

# **GRANADA GOLD MINE INC.**

## **Financial Statements**

**Years Ended June 30, 2020 and 2019**

**(Expressed in Canadian Dollars)**

# **GRANADA GOLD MINE INC.**

**June 30, 2020**

## **Managements Responsibility for Financial Reporting**

The financial statements and were prepared by the management of Granada Gold Mine Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

*Audit. Tax. Advisory.*

Independent Auditor's Report

To the Shareholders of Granada Gold Mine Inc.

## **Opinion**

We have audited the financial statements of Granada Gold Mine Inc. (the "Company"), which comprise the statements of financial position as at June 30, 2020 and 2019, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 ("IFRS").

## **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. 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 in the financial statements, which indicates that the Company incurred a net loss during the year ended June 30, 2020 and, as of that date, the Company had a working capital deficiency. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that 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 comprises 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 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 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 judgement 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 risks 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 of the audit resulting in this independent auditor's report is Jessica Glendinning.

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
October 27, 2020

# GRANADA GOLD MINE INC.

## Statements of Financial Position

(Expressed in Canadian Dollars)

As at June 30,

2020

2019

### Assets

#### Current assets

Cash	\$	267,914	\$	168,267
Receivables (Notes 5 and 13)		413,569		240,772
Prepaid expenses		1,000		1,000

**Total current assets** 682,483 410,039

**Deposit - long-term (Note 6)** 171,800 171,800

**Property, plant and equipment (Note 8)** 142,545 136,912

**Total Assets** 996,828 718,751

### Liabilities

#### Current liabilities

Trade and other payables and provisions (Notes 10, 13)	6,263,483	5,446,446
Secured loans payable (Note 9)	1,619,774	1,464,926

**Total Current Liabilities** 7,883,257 6,911,372

**Provision for site reclamation and restoration (Note 14)** 380,079 -

**Total Liabilities** 8,263,336 6,911,372

#### Shareholders' Equity (Deficiency)

Share capital (Note 11)	65,499,431	62,613,721
Reserves (Note 12)	3,240,654	3,729,725
Deficit	(76,006,593)	(72,536,067)

**Total Shareholders' Equity (Deficiency)** (7,266,508) (6,192,621)

**Total Liabilities and Shareholders' Equity (Deficiency)** \$ 996,828 \$ 718,751

**Nature of operations and going concern (Note 1)**

**Commitments and contingencies (Notes 7, 9, 14 and 15)**

**Subsequent events (Note 19)**

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa" \_\_\_\_\_, Director

Signed "Jacques Monette" \_\_\_\_\_, Director

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)  
For the years ended June 30,

	2020	2019
<b>Expenses</b>		
Exploration and evaluation		
Assaying and testing	\$ 11,568	\$ 60,627
Consulting fees	22,670	11,398
Core analysis	50,061	73,741
Depreciation	45,024	38,596
Drilling	73,341	276,055
Equipment	22,117	90,781
Facility expenses	103,352	106,359
Geology, geophysics and surveys	140,000	147,236
Mining tax credits	(218,587)	-
Personnel costs	130,745	80,359
Project management and engineering	582,552	394,114
Reclamation and restoration costs	380,079	-
Security	300	300
Taxes, permits and licensing	23,144	43,918
	<u>1,366,366</u>	<u>1,323,484</u>
Corporate		
Accretion	29,296	21,515
Administrative and general expenses	43,724	132,805
Financing fees	125,552	120,885
Professional fees	734,692	882,806
Filing costs and shareholders' information	231,809	148,929
Travel	45,769	109,780
	<u>1,210,842</u>	<u>1,416,720</u>
Other items		
Equipment rental	(248,784)	(269,691)
Premium on flow through shares	(41,667)	(92,105)
Interest and other income	(6,000)	(288)
Income tax reassessed	1,752	-
Stock-based compensation (Notes 11, 12)	377,058	156,971
Part XII.6 penalty and interest (Note 9)	113,256	35,847
Flow-through indemnification provision (Note 9)	930,887	419,252
Unrealized loss on marketable securities	-	1,244,476
Realized loss on marketable securities	-	329,612
	<u>1,126,502</u>	<u>1,824,074</u>
<b>Net loss and comprehensive loss for the year</b>	<u>\$ 3,703,710</u>	<u>\$ 4,564,278</u>
<b>Net loss per share - basic and diluted</b>	<u>\$ 0.05</u>	<u>\$ 0.07</u>
<b>Weighted average number of shares outstanding</b>		
basic and diluted	<u>80,999,188</u>	<u>65,776,683</u>

