

BMGB Capital Corp.

Financial Statements

For the Year Ended June 30, 2020

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BMGB Capital Corp.:

Opinion

We have audited the financial statements of BMGB Capital Corp. (the "Company"), which comprise the statements of financial position as at June 30, 2020 and 2019, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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 financial statements, which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

DMC

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

October 27, 2020



An independent firm
associated with Moore
Global Network Limited

BMGB Capital Corp.
Statements of Financial Position
(Expressed in Canadian Dollars)

	June 30, 2020	June 30, 2019
ASSETS		
Current assets		
Cash	\$ 181,277	\$ 204,104
Prepaid expenses	-	2,000
Loan receivable (Note 5)	-	25,339
TOTAL ASSETS	\$ 181,277	\$ 231,443
LIABILITIES		
Current liabilities		
Accounts payable	\$ 13,543	\$ 11,630
Accrued liabilities	6,500	9,015
TOTAL LIABILITIES	20,043	20,645
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	294,243	294,243
Share-based payment reserves (Note 3)	101,331	101,331
Deficit	(234,340)	(184,776)
TOTAL SHAREHOLDERS' EQUITY	161,234	210,798
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 181,277	\$ 231,443

Nature of and Continuance of Operations (Note 1)

Subsequent Event (Note 9)

Approved on behalf of the Board on October 27, 2020:

"Lucas Birdsall"

Lucas Birdsall, Director

"Sean Bromley"

Sean Bromley, Director

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

BMGB Capital Corp.
Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended June 30, 2020	Year Ended June 30, 2019
INCOME		
Interest income (Note 5)	\$ 1,140	\$ 339
EXPENSES		
Filing and transfer agent fees	16,532	43,252
Office and miscellaneous	132	1,925
Professional fees	34,040	67,614
Share-based compensation (Notes 3 and 4)	-	72,324
	<u>50,704</u>	<u>185,115</u>
Net and comprehensive loss	\$ (49,564)	\$ (184,776)
Loss per common share – basic and diluted	\$ (0.02)	\$ (0.11)
Weighted average number of common shares outstanding – basic and diluted	2,500,000	1,623,288

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

BMGB Capital Corp.

Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Number of Outstanding Shares	Share Capital	Share Based Payment Reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2018 (Note 3)	2,000,000	\$ 100,000	\$ -	\$ -	\$ 100,000
Options granted (Note 3)	-	-	72,324	-	72,324
Initial Public Offering (Note 3)	2,500,000	223,250	-	-	223,250
Agent warrants (Note 3)	-	(29,007)	29,007	-	-
Net and comprehensive loss	-	-	-	(184,776)	(184,776)
Balance, June 30, 2019	4,500,000	294,243	101,331	(184,776)	210,798
Net and comprehensive loss	-	-	-	(49,564)	(49,564)
Balance, June 30, 2020	4,500,000	\$ 294,243	\$ 101,331	\$ (234,340)	\$ 161,234

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

BMGB Capital Corp.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash used in operating activities		
Net loss	\$ (49,564)	\$ (184,776)
Non-cash items;		
Stock-based compensation	-	72,324
Accrued interest income	-	(339)
Changes in non-cash working capital balances		
Prepaid expenses	2,000	3,000
Accounts payable	1,913	11,630
Accrued liabilities	(2,515)	9,015
Net cash used by operating activities	(48,166)	(89,146)
Cash provided by financing activities		
Loan advanced	(25,000)	(25,000)
Loan repayment received	50,339	-
Subscriptions received	-	72,500
Initial public offering, net proceeds	-	223,250
Net cash provided by financing activities	25,339	270,750
Change in cash	(22,827)	181,604
Cash, beginning	204,104	22,500
Cash, ending	\$ 181,277	\$ 204,104

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

1. Nature and Continuance of Operations

BMGB Capital Corp. (the “Company”) was incorporated in the Province of British Columbia on April 21, 2018. The Company’s registered and records office is Suite 600 – 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7.

The Company was formed for the primary purpose of completing an Initial Public Offering (“IPO”) on the TSX Venture Exchange (“Exchange”) as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the Exchange. As a CPC, the Company’s principal business would be to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction in accordance with Policy 2.4 of the Exchange (“Qualifying Transaction”). A CPC has 24 months from when the shares are listed on the Exchange to complete a Qualifying Transaction. Such a transaction will be subject to shareholder and regulatory approval. Until completion of the Qualifying Transaction, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction.

