \$45,000) and 100,000 common shares with a value of \$5,000 (2018: 100,000 common shares with a value of \$5,000) from MCC as part of its consideration under the option agreement.

On May 15, 2017, the Company entered into an option agreement with United Battery Metals Corp. (formerly, United Lithium Corp) ("UBM") granting UBM the right to acquire certain mineral claims in the South Big Smoky Property. During the year ended October 31, 2018, UBM served the notice of termination of the option agreement to the Company. As at October 31, 2018, the Company has received in total \$15,000 cash and 300,000 common shares with a value of \$15,000 from UBM.

During the year ended October 31, 2019, the Company relinquished its rights to the South Big Smoky Valley and recognized an impairment of \$954,158 (2018 - \$114,186) thereof.

(b) Georgia Lake Property, Ontario

The Company holds certain claims staked in Ontario.

(c) Forgan Lake, Ontario

On September 4, 2018, the Company entered into a purchase agreement with International Lithium Corp. ("ILC") to acquire 100% interest in the Forgan Lake Lithium property for a consideration of \$200,000 (\$191,000 as per the amendment agreement dated October 17, 2019) in cash and shares over the period of two years: \$25,000 in cash (paid) and \$25,000 in shares on signing (issued), \$37,500 in cash and \$37,500 in shares on the first anniversary (\$66,000 in cash paid on the first anniversary as per the amendment agreement dated October 17, 2019), and \$37,500 in cash and \$37,500 in shares on the second anniversary of the agreement date. The property is located in the Thunder Bay Mining District in Northwestern Ontario, Canada, and is subject to 1.5% NSR with an option for the Company to purchase 1% NSR for \$1,000,000. As at October 31, 2019, the Company has paid \$91,000 cash and issued 140,732 shares with value of \$25,000 as the purchase consideration.

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Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 5 – EXPLORATION AND EVALUATION ASSETS (Continued)

(d) La Borita, Argentina

On June 20, 2017, the Company entered into an option agreement to acquire 100% interest in La Borita lithium brine property located in the Antofagasta region, province of Catamarca in Argentina. Under the terms of agreement, the Company will pay \$408,320 Argentinian Pesos (approximately \$25,520 USD) to the Mining Secretariat of Catamarca to settle outstanding canon fees. Thirty days after completion of verification sampling and due diligence the Company will pay \$30,000 USD. Commencing one year thereafter, the Company will pay \$1,000,000 USD in four equal quarterly payments to acquire 100% rights to the property. The property is subject to 2.5 % royalty. During November 2017, the Company settled \$408,320 Argentinian Pesos canon fees. In December 2017, the Company paid \$30,000 USD as per the terms of option agreement. During the year ended October 31, 2018, the Company after due diligence decided not to pursue the acquisition of the property and realized an impairment loss of \$119,097 thereof.

(e) Antofagasta, Argentina

On August 4, 2017, the Company entered into an option agreement to acquire 100% interest in three lithium brine properties located in the Antofagasta region, Province of Catamarca in Argentina. Under the terms of agreement, the Company will pay \$2,486,040 Argentinian Pesos (approximately \$155,378 USD) to the Mining Secretariat of Catamarca for outstanding canon fees. Thirty days after completion of verification sampling and due diligence the Company will pay \$30,000 USD. Commencing 270 days thereafter, the Company will pay \$1,960,000 USD in eight equal quarterly payments to acquire 100% rights to the property. The property is subject to 2.5 % royalty. During November 2017, the Company settled \$1,611,520 Argentinian Pesos canon fees for certain concessions. In December 2017, the Company paid \$30,000 USD as per the terms of option agreement.

On June 28, 2019, the Company entered into an option agreement to acquire 100% interest in one lithium brine property located in the Antofagasta region, Province of Catamarca in Argentina. Under the terms of agreement, the Company will pay \$500,000 USD in five equal bi-annual payments to acquire 100% rights to the property. The property is subject to 2.5 % royalty. As at October 31, 2019, the Company has paid \$100,000 USD as per the terms of option agreement.

(f) La Rioja, Argentina

The Company holds certain claims (the “ULTRA” claims) staked in La Rioja, Argentina.

On June 24, 2019, the Company signed an agreement to acquire thirteen gold mining licenses in Chepes Area, La Rioja Province, Argentina (the “Chepes licences”). Under the agreement, thirteen gold mining licenses were acquired by making cash payments of USD \$2,000 per license. The Company will pay the vendor 10% of the profit from any future production from the Chepes licences. The Company also agreed to pay the vendor 5% of the profit from any future production from its ULTRA claims which are in the vicinity of the newly acquired Chepes licences

(g) Archivarca, Argentina

The Company holds certain claims staked in Archivarca, Argentina.

As at October 31, 2019, the Company had made advance payments towards future exploration work of \$5,024 (2018 - \$82,717).

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 6 – SHARE CAPITAL AND RESERVES

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued Share Capital

At October 31, 2019, there were 95,828,560 issued and fully paid common shares (2018 – 70,739,314).

