

RAINY MOUNTAIN ROYALTY CORP.
(An Exploration Stage Company)

Interim Financial Statements
(Unaudited – Prepared by Management)

For the six-month period ended October 31, 2019
(Expressed in Canadian Dollars)

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RAINY MOUNTAIN ROYALTY CORP.

Dated December 9, 2019

Management's Comments on Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements of Rainy Mountain Royalty Corp. for the six months ended October 31, 2019 and 2018 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the six-month period ended October 31, 2019.

RAINY MOUNTAIN ROYALTY CORP.

Statements of Financial Position

As at October 31, 2019 and April 30, 2019

(Unaudited – Expressed in Canadian Dollars)

	October 31, 2019	April 30, 2019
ASSETS		
Current		
Cash and cash equivalents	\$ 47	\$ 9,476
Marketable securities (Note 4)	-	6,000
Receivables	2,450	2,530
Prepaid expenses	7,950	7,064
	<u>10,447</u>	<u>25,070</u>
Deposits (Note 7)	-	15,000
Equipment (Note 5)	790	929
Exploration and evaluation assets (Note 6)	<u>2,161,094</u>	<u>2,158,742</u>
	<u>\$ 2,172,331</u>	<u>\$ 2,199,741</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 91,589	\$ 199,217
Loans payable (Note 7)	145,175	17,500
	<u>236,764</u>	<u>216,717</u>
Shareholders' equity		
Capital stock (Note 8)	23,574,035	23,502,924
Share-based payment reserve (Note 9)	3,028,043	3,028,043
Deficit	<u>(24,666,511)</u>	<u>(24,547,943)</u>
	<u>1,935,567</u>	<u>1,983,024</u>
	<u>\$ 2,172,331</u>	<u>\$ 2,199,741</u>

Nature of operations and going concern (Note 1)

Commitments (Note 12)

On behalf of the Board:“Sean Charland”

Director

“Shawn Smith”

Director

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

RAINY MOUNTAIN ROYALTY CORP.

Interim Statements of Loss and Comprehensive Loss

For the three and six months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Three-month period ended October 31, 2019	Three-month period ended October 31, 2018	Six-month period ended October 31, 2019	Six-month period ended October 31, 2018
EXPENSES				
Consulting and director fees (Note 7)	\$ 12,500	\$ 18,250	\$ 30,000	\$ 42,125
Depreciation	69	92	139	192
Investor relations	475	1,221	475	1,701
Marketing	111	143	111	143
Office and miscellaneous (Note 7)	12,958	4,957	24,248	11,261
Professional fees (Note 7)	9,095	17,584	24,220	35,270
Rent and utilities (Note 7)	1,985	5,955	7,939	11,909
Transfer agent and regulatory fees	9,323	14,122	12,923	19,183
Travel	-	89	-	257
Wages and benefits	7,323	11,108	19,922	20,663
Operating loss	(53,839)	(73,521)	(119,977)	(142,704)
OTHER INCOME (EXPENSES)				
Fair value adjustment on marketable securities (Note 4)	-	19,902	1,500	(2,898)
Loss on sale of marketable securities	(110)	(32,671)	(110)	(32,671)
Gain on sale of equipment	-	8,000	-	8,000
Other income (expense)	-	317	19	405
	(110)	(4,452)	1,409	(27,164)
Net loss and comprehensive loss for the period	\$ (53,949)	\$ (77,973)	\$ (118,568)	\$ (169,868)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.04)
Weighted average number of common shares outstanding	5,548,709	5,392,222	5,478,202	4,619,852

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

RAINY MOUNTAIN ROYALTY CORP.

Interim Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of common shares	Capital stock	Share-based payment reserve	Deficit	Total
Balance as at April 30, 2018	5,392,222	\$ 23,476,092	\$ 3,028,043	\$ (23,156,158)	\$ 3,347,977
Net loss for the period	-	-	-	(169,868)	(169,868)
Balance as at October 31, 2018	5,392,222	23,476,092	3,028,043	(23,326,026)	3,178,109
Warrants exercised	733	1,832	-	-	1,832
Shares issued for mineral properties	51,667	25,000	-	-	25,000
Net loss for the period	-	-	-	(1,221,917)	(1,221,917)
Balance as at April 30, 2019	5,444,622	23,502,924	3,028,043	(24,547,943)	1,983,024
Issued - Loan bonus shares	355,556	71,111	-	-	71,111
Net loss for the period	-	-	-	(118,568)	(118,568)
Balance as at October 31, 2019	5,800,178	\$ 23,574,035	\$ 3,028,043	\$ (24,666,511)	\$ 1,935,567

On September 30, 2019, the Company's common shares were consolidated on a basis of one post-consolidated common shares for every ten pre-consolidated common shares. The number of the shares, options and warrants presented have been adjusted to reflect the impact of these share consolidation.

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

RAINY MOUNTAIN ROYALTY CORP.