As a Capital Pool Company, the proceeds raised by the Company from the issuance of share capital may only be used to identify and evaluate assets of business for future investment, with the exception that no more than the lesser of 30% of the gross proceeds from the sale of securities issued by the Company and \$210,000 may be used to cover prescribed costs of issuing common shares or administrative and general expenditures of the Company. These restrictions apply until the completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

On April 28, 2020, the Company entered into a binding letter of intent (the “LOI”) for the proposed acquisition by the Company of NAVCO Pharmaceuticals Limited (“NAVCO”) a manufacturer and researcher of nano-technology products and materials using Computerized Nano-meter Algorithms (the “Transaction”). Under the LOI, the Company and NAVCO have agreed to act in good faith to draft, negotiate and execute a definitive share exchange agreement or other similar form of agreement respecting the Transaction, which will supersede the LOI. The Transaction is intended to qualify as the Company’s Qualifying Transaction as defined by Policy 2.4 of the Exchange. On closing of the Transaction, the Company will issue 8,500,000 common shares pro rata to the NAVCO shareholders at a deemed price of \$0.30 per share totaling \$2,550,000 and complete a private placement of at least \$1,450,000. (Note 9).

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company’s continuation as a going concern is dependent on its ability to generate future cash flows and/or obtain additional financing. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, loans from directors and companies controlled by directors and/or private placements of common stock. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from the novel coronavirus (COVID-19). The Company continues to operate its business at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in fiscal 2021.

2. Significant Accounting Policies

(a) *Statement of Compliance to International Financial Reporting Standards*

The 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 interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

(b) *Basis of Preparation*

The financial statements have been prepared on an accrual basis and are based on historical costs modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted. The policies set out below were consistently applied to all periods presented unless otherwise noted.

(c) *Use of Estimates and Assumptions*

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 period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include fair value measurements for financial instruments, and the recoverability and measurement of deferred tax assets.

(d) *Significant Judgments*

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company’s financial statements include:

- The assessment of the Company’s ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

(e) *Cash*

Cash includes cash on hand held at call with banks.

(f) *Financial Instruments*

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

(i) *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.

2. Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

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 if the Company has opted to measure them at FVTPL.

(ii) 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 the statements of operations and comprehensive 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 operations and comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition.

If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) 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.

2. Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

(g) Share Capital

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

(h) Share-based Payments

The Company's Stock Option Plan allows directors, officers and consultants to acquire shares of the Company in exchange for the options exercised. The fair value of share options granted to employees are measured at the fair value of the instruments issued and amortized 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 instrument 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 payments reserve.

The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and 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.

(i) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Significant Accounting Policies (continued)

(i) Income Taxes

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(j) Loss Per Share

Basic loss per share amounts are calculated by dividing loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share amounts are determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(k) Leases

Effective July 1, 2019, the Company adopted IFRS 16, Leases. This standard eliminates the classification of operating leases and requires lessees to recognize a right-of-use and lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. The adoption of IFRS 16 had no impact on the financial statements as the Company has no leases as at July 1, 2019 or June 30, 2020.

(l) Accounting standards issued but not yet effective

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. Share Capital

(a) Authorized

The Company has authorized an unlimited number of common shares with no par value.

(b) Issued Share Capital

The Company has a total of 4,500,000 common shares issued and outstanding (2019: 4,500,000).

BMGB Capital Corp.
Notes to the Financial Statements
For the Year Ended June 30, 2020
(Expressed in Canadian Dollars)

3. Share Capital (continued)

On June 1, 2018, the Company issued 2,000,000 common shares at a price of \$0.05 per share for proceeds of \$100,000. These shares are being held in escrow and will be released to the shareholders proportionally following the closing of the Qualifying Transaction.

On November 5, 2018, the Company completed its IPO by issuing an aggregate of 2,500,000 common shares at a price of \$0.10 per common share for gross proceeds of \$250,000. Haywood Securities Inc. ("Haywood") acted as agent for the IPO and received a commission of 7.5% of the gross proceeds of the IPO totaling \$18,750 as well as a corporate finance fee of \$8,000. The Company also reimbursed Haywood for its expenses in connection with the IPO.

(c) Warrants

On November 5, 2018, the Company, in connection with the IPO, issued 250,000 agents' warrants with an exercise price of \$0.10 exercisable until November 5, 2020.

The following table summarizes information about warrants outstanding and exercisable at June 30, 2020:

Number of Warrants	Exercise Price	Expiry Date
250,000	\$0.10	November 5, 2020

During the year ended June 30, 2019, the fair value of \$29,007 for the warrants issued was estimated using the Black - Scholes Option Pricing Model assuming a risk-free rate of 2.32%, an expected life of 2 years, an expected volatility of 110%, and no expected dividends. The weighted average life of the warrants is 1.35 years.

(d) Stock Options

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option will not be less than the discounted market price of the common shares as permitted by the Exchange policies, and provided that, if the Company is a CPC, the option price shall not be lower than the IPO share price. The options can be granted for a maximum term of 10 years.

