

KERMODE RESOURCES LTD.

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEAR ENDED OCTOBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Kermode Resources Ltd.

Opinion

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company has incurred ongoing losses. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the 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 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.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Peter Maloff.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 27, 2020

KERMODE RESOURCES LTD.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT OCTOBER 31

	2019	2018
ASSETS		
Current		
Cash	\$ 54	\$ 33,322
Receivables	393	38,533
Advances receivable (Note 4)	46,951	17,644
Marketable securities (Note 5)	<u>-</u>	<u>17,448</u>
	<u>\$ 47,398</u>	<u>\$ 106,947</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current		
Accounts payable and accrued liabilities	<u>\$ 322,556</u>	<u>\$ 252,968</u>
	<u>322,556</u>	<u>252,968</u>
Shareholders' Deficiency		
Share capital (Note 8)	9,185,432	9,185,432
Deficit	<u>(9,460,590)</u>	<u>(9,331,453)</u>
	<u>(275,158)</u>	<u>(146,021)</u>
	<u>\$ 47,398</u>	<u>\$ 106,947</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on February 27, 2020.

"Donald G. Moore"

Director

"D. Neil Briggs"

Director

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

KERMODE RESOURCES LTD.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
YEAR ENDED OCTOBER 31

	2019	2018
EXPENSES		
Management Fee (Note 7)	\$ 60,000	\$ 60,000
Office and sundry (Note 7)	7,387	38,211
Professional fees (Note 7)	14,200	25,983
Rent	29,906	11,737
Shareholder communications	810	1,714
Telephone	3,000	6,326
Transfer agent and filing fees	10,416	15,831
Travel and trade shows	-	11,931
	<u>(125,719)</u>	<u>(171,733)</u>
OTHER ITEMS		
Loss on disposal of marketable securities (Note 5)	(3,418)	(175,278)
Unrealized loss on marketable securities (Note 5)	<u>-</u>	<u>(14,603)</u>
	<u>(3,418)</u>	<u>(189,881)</u>
Loss and comprehensive loss for the year	<u>\$ (129,137)</u>	<u>\$ (361,614)</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding – Basic and diluted	<u>65,397,373</u>	<u>65,397,373</u>

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

KERMODE RESOURCES LTD.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEAR ENDED OCTOBER 31

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (129,137)	\$ (361,614)
Items not affecting cash:		
Loss on disposal of marketable securities	3,418	175,278
Unrealized loss on marketable securities	-	14,603
Changes in non-cash working capital items:		
Receivables	38,140	(38,533)
Receipt (payment) on advances receivable, net	(6,460)	(17,644)
Accounts payable and accrued liabilities	<u>69,588</u>	<u>(82,479)</u>
Net cash used in operating activities	<u>(24,451)</u>	<u>(310,389)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	-	50,000
Receipt (payment) on advances receivable, net	(22,847)	-
Receipt on marketable securities disposal	<u>14,030</u>	<u>293,671</u>
Net cash provided by investing activities	<u>(8,817)</u>	<u>343,671</u>
Change in cash for the year	(33,268)	33,282
Cash, beginning of year	<u>33,322</u>	<u>40</u>
Cash, end of year	<u>\$ 54</u>	<u>\$ 33,322</u>
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income tax during the year	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosures with respect to cash flows (Note 10)

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

KERMODE RESOURCES LTD.
STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian Dollars)

	<u>Share Capital</u>			
	<u>Number</u>	<u>Amount</u>	<u>Deficit</u>	<u>Total</u>
Balance at October 31, 2017	65,397,373	\$ 9,185,432	\$ (8,969,839)	\$ 215,593
Loss for the year	<u>-</u>	<u>-</u>	<u>(361,614)</u>	<u>(361,614)</u>
Balance at October 31, 2018	65,397,373	9,185,432	(9,331,453)	(146,021)
Loss for the year	<u>-</u>	<u>-</u>	<u>(129,137)</u>	<u>(129,137)</u>
Balance at October 31, 2018	65,397,373	\$ 9,185,432	\$ (9,460,590)	\$ (275,158)

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

KERMODE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED OCTOBER 31, 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

Kermode Resources Ltd. (the "Company") was incorporated under the laws of the Province of Alberta and was subsequently continued into British Columbia.

The Company's registered and records office is 2900-595 Burrard Street, Vancouver, British Columbia, Canada.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred ongoing losses. A number of alternatives including, but not limited to completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements, including comparatives have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Critical accounting estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized costs

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are not transferred to retained earnings (deficit) when the financial instrument is derecognized or its fair value substantially decreases.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For financial assets measured at amortized cost, and debt investments at FVTOCI, the Company applies the expected credit loss impairment model. On adoption of the expected credit loss model there was no material adjustment.

KERMODE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED OCTOBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial assets (cont'd...)

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Financial liabilities

Financial liabilities are classified as amortized cost, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period, which are unpaid. Accounts payable and accrued liabilities are unsecured and are usually paid within 45 days of recognition.

The Company has made the following designations of its financial instruments:

Cash	FVTPL
Receivables	Amortized cost
Advances receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The Company has classified its cash as fair value through profit and loss and receivables and advances receivable at amortized cost. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of the 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.