Interim Statements of Cash Flows

For the three and six months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Three-month period ended October 31, 2019	Three-month period ended October 31, 2018	Six-month period ended October 31, 2019	Six-month period ended October 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (53,949)	\$ (77,973)	\$ (118,568)	\$ (169,868)
Items not affecting cash				
Depreciation	69	92	139	192
Interest accretion	5,926	-	5,926	-
Fair value adjustment on marketable securities	-	(19,902)	(1,500)	2,898
Loss on sale of marketable securities	110	24,671	110	24,671
Change in non-cash working capital items				
Receivables	(264)	(678)	80	65,327
Prepaid expenses	(3,768)	(3,445)	(886)	(563)
Deposits	5,000	-	15,000	-
Accounts payable and accrued liabilities	(157,814)	(4,655)	(107,628)	281
Net cash used in operating activities	(204,690)	(81,890)	(207,327)	(77,062)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in exploration and evaluation assets	(1,176)	71,857	(2,352)	65,494
Proceeds on sale of equipment	-	8,000	-	8,000
Proceeds on sale of marketable securities	7,390	12,531	7,390	12,531
Net cash provided by (used in) investing activities	6,214	92,388	5,038	86,025
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan repayments	(18,000)	-	(18,000)	-
Loan proceeds	210,360	-	210,860	-
Net cash provided by financing activities	192,360	-	192,860	-
Change in cash and cash equivalents during the period	(6,116)	10,498	(9,429)	8,963
Cash and cash equivalents, beginning of period	6,163	8,526	9,476	10,061
Cash and cash equivalents, end of period	\$ 47	\$ 19,024	\$ 47	\$ 19,024

Supplemental disclosure with respect to cash flows (Note 10)

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

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Nature of operations

Rainy Mountain Royalty Corp. (the “Company”) was incorporated under the laws of British Columbia and was continued under the laws of Ontario on December 11, 2005. On February 5, 2010, the Company continued into British Columbia from Ontario and concurrently changed its name from “East West Resource Corporation” to “Rainy Mountain Royalty Corp.”. The Company is engaged in the acquisition and exploration of mineral resource properties.

Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume 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 business.

Management will attempt to secure additional funding so that its capital resources will be sufficient to carry its operations through the next twelve months although there can be no assurance that it will be successful. There are several material uncertainties that may cast significant doubt on the Company’s ability to continue as a going concern; the Company has incurred significant operating losses over the past several fiscal years (2019 – \$1,391,785; 2018 – \$682,588), has a working capital deficit of \$226,317 and a deficit of \$24,666,511. The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The recoverability of amounts shown for exploration and evaluation assets is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production or proceeds from disposition of exploration and evaluation assets.

The application of the going concern concept is dependent upon the Company’s ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management is actively engaged in the review and due diligence on new projects, is seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management’s plan will be successful. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PREPARATION

Statement of compliance

These interim financial statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these financial statements are based on IFRS issued and effective as of April 30, 2019. The Board of Directors approved the financial statements for issue on December 9, 2019.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value or amortized cost, as explained in the accounting policies set out in Note 3.

Functional and presentation currency

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

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these judgments and estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those judgments and estimates.

The most significant accounts that require judgments and estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation assets, determination of site reclamation obligations, the assumptions used in share-based payments, and recognition of deferred income tax amounts.

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

Economic recoverability and probability of future economic benefits of exploration and evaluation costs

Management has determined that exploration, evaluation and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

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

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (Continued)

Use of estimates and judgements (Continued)

Valuation of share-based payments

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

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Site restoration obligations

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Restoration liabilities include an estimate of the future cost associated with the reclamation of property and equipment, discounted to its present value, and capitalized as part of the cost of that asset. The estimated costs are based on the present value of the expenditure expected to be incurred. Changes in the discount rate, estimated timing of reclamation costs, or cost estimates are dealt with prospectively by recording a change in estimate, and a corresponding adjustment to equipment. The accretion on the reclamation provision is included in the statement of loss and comprehensive loss. Actual expenditures incurred are charged against the reclamation liability.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a list of significant accounting policies used by the Company.

(a) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For the years presented, the Company only held cash.

(b) Financial instruments

The Company adopted all of the requirements of IFRS 9 – Financial Instruments (“IFRS 9”) as of May 1, 2018. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The Company did not restate prior periods and determined that the adoption of IFRS 9 resulted in no impact to the opening accumulated deficit on May 1, 2018.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Impairment of financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive loss.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (Continued)

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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 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).

(c) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated at the following annual rates using the declining balance method:

Field equipment	30%
Vehicles	30%

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statements of loss and comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(d) Exploration and evaluation assets

Exploration and evaluation

Once a license to explore an area has been secured, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all proceeds received, during the exploration and evaluation stage, against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling.