(c) Share Issuances

The Company completed a private placement of 22,883,413 units for gross proceeds of \$1,373,005. Each unit is comprised of one common share and one half common share purchase warrant exercisable at \$0.12 for a period of two years from the date of issuance. The Company paid finders fees of 2,205,833 units for this placement. The 2,205,833 finders fee shares have a value of \$132,350. The 1,102,917 finders fee warrants have a value of \$38,860 calculated using the Black-Scholes option pricing model with an expected volatility of 122%, expected dividend yield of 0%, expected term of 2 years, and a risk-free interest rate of 1.26%.

On October 31, 2018, the Company issued 140,732 common shares with a value of \$25,000 for the Forgan Lake property acquisition.

On May 2, 2018, the Company issued 50,000 common shares at \$0.10 pursuant to the exercise of options.

On January 25, 2018, the Company issued 533,333 common shares at \$0.30 per share pursuant to the exercise of warrants for proceeds of \$160,000.

On December 15, 2017, the Company completed a private placement of 4,833,000 units for gross proceeds of \$1,208,250. Each unit is comprised of one common share and one half common share purchase warrant exercisable at \$0.40 for a period of one year from the date of issuance.

On November 15, 2017, the Company issued 460,000 common shares at \$0.13 per share pursuant to the exercise of options for proceeds of \$59,800.

(d) Warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

	Warrants	Weighted Average Exercise Price
	#	\$
Balance, October 31, 2017	1,200,000	0.30
Issued	2,416,500	0.40
Exercised	(533,333)	0.30
Expired	(666,667) ⁽¹⁾	0.30
Balance, October 31, 2018	2,416,500	0.40
Issued	12,544,623	0.12
Exercised	-	-
Expired	(2,416,500) ⁽²⁾	0.40
Balance, October 31, 2019	12,544,623	0.12

⁽¹⁾ 666,667 warrants exercisable at \$0.30 each expired unexercised.

⁽²⁾ 2,416,500 warrants exercisable at \$0.40 each expired unexercised.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 6 – SHARE CAPITAL AND RESERVES (Continued)

The following table summarizes the warrants outstanding as at October 31, 2019:

Warrants	Exercise Price	Expiry Date
#	\$	
12,544,623	0.12	May 15, 2021
12,544,623		

(e) Stock Options

The Company adopted a stock option plan whereby the Company may from time to time in accordance with the Exchange requirements grant to directors, officers, employees and consultants options to purchase common shares of the Company provided that the number of options granted, including all options granted by the Company to date, does not exceed 10% of the Company's common shares issued and outstanding at the time of granting stock options.

On April 4, 2018, the Company granted 1,010,000 stock options to certain directors, officers and consultants pursuant to the Company's Stock Option Plan. The options have an exercise price of \$0.205 per share and an expiry date of April 4, 2023. The options were valued at \$204,460, calculated using the Black-Scholes option pricing model with an expected volatility of 222%, expected dividend yield of 0%, expected term of 5 years, and a risk-free interest rate of 2.00%.

A summary of the status of the options outstanding follows:

	Options	Weighted Average Exercise Price
	#	\$
Balance, October 31, 2017	5,465,000	0.15
Granted	1,010,000	0.205
Exercised	(510,000) ⁽¹⁾	0.13
Expired	(230,000) ⁽²⁾	0.10
Balance, October 31, 2018	5,735,000	0.16
Balance, October 31, 2019	5,735,000	0.16

⁽¹⁾ 460,000 options were exercised at \$0.13 per share and 50,000 options were exercised at \$0.10 per share, the fair value of \$63,245 was reclassified from reserves to share capital.

⁽²⁾ 230,000 options exercisable at \$0.10 per share expired unexercised.

The following table summarizes the options outstanding and exercisable as at October 31, 2019:

Shares	Exercise Price	Expiry Date	Exercisable
#	Per Share		#
125,000	0.10	April 19, 2023	125,000
10,000	0.10	February 14, 2021	10,000
2,440,000	0.13	March 8, 2026	2,440,000
2,150,000	0.19	September 08, 2022	2,150,000
1,010,000	0.205	April 4, 2023	1,010,000
5,735,000			5,735,000

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the year ended October 31, 2019

NOTE 7 – RELATED PARTY TRANSACTIONS

(a) Related party transactions

During the year ended October 31, 2019, the Company incurred the following transactions with (i) a company that is controlled by an officer of the Company, (ii) a Company controlled by the CFO and (iii) with a company controlled by the VP exploration:

	Year ended October 31,	
	2019	2018
	\$	\$
Legal fees (i)	11,171	4,871
Accounting fees (ii)	72,763	60,000
Geological fees (iii)	70,875	60,000
	154,809	124,871

(b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	Year ended October 31,	
	2019	2018
	\$	\$
Short-term benefits ⁽¹⁾	102,500	90,000
Share-based payments ⁽²⁾	-	155,369
	102,500	245,369

⁽¹⁾ Short-term benefits include management fees paid directly to key management.

⁽²⁾ Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (note 6(e)).

(c) Related party balances

Included in accounts payable are \$776 owed to the CEO (2018 - \$6,456), \$nil owed to the VP Exploration (2018 - \$1,859), and \$263 to the CFO (2018 - \$4,981) for fees and expenses.