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**Statements of Changes in Equity**  
(Expressed in Canadian Dollars)

	<b>Share Capital</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total Equity (Deficiency)</b>
Balance June 30, 2018	\$ 60,425,765	\$ 4,667,842	\$ (66,541,145)	\$ (1,447,538)
Private placements	1,423,923	366,598	-	1,790,521
Premium on flow through shares	(133,772)	-	-	(133,772)
Issued for compensation	-	22,004	-	22,004
Share issue costs	(70,816)	(2,144)	-	(72,960)
Options granted and vested	-	156,971	-	156,971
Options expired	-	(512,925)	512,925	-
Warrants expired	968,621	(968,621)	-	-
Dividend distribution	-	-	(1,943,569)	(1,943,569)
Net loss for the year ended June 30, 2019	-	-	(4,564,278)	(4,564,278)
Balance June 30, 2019	62,613,721	3,729,725	(72,536,067)	(6,192,621)
Private placements	1,671,176	654,204	-	2,325,380
Issued for compensation	-	19,657	-	19,657
Share issue costs	(63,156)	(29,116)	-	(92,272)
Options granted and vested	-	377,058	-	377,058
Options expired	-	(233,184)	233,184	-
Warrants expired	1,277,690	(1,277,690)	-	-
Net loss for the year ended June 30, 2020	-	-	(3,703,710)	(3,703,710)
Balance June 30, 2020	<u>\$ 65,499,431</u>	<u>\$ 3,240,654</u>	<u>\$ (76,006,593)</u>	<u>\$ (7,266,508)</u>

See accompanying notes to the financial statements.

# GRANADA GOLD MINE INC.

## Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended June 30,

2020

2019

	2020	2019
<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net (loss)	\$ (3,703,710)	\$ (4,564,278)
Items not involving cash		
Depreciation	45,024	38,596
Stock-based compensation	377,058	156,971
Premium on flow through shares	(41,667)	(133,772)
Part XII.6 penalty and interest (Note 9)	113,256	35,847
Flow-through indemnification provision (Note 9)	930,887	419,252
Unrealized loss on marketable securities	-	1,244,476
Realized loss on marketable securities	-	329,612
Reclamation and restoration costs	380,079	-
Changes in non-cash working capital items		
Receivables	(172,797)	44,511
Trade and other payables and provisions	(185,439)	804,031
Financing fees included in secured loans	154,848	142,400
<b>Net cash flows (used in) operating activities</b>	<b>(2,102,461)</b>	<b>(1,482,354)</b>
<b>Investing activities</b>		
Purchase of equipment	(50,657)	-
<b>Net cash flows (used in) investing activities</b>	<b>(50,657)</b>	<b>-</b>
<b>Financing activities</b>		
Issuance of common shares and warrants by private placement	2,325,380	1,790,620
Share issue costs	(72,615)	(51,055)
Interest paid on loans	-	(169,123)
<b>Net cash flows generated from financing activities</b>	<b>2,252,765</b>	<b>1,570,442</b>
<b>Change in cash during the year</b>	<b>99,647</b>	<b>88,088</b>
<b>Cash, beginning of year</b>	<b>168,267</b>	<b>80,179</b>
<b>Cash, end of year</b>	<b>\$ 267,914</b>	<b>\$ 168,267</b>
<b>Supplemental cash flow information:</b>		
Marketable securities distributed as dividends	\$ -	\$ (1,943,569)
Brokers' warrants issued as finders' fees	\$ 19,657	\$ 22,004