The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of an impairment. All capitalized exploration and evaluation expenditures are reviewed annually for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, it is charged to profit or loss. An impairment charge relating to exploration and evaluation assets is subsequently reversed when new exploration results or actual or potential proceeds on sales or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Exploration and evaluation assets (Continued)

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

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. At such time as commercial production commences, capitalized costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

Although the Company has taken steps to verify the title to exploration and evaluation assets in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(e) Impairment of non-current assets

At each financial position reporting date, the Company's non-current assets are reviewed to determine whether there is any indication that the carrying value of those assets are impaired and may not be recoverable. If any such indication exists, the recoverable amount of the asset is evaluated at the level of a cash-generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(f) Capital stock

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Equity units

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The proceeds from the issue of units is allocated between common shares and share purchase warrants where the fair value of the common shares is based on the market value on the date of issue, of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against common share component.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Capital stock (Continued)

Flow-through units

The Company will from time to time issue flow-through shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates the flow-through share into i) capital stock, and ii) a flow-through share premium, equal to the estimated premium if any, which is recognized as a liability. Upon exploration expenditures being incurred, the Company derecognizes the liability and recognizes the flow-through premium in income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

(g) Share-based payment transactions

The Company's stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the year during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged either to operations or exploration and evaluation assets, with the offset credit to share-based payment reserve, over the vesting period. If and when the stock options are exercised, the applicable amounts from share-based payment reserve are transferred to capital stock.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

(h) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company calculates diluted earnings per share, whereby the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the deferred tax asset.

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

(j) Provision for site reclamation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage, which is created on an ongoing basis during production, are provided for at their net present values and charged against profits as extraction progresses. As at October 31, 2019 and 2018, the Company has no provisions for site reclamation.

(k) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

October 31, 2019

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) New accounting standards

The Company has adopted the following revised or new IFRS that have been issued:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019. There was no impact on the adoption of IFRS 16 on the Company's financial statements.

4. MARKETABLE SECURITIES

Marketable securities comprise common shares in publicly and non-publicly traded companies as follows:

	October 31, 2019	April 30, 2019
White Metal Resources Ltd. – Nil common shares (April 30, 2019 150,000 common shares)	\$ -	\$ 6,000
At fair market value	\$ -	\$ 6,000

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

5. EQUIPMENT

	Vehicles	Total
Cost		
Balance, April 30, 2018	\$ 9,074	\$ 9,074
Dispositions during the year	-	-
Balance, April 30, 2019	9,074	9,074
Dispositions during the period	-	-
Balance, October 31, 2019	\$ 9,074	\$ 9,074
Accumulated depreciation		
Balance, April 30, 2018	\$ 7,746	\$ 7,746
Depreciation for the year	399	399
Balance, April 30, 2019	8,145	8,145
Depreciation for the period	139	139
Balance, October 31, 2019	\$ 8,284	\$ 8,284
Carrying amounts		
As at April 30, 2019	\$ 929	\$ 929
As at October 31, 2019	\$ 790	\$ 790

6. EXPLORATION AND EVALUATION ASSETS

Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the confirmation of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of the exploration and the development of a mineral property, the potential for production on the property may be diminished or negated.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Interim Financial Statements

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6. EXPLORATION AND EVALUATION ASSETS (Continued)**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. However, such properties may be subject to prior agreements or transfer and title may be affected by undetected defects.

The Company has entered into agreements to acquire and explore certain mineral properties located in various regions of Canada. Numerous aboriginal groups are claiming inextinguishable aboriginal title to the lands and resources in these regions, which may include one or more of the mineral claims beneficially owned by the Company. The extent to which any successful aboriginal claim would materially affect the ability of the Company to exploit its mineral properties is not determinable at this time.

The Company's expenditures on exploration and evaluation assets are as follows:

	Marshall Lake	Brunswick	Other Properties *	Total
Balance, April 30, 2019	<u>\$ 2,158,737</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 2,158,742</u>
Deferred costs:				
Additions during the year:				
Field office expense	-	1,002	-	1,002
Storage	1,350	-	-	1,350
Net change for the period	<u>1,350</u>	<u>1,002</u>	<u>-</u>	<u>2,352</u>
Balance, October 31, 2019	<u>\$ 2,160,087</u>	<u>\$ 1,003</u>	<u>\$ 4</u>	<u>\$ 2,161,094</u>

* Other Properties currently consist of the Clay/Powell, Eva Kitto, Max and Norton Lake Properties.

RAINY MOUNTAIN ROYALTY CORP.

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(Unaudited - Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

	Clay/ Powell	Marshall Lake	Brunswick	Other Properties *	Total
Balance, April 30, 2018	\$ 1	\$ 2,142,637	\$ 1,178,309	\$ 4	\$ 3,320,951
Deferred costs:					
Additions during the year:					
Acquisitions and staking	-	12,500	25,000	-	37,500
Field office expense	-	-	3,001	-	3,001
Fuel	-	-	64	-	64
Geological and labour	-	-	(2,962)	-	(2,962)
Reports	-	-	4,492	-	4,492
Storage	-	3,600	-	-	3,600
Expense recovery	-	-	(100,000)	(1)	(100,001)
Net additions (recoveries) for the year	-	16,100	(70,405)	(1)	(54,306)
Impairment of exploration and evaluation assets	-	-	(1,107,903)	-	(1,107,903)
Net change for the year	-	16,100	(1,178,308)	(1)	(1,162,209)
Balance, April 30, 2019	\$ 1	\$ 2,158,737	\$ 1	\$ 3	\$ 2,158,742

* Other Properties currently consist of the Eva Kitto, Max and Norton Lake Properties.