On June 15, 2018, the Company issued 450,000 stock options to directors and officers. The options were exercisable on November 5, 2018 when the Company's common shares were listed on the Exchange, and they will expire on November 5, 2028. Since the Company completed the IPO on November 5, 2018, the share-based compensation was recognized during the year ended June 30, 2019.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2020:

Number of Shares	Exercise Price	Expiry Date
450,000	\$0.10	November 5, 2028

During the year ended June 30, 2019, the fair value of \$72,324 for the stock options issued was estimated using the Black - Scholes Option Pricing Model assuming a risk-free rate of 2.49%, an expected life of 10 years, an expected volatility of 110%, and no expected dividends.

BMGB Capital Corp.
Notes to the Financial Statements
For the Year Ended June 30, 2020
(Expressed in Canadian Dollars)

3. Share Capital (continued)

(e) Share-based Payment Reserve

The share-based payment reserve records items recognized as stock-based compensation expense until such time that the stock options and warrants are exercised, at which time the corresponding amount will be transferred to share capital.

4. Related Party Transactions

During the year ended June 30, 2020, the Company did not have any transactions with related parties.

During the year ended June 30, 2019, the Company recorded share-based compensation expense totaling \$72,324 for 450,000 stock options issued to directors and officers (Note 3).

5. Loan Receivable

In connection with a LOI entered into by the Company on February 25, 2019 the Company made available a line of credit for up to \$80,000, which may be drawn from by the Borrower to pay for expenses related to the Transaction. The loan is secured against all of the present and after acquired properties of the Borrower. The loan bears interest at 6% per annum, compounded monthly, and the total loan and interest accrued must be repaid on or before the earlier of December 31, 2019 and the date which is 30 days after the date on which the LOI is terminated. As at June 30, 2019, the Borrower withdrew \$25,000 from the line of credit and interest of \$339 was accrued.

During the year ended June 30, 2020, the Company advanced an additional \$25,000 to the Borrower and accrued an additional \$1,140 of interest. Upon the termination of the LOI, the full amount of the loan plus accrued interest was repaid to the Company.

6. Income Taxes

The provision for tax differs from that expected by applying a combined Canadian effective income tax rate of 27% as follows:

	Year ended June 30, 2020	Year ended June 30, 2019
Loss before income tax	\$ (49,564)	\$ (184,776)
Statutory tax rate	27 %	27 %
Expected tax recovery	(13,382)	(49,890)
Effect of shares issuance costs	-	(7,223)
Permanent differences	503	19,527
Deferred tax benefits not recognized	12,879	37,586
	\$ -	\$ -

BMGB Capital Corp.
Notes to the Financial Statements
For the Year Ended June 30, 2020
(Expressed in Canadian Dollars)

6. Income Taxes (continued)

The Company has the following deductible temporal differences for which no deferred tax asset has been recognized:

	Year ended June 30, 2020	Year ended June 30, 2019
Non-capital losses	\$ 46,130	\$ 31,808
Share issuance costs	4,335	5,778
	\$ 50,465	\$ 37,586

The Company's tax pools include non-capital loss of approximately \$171,000 that will expire by 2040 and share issuance cost that will expire by 2023.

7. Financial Instruments

(a) Categories of Financial Instruments and Fair Value Measurements

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value 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 that are not based on observable market data.

The fair value of the Company's financial instruments, approximates their carrying amount due to their short-term maturities. The fair value of cash was determined based on Level 1 quoted prices.

(b) Management of Financial Risks

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. The Company manages its credit risk relating to cash through the use of a major financial institution which has a high credit quality as determined by rating. The Company assessed credit risk as low.

7. Financial Instruments (continued)

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 liquidity and operating results may be adversely affected if its access to the capital markets are hindered. The Company has no source of revenue and has obligations to meet its administrative overheads and to settle amounts payable to its creditors. The Company has been successful in raising equity financing; however, there is no assurance that it will be able to do so in the future. The Company assesses liquidity risk as high.

Foreign Exchange Risk

Foreign exchange risk is the risk that the Company's financial instruments will fluctuate in value as a result of movements in foreign exchange rates. The Company is not exposed to foreign exchange risk.

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 Company is not exposed to interest rate risk.

8. Capital Management

The Company defines its capital as working capital and shareholders' equity. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. 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.

The Company is dependent upon external financing. In order to carry future activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. The Company did not institute any changes to its capital management strategy during the year.

9. Subsequent Event

In connection with the LOI entered into by the Company on April 28, 2020 with NAVCO, the Company made available a loan of up to \$25,000 and a line of credit for up to \$75,000, which may be drawn from by NAVCO to pay for expenses related to the transaction described in the LOI. The loan is secured against all of the present and after acquired properties of the NAVCO. The loan bears interest at 6% per annum, compounded monthly. On August 5, 2020, the Company advanced \$98,500 to the Borrower.