See Note 11 for relevant disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of mineral properties are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable 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 within property, plant and equipment.

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

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount 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 of an asset 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 profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

Provisions

a) Environmental rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

KERMODE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED OCTOBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Provisions (cont'd...)

a) Environmental rehabilitation provisions (cont'd...)

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company had no rehabilitation obligations as at October 31, 2018 and October 31, 2017.

b) Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is amortized over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

Income (loss) per share

Basic income (loss) per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding during the year. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Share-based payments

The Company grants stock options and compensatory warrants to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

If and when the stock options are exercised, the applicable amounts of reserves are transferred to share capital. When vested options are forfeited or not exercised at the expiry date the amount previously recognized in share-based payments is transferred from reserves to deficit.

KERMODE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED OCTOBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes

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

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and 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 amount 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 that excess.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow through features at the time of issue is credit to other liabilities and included income at the same time the qualifying expenditures are made.

Policies not yet adopted

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 with the objective to recognize all leases on the statement of financial position. IFRS 16 requires lessees to recognize a “right of use” asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. Management believes that IFRS 16 will not have a material impact on the Company’s classification and measurement of financial assets and liabilities.

4. ADVANCES RECEIVABLE

	October 31, 2019	October 31, 2018
Balance, beginning of year	\$ 17,644	\$ (28,743)
Advances paid	44,440	153,950
Repayments and expenses incurred on behalf of the Company	<u>(15,133)</u>	<u>(107,563)</u>
Balance, end of year	<u>\$ 46,951</u>	<u>\$ 17,644</u>

The Company advances funds to a management company, owned by a spouse of a director, by way of a loan agreement. The management company incurs administration expenditures and settles certain exploration expenditures on behalf of the Company. The maximum amount extendible under the loan is \$250,000 and the balance is non-interest bearing. The Company treats these transactions as advances between the Company and management company.

KERMODE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEAR ENDED OCTOBER 31, 2019

5. MARKETABLE SECURITIES

The Company has received 1,113,218 common shares (valued at \$501,000) in Anaconda Mining Inc. "ANX". As of October 31, 2018, the Company has disposed of 1,042,000 shares for proceeds of \$293,671 and a total realized loss of \$175,278. As of October 31, 2018 the Company had 71,218 shares remaining in ANX valued at \$17,448 with an unrealized loss of \$14,603. As of October 31, 2019 the Company has disposed of the remaining balance of 71,218 shares for proceeds of \$14,030 with a realized loss of \$3,418.

6. EXPLORATION AND EVALUATION ASSETS

	Jackson's Arm
Acquisition costs:	
Balance, at October 31, 2017	\$ 551,000
Mineral property disposal	<u>(551,000)</u>
Balance, at October 31, 2018 and 2019	\$ -

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.

Eastgate Gold

The Company entered into a Mineral Property Option and Joint Venture Agreement with Blue Ridge Gold LLC, (a private Nevada company)("Blue Ridge"). The Eastgate Gold property is comprised of mineral claims located northeast of the Rawhide Mine, and east of Fallon in Churchill, County, Nevada. The Company may acquire up to a 100% interest in the property. As at October 31, 2014, the Company held a 30% interest pursuant to the terms of the agreement.

Blue Ridge will retain a 3% NSR royalty, which the Company can buy down to 2% for \$1,000,000.

During the year ended October 31, 2015, the Company entered into an agreement to sell part of its interest in its Nevada Eastgate gold project to Eros Resources Corp. ("Eros").

Under the terms of the agreement, Eros purchased one-half of the Company's 30% interest in the property for \$300,500 (US\$250,000) and has the right to participate with the Company in the underlying agreement that the Company has with Blue Ridge.

The Company received \$300,500 (USD\$250,000) during the year ended October 31, 2015 for the sale of the initial 15% interest in the property. Consequently the Company's remaining 15% interest was written down to \$300,500 during the year ended October 31, 2015. Due to delay in exploration work, the property has been written off during the year ended October 31, 2016.

The following payments are required to earn further 15% incremental interests:

- \$200,000 by May 15, 2015 for an aggregate 45% interest (paid by Eros)
- \$200,000 by May 15, 2016 for an aggregate 60% interest (paid by Eros)

KERMODE RESOURCES LTD.
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FOR THE YEAR ENDED OCTOBER 31, 2019

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Once the Company and Eros have earned a joint 75% interest, Blue Ridge shall elect to either (a) enter into a joint venture with the Company and maintain a 25% interest in the Property; or (b) grant the Company the option to acquire the remaining 25% interest in the property through the payment of \$200,000 or 200,000 shares of the Company (at Blue Ridge's election) for each additional 5% interest, exercisable over 5 years.

Either the Company or Eros may elect not to complete its share of the purchases and the other party may complete the purchases entirely for its own account or may also elect not to complete its share in which case they will enter into a joint venture and joint venture agreement with each other and Blue Ridge pursuant to and as contemplated by the Blue Ridge agreement.

As of October 31, 2017 the Company elected to enter into a joint venture with Blue Ridge with Eros holding a 45% interest, the Company holds a 15% interest and Blue Ridge holds the remaining 40% interest in the Property subject to the Blue Ridge agreement with the Company.