Brunswick Property

On September 1, 2016, the Company entered into an option agreement to acquire an undivided 100% interest in a 13 claim unit property located in Brunswick Twp., Ontario (the "Brunswick Property"). The Brunswick Property is currently owned by Michael Tremblay of Wawa, Ontario (as to 50% interest) and Fiorella Santamaria of Sault Ste. Marie, Ontario (as to 50% interest) (the "Optionors"). Under the option agreement, the Company can earn a 100% interest in the Brunswick Property by making a series of cash payments over five years (totalling \$150,000 of which \$30,000 was paid in cash and shares during the year ended April 30, 2017, \$20,000 was paid in shares during the year ended April 30, 2018 and \$25,000 was paid in shares during the year ended April 30, 2019) and issuing a total of 300,000 shares in 3 instalments (100,000 shares (issued) upon approval of the option agreement by the TSX Venture Exchange "TSX-V" (the "Effective Date"); 100,000 shares 12 months following the Effective Date (issued); and 100,000 shares 24 months following the Effective Date (issued). If an indicated resource is outlined for the Brunswick Property by the Company, a further 100,000 bonus shares will be issued to the Optionors. At the Company's election, any cash payment may be paid in shares (based on the 10 day trading average for the Company's shares as of the due date for such cash payment). A 2% NSR has been retained by the Optionors and the Company has the right to purchase one half thereof (1% NSR) at any time for \$1.0 million, and as well, the Company has a right of first refusal to purchase the remaining 1% NSR.

On May 8, 2017, the Company concluded a Memorandum of Understanding with the Mattagami First Nation ("Mattagami") in connection with the Company's optioned gold exploration property project (the "Brunswick Property") located in the Timmins area of Ontario. The agreement calls for the Company to (i) issue 50,000 common shares (issued); (ii) issue 50,000 stock options (issued); and (iii) pay an amount equal to 2% of the first \$5,000,000 of aggregate exploration expenditures and 1% thereafter to Mattagami.

During the year ended April 30, 2019, the Company fully impaired the Brunswick property due to inactivity.

RAINY MOUNTAIN ROYALTY CORP.

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

Clay and Powell Properties

During 2003, the Company and Mega Uranium Ltd. (“Mega”) acquired a 100% interest (50% each) in 11 claims located in the Thunder Bay Mining Division, Ontario, by paying a total of \$88,000 (\$44,000 each) (\$44,000 paid by the Company) and the issuance of 100,000 common shares of the Company (issued).

In August 2016, the Company entered into an agreement with Mega Uranium Ltd. (“Mega”) to acquire its 50% interest in the Powell Property. In consideration for Mega’s 50% interest in the Powell Property, the Company issued 500,000 shares to Mega, and as a result, the Company now owns 100% of the Powell Property.

During the year ended April 30, 2017, the Company recorded an impairment charge of \$34,508 related to the Clay and Powell Properties since the Company has no currently planned exploration activities for the properties.

On October 4, 2017, the Company and International Bethlehem Mining Corp. (“International Bethlehem”) entered into an option agreement (the “Option Agreement”). Pursuant to the Option Agreement, the Company has granted the option (the “Option”) to International Bethlehem acquire an undivided 90% interest in certain mining claims, referred to as the Powell Property, held by the Company in Ontario, Canada (the “Property”), on the terms and conditions of the Option Agreement and subject to the approval of the TSX-V. In order to exercise the Option and acquire an undivided 90% interest in the Property, the International Bethlehem is required to: (i) issue 2,000,000 common shares to the Company; and (ii) incur exploration expenditures in the aggregate amount of \$1,000,000 on the Property over a five year period commencing on the date the Exchange approves the Option Agreement. Upon exercise of the Option, the Company and International Bethlehem will, in good faith, negotiate and enter into a joint venture agreement provided, however; International Bethlehem has the option to purchase the 10% interest retained by the Company upon exercise of the Option in full in exchange for 1,000,000 shares of the International Bethlehem and a 2% net smelter royalty (“NSR”) on the Property. International Bethlehem has the right to purchase, at any time, half of the NSR for \$1,000,000 reducing the NSR to 1%. The Option Agreement is considered to be a non-arm’s length transaction and remains subject to approval by the Exchange. The Company has not yet received TSX-V approval.