Included in prepaid expenses is \$409 (2018: \$nil) advanced to the VP Exploration for expenses.

NOTE 8 – SEGMENTED INFORMATION

The Company operated in the following geographic segments as at:

	Canada	United States	Argentina	Total
	\$	\$	\$	\$
Exploration and evaluation assets				
October 31, 2019	425,362	-	1,389,433	1,814,795
October 31, 2018	257,646	930,759	807,779	1,996,184

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Notes to the Consolidated Financial Statements

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NOTE 9 - FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The carrying values of amounts receivable and trade payables approximate their fair values because of their short-term nature.

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

The fair value of the cash and cash equivalents and marketable securities is Level 1 inputs.

(b) Financial Instruments Risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes:

(i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances and short-term bank guaranteed investment certificates (“GIC”) at the bank and amounts receivable. The risk to the Company managed as its investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The credit risk from amounts receivable is also minimal as at October 31, 2019, the amounts receivable consists primarily of GST.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2019, the Company had a cash and cash equivalents balance of \$927,528 to settle current liabilities of \$81,002 that are considered short term. Management believes that the Company will be able to obtain financing as required to meet its obligations and commitments for fiscal 2020.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

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NOTE 9 - FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

(iii) Market Risk

a) Currency Risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has subsidiaries in the United States and the Republic of Serbia and holds cash in Canadian dollars, United States dollars, Euros and Serbian Dinar currencies in line with forecasted expenditures. The Company's main risk is associated with fluctuations in the US dollar, Euros and Serbian Dinar and assets and liabilities are translated based on the foreign currency translation policy described in Note 2.

The Canadian dollar equivalent of the Company's net exposure to the US dollar, Euros and Serbian Dinar on financial instruments is as follows:

	October 31, 2019	October 31, 2018
	\$	\$
US dollar:		
Cash	665,601	465,508
Trade payable and accrued liabilities	(4,488)	(43,583)
Net US dollar	661,113	421,925
Serbian Dinar:		
Amounts receivable	630	636
Trade payable and accrued liabilities	(43,881)	(44,242)
Net Serbian Dinar	(43,251)	(43,606)

The Company has determined that an effect of a 10% increase or decrease in the US dollar and Serbian Dinar against the Canadian dollar on financial assets and liabilities, as at October 31, 2019, denominated in US dollars and Serbian Dinar, would result in an increase or decrease of approximately \$61,395 to the net loss for the year ended October 31, 2019. At October 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest on cash and cash equivalents is typical of Canadian banking rates, which are at present low, however, the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the Company's consolidated financial statements.

c) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its exploration and evaluation assets described in Note 5 of which production is not expected in the near future.

Ultra Resources Inc. (Formerly Ultra Lithium Inc.)

Notes to the Consolidated Financial Statements

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NOTE 9 - FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

(iii) Market Risk (Continued)

During the year ended October 31, 2019, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

NOTE 10 - CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support the acquisition, exploration and development of exploration and evaluation assets such that it can continue to provide returns to shareholders and benefits for other stakeholders..

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or sell assets to settle liabilities. The Company has no long-term debt and is not subject to externally imposed capital requirements.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities, loans, and advances from related parties. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

The Company is not subject to any externally imposed capital requirements.

There were no changes in the Company's management of capital during the year ended October 31, 2019.

NOTE 11 – INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	2019	2018
	\$	\$
Net loss	(1,911,559)	(519,033)
Expected income tax recovery at the statutory tax rate	(516,000)	(140,000)
Change in statutory, foreign tax, foreign exchange rates and other	79,000	(10,000)
Permanent differences	53,000	4,000
Share issue cost	(38,000)	(2,000)
Adjustment to prior years provision versus statutory tax returns	(9,000)	-
Change in unrecognized deductible temporary differences	431,000	148,000
Income tax recovery	-	-

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Notes to the Consolidated Financial Statements

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For the year ended October 31, 2019

NOTE 11 – INCOME TAXES (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	2019		2017	
	\$		\$	
Exploration and evaluation assets	6,307,000	No expiry date	5,481,000	No expiry date
Share issue costs	119,000	No expiry date	10,000	No expiry date
Marketable securities	9,000	No expiry date	-	No expiry date
Allowable capital losses	33,000	No expiry date	33,000	No expiry date
Non-capital losses available for future period	7,438,000	2020 to no expiry	6,413,000	2019 to no expiry

Tax attributes are subject to review, and potential adjustment, by tax authorities.

In December 2017, the United States Government proposed changes to the federal corporate income tax rate to reduce the rate from 34% to 21% effective January 1, 2018 and onwards. This change in tax rate was substantially enacted on December 22, 2017. The relevant deferred tax balances have been remeasured to effect the decrease in Company's federal income tax rate from 34% to 21% applicable to the Company's US subsidiary.

NOTE 12 – SUBSEQUENT EVENTS

The Company paid the second installment of \$100,000 USD as per the Antofagasta Option agreement dated June 28, 2019. *Note 5(e)*