Jackson's Arm, Newfoundland

The Company held a 100% interest in certain mineral claims, located in Newfoundland. During the year ended October 31, 2018, the Company sold its 100% resulting in a reversal of previous impairments to reflect the fair value received upon sale of \$551,000 in fiscal 2017. During the year ended October 31, 2018 the Company has received from ANX the gross payment of \$50,000 and 1,113,218 common shares (valued at \$501,000).

7. RELATED PARTY TRANSACTIONS

During the year ended October 31, 2019, the Company entered into the following transactions with related parties not disclosed elsewhere in the financial statements:

- a) Paid or accrued \$2,500 (2018 - \$12,500) for professional fees to an officer of the Company,
- b) Paid or accrued \$2,500 (2018 - \$12,500) for consulting included in office and sundry to an officer of the Company,
- c) Paid or accrued \$Nil (2018 - \$60,000) for management fee to a company owned by a spouse of a director,
- d) Accrued \$30,000 (2018 - \$Nil) for management fees to a director,
- e) Accrued \$30,000 (2018 - \$Nil) for management fees to a director.

The balance receivable as at October 31, 2019 is \$46,951 (October 31, 2018 - \$17,644) from a company owned by a spouse of a director (Note 4) and balance receivable as at October 31, 2019 is \$Nil (October 31, 2018 - \$34,981) from a company with common directors.

The key management personnel of the Company are the Directors, Chief Executive Officer, and the Chief Financial Officer. Compensation of the Company's key management personnel is comprised of the following:

	October 31, 2019	October 31, 2018
Professional Fees	\$ 2,500	\$ 12,500
Total Expense	\$ 2,500	\$ 12,500

As at October 31, 2019, the Company owes \$135,400 (2018 - \$75,400) in accounts payable and accrued liabilities to various related parties.

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8. SHARE CAPITAL AND RESERVES

Authorized share capital

As at October 31, 2019 and 2018, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

Issued share capital

As at October 31, 2019 and 2018, the Company had 65,397,373 common shares issued and outstanding.

Private placements

There were no private placements completed during the year ended October 31, 2019 and October 31, 2018.

Stock options

During the year ended October 31, 2010, the Company adopted a 10% rolling stock option plan whereby the Company can reserve approximately 10% of its outstanding shares for issuance to officers and directors, employees and consultants. Under the plan, the exercise price of each option shall be equal or greater than the closing market price of the Company's stock on the day prior to the date of grant. These options are subject to approval from the TSX Venture Exchange ("TSX-V"), can be granted for a maximum term of 10 years, and vest at the discretion of the Board of Directors.

Stock options and warrants

As at October 31, 2019 and 2018, there were no incentive stock options and warrants outstanding.

9. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the year ended October 31, 2018 and 2017 are as follows:

	2019	2018
Income (loss) before income taxes	\$ (129,137)	\$ (361,614)
Expected income tax (recovery)	\$ (35,000)	\$ (97,000)
Change in statutory rates and other	2,000	26,000
Permanent differences	1,000	(2,000)
Adjustment to prior years provision versus statutory tax return	(155,000)	-
Change in unrecognized deductible temporary differences	<u>187,000</u>	<u>73,000</u>
Income tax recovery	\$ -	\$ -

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9. INCOME TAXES (cont'd...)

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2019	Expiry Date Range	2018
Exploration and evaluation assets	\$ 1,642,000	N/A	\$ 1,692,000
Investment tax credit	19,000	2018 -2037	19,000
Equipment	14,000	N/A	14,000
Marketable securities	-	N/A	15,000
Allowable capital losses	97,000	N/A	88,000
Non-capital losses	<u>4,150,000</u>	2027-2039	<u>3,406,000</u>
	<u>\$ 5,922,000</u>		<u>\$ 5,234,000</u>

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

There was no significant non-cash transaction during the year ended October 31, 2019.

The significant non-cash transactions during year ended October 31, 2018 included the Company receiving 1,113,218 common shares of ANX valued at \$501,000 recovered against the Jackson's Arm property.

11. FINANCIAL AND CAPITAL RISK MANAGEMENT

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 advances receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. The Company's cash and marketable securities are measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to advances receivable. Management believes that historically the credit risk concentration with respect to financial instruments included in advances receivable is remote. The credit risk from the advances receivable is addressed with the security and guarantee.

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11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Liquidity risk

The Company's approach to managing liquidity risk is addressed in Note 1. As at October 31, 2019, the Company had a cash balance of \$54 (October 31, 2018 - \$33,322) available to settle current liabilities of \$322,556 (October 31, 2018 - \$252,968). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash balances held with financial institutions. The Company's current policy is to invest excess cash in short-term treasury bills issued by the Government of Canada and its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

b) Foreign currency risk

The Company does not have any balances denominated in a foreign currency and believes it has no significant foreign currency risk.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. 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 defines capital that it manages as shareholders' equity (deficiency).

The property in which the Company currently has an interest is in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. Current financial markets are very difficult and there is no certainty with respect to the Company's ability to raise capital. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.