Eva Kitto Property

The Company holds a 50% interest in the property with International Bethlehem Mining Corp. (“International Bethlehem”) holding the other 50% interest. The property is subject to an aggregate NSR royalty of 3.5%, of which 2% can be purchased at any time for \$2,000,000. The Company and International Bethlehem are related parties by virtue of having certain common directors.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Financial Statements

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(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

Marshall Lake Property

The Marshall Lake property is located in the Thunder Bay Mining Division, Ontario, and the Company has a joint venture interest in certain claim units as follows:

- (i) The Company acquired a 100% interest in certain mineral leases from Teck Cominco Ltd. ("Teck") and the underlying titleholder by issuing 250,000 units (issued during fiscal 2007), each unit consisting of one common share and one two-year warrant to purchase an additional common share for \$0.13 (exercised), and spending \$100,000 on exploration on these claims prior to December 31, 2009 (incurred). Teck retained a 2% NSR royalty and had a back-in right to earn a 51% interest in the claims by spending two times what the Company incurred in exploration work on these claims. The back-in right existed for a five year period following completion of the Company's initial \$100,000 exploration commitment, and therefore expired in March 2013.
- (ii) The Company acquired an option from Carey Lance (the "Vendor") of Ontario to purchase a 100% interest in certain surface and mineral rights comprising 421 claim units in consideration for the issuance of 200,000 shares (100,000 issued during fiscal 2007 and 100,000 issued during fiscal 2008) and the payment of \$150,000 in stages over seven years (fully paid as of June 13, 2012). The Vendor retained a 2% NSR royalty of which the Company can purchase one-half thereof (1% NSR) at any time for \$1,000,000 and the Company has a right of first refusal on the remaining 1% NSR.
- (iii) The Company acquired a 100% interest in certain leases and claim units from NWT Copper Mines ("NWT") by making aggregate cash payments of \$75,000 (paid) and incurring \$1,000,000 in exploration over three years (completed). NWT retained a 3% NSR royalty on precious metals and a 2% NSR on base metals, with 1% of either royalty purchasable by the Company for \$2 million and the Company having a right of first refusal on the remaining portions of these royalties. In connection with the NSRs, the Company is required to pay an annual advance royalty of \$25,000, which payments are credited against royalties otherwise payable to NWT. All annual advance royalty payments have been paid to date and such payments are shared on a 50/50 basis with Copper Lake Resources Ltd. ("Copper Lake") pursuant to an option agreement dated July 6, 2010, as amended, as referred to herein.

By agreement dated July 6, 2010, and as amended, the Company and Marshall Lake Mining Limited ("MLMP"), a privately held company based in the United Kingdom (each holding a 50% interest in the Marshall Lake property), granted an option to Copper Lake, whereby Copper Lake has the right to acquire up to a 50% joint venture interest in the Marshall Lake property and project. Under the option agreement, Copper Lake is required to incur \$4,000,000 in expenditures on the property over five years and to issue 2,000,000 shares to the Company over four years. Copper Lake earns a 12.5% joint venture interest in the Marshall Lake project for every \$1,000,000 in expenditures incurred and for every 400,000 shares issued (except for the initial 12.5% interest, whereby Copper Lake was required to issue 800,000 shares to the Company). To date, the Company has received 2,000,000 shares of Copper Lake valued at \$296,000 at the time of issue. Additionally, once Copper Lake has completed its share issuance and spending requirements, it has the additional option to increase its joint venture interest to 75% by incurring such additional property expenditures as are necessary to take the Marshall Lake project to bankable feasibility stage. Prior to July 22, 2014, the Company and Copper Lake had certain directors in common. By amending agreement, dated July 8, 2015, the Company and Marshall Lake Mining agreed to extend Copper Lake's initial earn-in option on the Marshall Lake property to July 15, 2017 in return for Copper Lake issuing 500,000 shares (valued at \$22,500 at the time of issue) to each of the Company and Marshall Lake Mining, which shares were issued as of July 30, 2015. By amending agreement, signed April 20, 2017 the Company agreed to further extend Copper Lake's initial earn-in option on the Marshall Lake property to July 15, 2018 in return for Copper Lake issuing 600,000 shares (issued) to the Company.

RAINY MOUNTAIN ROYALTY CORP.

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

Marshall Lake Property (Continued)

On September 29, 2016, Copper Lake announced that it received shareholder and TSX Venture Exchange approvals, to an agreement with MLMP to acquire its 31.25% interest in the Marshall Lake property. The acquisition gave Copper Lake a 68.75% interest in the Marshall Lake property with the remaining 31.25% held by the Company.

On June 14, 2018, the Company has approved the expenditures and the earn in of Copper Lake's 75% interest.

Max Property

As of February 2008, the Company had staked certain claim units known as the Max Property.

By option and joint venture agreement dated June 20, 2008 (as amended by agreement dated August 14, 2009), the Company granted Northern Shield Resources Inc. ("Northern") an option to earn a 50% interest in the Max Property in consideration for an initial payment of \$75,000 (received), the issuance of 300,000 shares (received at a value of \$168,000), an expenditure commitment of \$250,000 in 2008 (completed) and \$1,000,000 within the next two years. By August 30, 2009, Northern was required to pay an additional option payment of \$15,000 (received) and issue 100,000 shares to the Company (received at a value of \$11,000).

By virtue of the payments made, expenditures incurred, and shares issued, Northern acquired a 50% interest in the Max Property and a 50/50 joint venture was formed between the Company and Northern. In October 2010, the Company elected not to participate in Northern's \$450,000 drill program on the Max Property, and accordingly, the Company's joint venture interest in the Max Property was reduced to 40.9% interest. As of June 18, 2014, Northern assigned and sold its ownership interest in the Max Property and its interest under the joint venture agreement to Great Lakes Resources LLC, a Virginia corporation.

During the year ended April 30, 2015, the Company fully impaired the Max Property due to inactivity.

Norton Lake Property

The Company had a 24.5% interest in certain claim units in the Norton Lake area (the "Norton Lake Project") with White Metal Resources Corp. ("White Metal") owning 24.5% and Cascadia International Resources ("Cascadia") owning 51%. Some of the claim units are subject to a 2% NSR (the Company may purchase 1% of the NSR for \$1,000,000 and has a right of first refusal on the remaining 1% NSR).

During the 2009 fiscal year, Cascadia assigned its 51% joint venture interest to Copper Lake Resources Ltd. ("Copper Lake"). By agreement dated February 21, 2012, the Company, Copper Lake and White Metal combined and their respective interests in the Norton West and Norton East Properties, and as a result, the Company has a 32.6% interest in the combined Properties (with Copper Lake having a 57.6% interest and White Metal having a 9.8% interest). Further, by agreement dated July 3, 2014, the joint venture interests were again adjusted amongst the parties to reflect their respective contributions towards the June 2012 to May 2013 exploration program on the Properties, and as a result, the Company now has a 30.21% interest in the combined Properties (with Copper Lake having a 60.70% interest and White Metal having a 9.09% interest). Prior to July 22, 2014, the Company and Copper Lake had certain directors in common.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Financial Statements

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(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

Norton Lake Property (Continued)

On June 29, 2015, Copper Lake announced that it had acquired White Metal's 9.09% interest in the Norton Lake Property, and as a result, the Company continues to hold a 30.21% interest and Copper Lake now holds a 69.79% interest.

During the year ended April 30, 2016, the Company recorded an impairment charge of \$730,161 related to the Norton Lake Property due to inactivity.

Seagull Property

The Company and White Metal Resources Corp. ("White Metal") jointly owned a 100% interest in two mineral claim groups in the Anders Lake and Leckie Lake areas located north-northeast of Thunder Bay, Ontario (the "Seagull property"). The Seagull property is subject to two separate royalties (2.4% NSR in total), of which 1.4% can be purchased for \$2 million.

The Company subsequently entered into an option agreement dated October 2, 2008 with White Metal and Black Panther Mining Corp., now known as Canadian International Pharma Corp. ("CIPC"), whereby CIPC was granted an option to earn an initial 30% interest (earned) in the Seagull property. In order to acquire its initial 30%, CIPC was required to spend \$500,000 in exploration expenditures by February 28, 2009 (completed).

By amending agreement dated October 15, 2010, CIPC increased its ownership interest in the Seagull property from 30% to 40% interest (based on its exploration expenditures incurred), with the Company and White Metal each owning a 30% interest.

During the year ended April 30, 2016, the Company recorded an impairment charge of \$720,015 related to the Seagull Property due to inactivity.

By agreements dated March 7, 2019, the Company and CIPC sold their respective 30% and 40% property interest in the Seagull property to White Metal. For its 30% property interest, the Company received 150,000 shares of White Metal (valued at \$7,500 – see Note 4) and retained a 0.3% net smelter return royalty (the "NSR"), which NSR can be purchased by White Metal at any time up until commencement of commercial production for \$450,000. The Company recorded a recovery of \$7,499 on receipt of 150,000 common shares in the Statements of Loss and Comprehensive Loss.

The Company and CIPC have certain common directors.

RAINY MOUNTAIN ROYALTY CORP.

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7. RELATED PARTY TRANSACTIONS

The following is a list of related party transactions, which have not yet been otherwise disclosed:

- (a) As at October 31, 2019, accounts payable and accrued liabilities include \$35,971 (April 30, 2019 - \$104,732) owing to companies with certain directors in common.
- (b) The Company paid or accrued the following amounts to companies controlled by directors and former directors or companies having certain directors and former directors in common during the years ended October 31, 2019 and 2018:

	October 31, 2019	October 31, 2018
Consulting and director fees	\$ 27,000	\$ 32,000
Geological and consulting	\$ -	\$ 5,625
Interest	\$ 624	\$ -
Rent and utilities	\$ 7,939	\$ 11,909
Share-based compensation	\$ -	\$ -

Key management compensation includes the following:

	October 31, 2019	October 31, 2018
Consulting and director fees	\$ 27,000	\$ 32,000
Share-based compensation	\$ -	\$ -

- (c) During the period ended October 31, 2019, the Company reimbursed Waterfront Communications Inc. (a company with certain directors in common) on a cost basis, to cover shared administrative and geological payroll costs in the amount of \$19,922 (October 31, 2018 - \$20,663) and shared expenses in the amount of \$12,556 (October 31, 2018 - \$11,552). The Company has a \$nil deposit (April 30, 2019 - \$15,000) with Waterfront Communications Inc. to cover shared payroll and expenses.
- (d) The Company entered into certain loan agreements. The loans were provided by a company controlled by a director and an officer and each loan advance is for a term of one year with interest at a rate of 1% per month (12% per annum). The Company borrowed \$7,500 and \$10,500, respectively and have repaid these loans in full in August 2019.
- (e) Notes payable - In August 2019, the Company entered into a Loan Agreement for \$200,000 with further advances of \$10,360 during the period with certain insiders and/or companies controlled by insiders (the "Lenders"). The loan bears interest at an interest rate of 10% per annum and is due on August 15, 2020.

In conjunction with the notes, the Company issued 355,556 bonus shares with a fair value of \$71,111 at the time of issue to the Lenders and is being amortized to the note payable using the effective interest rate. The value of the bonus shares is included in the calculation of the carrying value of the notes payable resulting in the carrying value for the loan at October 31, 2019 of \$141,815 (2018 - \$nil). Accrued interest of \$4,282 (2018 - \$nil) on this loan has been included in bank charges, and interest and interest payable of \$4,282 has been included in accounts payable and accrued liabilities. The effective interest rate on this note is determined to be 47.4%.

The Company is a party to certain exploration property transactions with companies with certain directors in common and certain former directors in common (Note 6). Except as noted above with respect to the loan agreements, amounts due to (from) related parties are unsecured and have no stated terms of repayment and/or interest.

RAINY MOUNTAIN ROYALTY CORP.

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8. CAPITAL STOCK

Authorized share capital:

Unlimited number of common shares, without par value

During the period ended October 31, 2019, the following share transactions were completed by the Company:

- Effective September 30, 2019 consolidation 10 old for 1 new share were completed 5,444,622 shares
- On October 3, 2019, 355,556 loan bonus shares were issued (with a value of \$71,111) in connection with the \$200,000 in loan proceeds (Note 7 (e)).

During the period ended April 30, 2019, the following share transactions were completed by the Company:

- On March 1, 2019, 7,328 warrants were exercised to acquire 7,328 common shares at a price of \$0.25 per share.
- On September 4, 2018, 516,666 shares were issued (with a value of \$25,000) in connection with the Brunswick Property.

9. STOCK OPTIONS AND WARRANTS

Stock options

The Company has a rolling stock option plan, whereby it is allowed to issue options of up to 10% of the Company's issued and outstanding common shares at any given time. Under the plan, options can be granted for a maximum term of five years and vesting of stock options is at the discretion of the Board of Directors at the time options are granted.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable at April 30, 2018	456,975	\$ 0.90
Expired	<u>(73,500)</u>	1.20
Outstanding and exercisable at April 30, 2019	383,475	0.90
Cancelled	<u>(58,475)</u>	0.84
Outstanding and exercisable at October 31, 2019	325,000	\$ 0.96

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Notes to the Financial Statements

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9. STOCK OPTIONS AND WARRANTS (Continued)**Stock options (Continued)**

Outstanding stock options:

Expiry Date	Exercise Price	Number of Options	
		October 31, 2019	April 30, 2019
May 3, 2021	\$ 0.50	38,000	54,000
September 20, 2021	\$ 0.60	59,600	67,700
March 17, 2022	\$ 1.05	204,000	236,500
June 14, 2022	\$ 1.10	5,000	5,000
August 9, 2022	\$ 1.00	18,400	20,275
Outstanding and exercisable		325,000	383,475

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at April 30, 2018	3,048,803	\$ 1.60
Exercised	(733)	2.50
Expired	(1,139,978)	2.50
Outstanding at April 30, 2019	1,908,092	1.20
Expired	(527,900)	1.22
Outstanding at October 31, 2019	1,380,192	\$ 0.98

Outstanding share purchase warrants:

Expiry Date	Exercise Price	Number of Warrants	
		October 31, 2019	April 30, 2019
May 2, 2019 ⁽¹⁾	\$ 1.50	-	232,500
October 26, 2019 ⁽²⁾	\$ 1.00	-	295,400
December 15, 2019	\$ 1.00	200,000	200,000
December 28, 2019	\$ 1.00	300,000	300,000
December 28, 2019	\$ 1.00	15,000	15,000
October 26, 2020 ⁽³⁾	\$ 1.00	765,192	765,192
January 17, 2023	\$ 0.70	100,000	100,000
Outstanding		1,380,192	1,908,092

⁽¹⁾ After May 2, 2018, the warrant exercise price increases to \$0.25 and expires on May 2, 2019.⁽²⁾ The warrants were extended from an original expiry date of October 26, 2017 to a new expiry date of October 26, 2019.⁽³⁾ The warrants were extended from an original expiry date of October 26, 2018 to a new expiry date of October 26, 2020.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Financial Statements

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10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	October 31, 2019	April 30, 2019
Cash paid for interest	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -

The significant non-cash financing or investing transactions during the period ended October 31, 2019 included:

- Issued 355,556 shares (with a value of \$71,111) in connection with \$200,000 in loan proceeds (Note 7(e)).

The significant non-cash financing or investing transactions during the period ended April 30, 2019 included:

- Issued 516,666 shares (with a value of \$25,000) in connection with the Brunswick Property Option Agreement (Note 6).
- Received 150,000 shares (marketable securities valued at \$7,500) on exploration and evaluation assets optioned (Notes 4 and 6 - Seagull Property).
- Accounts payable at April 30, 2019 having \$22,448 related to mineral property activity.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes as at April 30, 2019 is as follows:

	2019
Net loss for the year	\$ (1,391,785)
Expected income tax (recovery)	(376,000)
Change in statutory, foreign tax, foreign exchange rates and other	(33,000)
Permanent difference	5,000
Impact of flow-through shares	-
Share issue cost	-
Adjustment to prior years provision versus statutory tax returns	(60,000)
Change in unrecognized deductible temporary differences	464,000
Total income tax expense (recovery)	\$ -

The significant components of the Company's unrecognized temporary differences and unused tax as at April 30, 2019 are as follows:

	Expiry	2019
Temporary Differences		
Exploration and evaluation assets	No expiry date	\$ 4,681,000
Investment tax credit	2022	25,000
Property and equipment	No expiry date	165,000
Share issue costs	2038 to 2041	98,000
Marketable securities	No expiry date	5,000
Allowable capital losses	No expiry date	135,000
Non-capital losses available for future period	2026 to 2039	6,131,000

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

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12. COMMITMENTS

In prior years, the Company entered into three 5 year term renewable agreements, as amended, with companies controlled by two directors and one former director of the Company for the provision of consulting and/or legal services at a cost of \$2,500 per month (\$30,000 per annum) for each of the three agreements. If any of such agreements are terminated without cause, or if there is a change in control of the Company, the Company is required to pay \$150,000 to such contracted party so affected. On August 14, 2019, the agreements were voluntarily terminated without penalties or payments on termination.

The Company has also entered into two agreements with certain directors/officers for services rendered in such capacities. If such agreements are terminated without consent of the director/officer, or the director/officer resigns within 120 days following a change in control, the Company must pay \$50,000 to such director/officer and allow any unvested stock options to vest. On August 14, 2019, the agreements were voluntarily terminated without penalties or payments on termination.

13. CAPITAL MANAGEMENT

The Company's capital comprises its shareholders' equity under management. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

To fund future operations and exploration activities, the Company may need to raise funds through future share issuances, issue new debt or dispose of assets.

There have been no changes to the Company's approach to capital management during the period ended October 31, 2019. The Company is not subject to externally imposed capital requirements.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Financial Statements

October 31, 2019

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS

Fair value

The Company classified its cash and cash equivalents and marketable securities as fair value through profit and loss; receivables at amortized cost; and accounts payable and accrued liabilities and loans payable at amortized cost.

The carrying values of receivables, accounts payable and accrued liabilities and loans payable approximate their fair values due to the short-term maturity of these financial instruments.

The Company's measurement of fair value of financial instruments in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
October 31, 2019				
Cash and cash equivalents	\$ 47	\$ 47	\$ -	\$ -
Marketable securities	\$ -	\$ -	\$ -	\$ -
April 30, 2019				
Cash and cash equivalents	\$ 9,476	\$ 9,476	\$ -	\$ -
Marketable securities	\$ 6,000	\$ 6,000	\$ -	\$ -

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents and receivables.

The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes that the credit risk concentration with respect to cash and cash equivalents is remote, as it maintains accounts with highly-rated financial institutions. Receivables are due primarily from GST input tax credits.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At October 31, 2019, the Company had accounts payable, accrued liabilities and loans payable of \$236,764 (April 30, 2019 - \$216,717).

Based on the current funds held, the Company will may need to rely upon financing from shareholders and/or debt holders to obtain sufficient long term working capital. There is no assurance that such financing will be available on terms and conditions acceptable to the Company.

RAINY MOUNTAIN ROYALTY CORP.

Notes to the Financial Statements

October 31, 2019

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS (Continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

(i) Interest rate risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk.

The Company is exposed to other price risk with respect to its marketable securities, as they are carried at fair values based on quoted market prices.

Given the balance of the marketable securities, the Company is not exposed to significant other price risk.

15. SEGMENTED INFORMATION

The Company currently operates in one business segment, being the acquisition and exploration of mineral properties with all its assets located in Canada.