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern**

Granada Gold Mine Inc. (“Granada” or the “Company”) is domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly-traded-company with its shares listed on the TSX Venture Exchange (“TSXV”), the Frankfurt Stock Exchange, and the US over the counter (“OTC”) market. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company’s head office is located at 3028 Quadra Court, Coquitlam, British Columbia, V3B 5X6.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 27, 2020.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to obtain additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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 government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company’s property interests may also be subject to increases in taxes and royalties, and renegotiation of contracts.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

As at June 30, 2020, the Company had not yet achieved profitable operations, has an accumulated deficit, has a working capital deficiency and expects to incur further losses in the development of its business.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern (cont'd)**

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses and a significant working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern.

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

**2. Basis of Preparation**

**(a) Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies applied in these financial statements are presented in Note 3 and are based on IFRS applicable standards as at June 30, 2020.

**(b) Basis of Presentation**

These financial statements have been prepared on the historic cost basis, except certain financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in conformity with IFRS requires the use of 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 year. Actual results may ultimately differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in Note 4.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**2. Basis of presentation (cont'd)**

**(c) Functional and Presentation Currency**

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

For the purpose of the financial statements, the results and financial position are expressed in Canadian dollars. Transaction in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are presented in the statement of loss. The Company does not have any foreign operations.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise noted.

**(a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and bank balances with original maturities of three months or less from the date of acquisition or are available upon demand. The Company did not have any cash equivalents as at June 30, 2020 and June 30, 2019.

**(b) Financial Instruments**

**Financial assets**

**Initial recognition and measurement**

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Cash and receivables held for collection of contractual cash flows are measured at amortized cost.

**Subsequent measurement – financial assets at FVPL**

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statements of financial position with changes in fair value recognized in profit or loss. The Company measured the receivable from Canada Silver Cobalt Works Inc. and marketable securities at FVPL.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(b) Financial Instruments (cont'd)**

**Subsequent measurement – financial assets at FVOCI**

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statements of comprehensive loss when the right to receive payments is established.

**Impairment of financial assets**

The Company's only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include Trade and other payables and Secured loans payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of Secured loans payable, net of directly attributable transaction costs.

**Subsequent measurement – financial liabilities at amortized cost**

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

**Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in profit or loss.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(b) Financial Instruments (cont'd)**

*Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

*Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

**(c) Property, Plant and Equipment**

*Recognition and measurement*

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses.

On initial recognition, property, plant, and equipment are valued at cost, being the purchase price and directly attributable cost required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(c) Property, Plant and Equipment (cont'd)**

Amortization is recognized in profit or loss on a declining balance basis at the following annual rates:

Equipment	20%
Vehicles	30%

An asset's amortization methods, useful lives and residual values are reviewed on an annual basis and adjusted, if appropriate.

**(d) Exploration and Evaluation Expenditures**

Exploration and Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are expensed as exploration and evaluation expenses. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proven to exist and, in most cases, comprises of a single mine or deposit.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, additional E&E expenditures will be charged to mining properties. Currently, the Company does not hold any assets classified as mining properties.

**(e) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost and is based on the discount rates that reflect current market assessments and the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

**(f) Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable in respect of previous years.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(f) Income Taxes (cont'd)**

Deferred tax is determined by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date.

**(g) Share Capital**

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

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature.

At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a deferred liability on the statement of financial position. When the expenditures are renounced, the deferred liability is reversed and this amount is recognized in profit or loss.

The proceeds attributable to the warrants are also treated as equity and recorded in reserves on the statements of financial position until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

Stock-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are measured at the fair value of the properties, goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

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**3. Significant Accounting Policies (cont'd)**

**(h) Share Issuance Costs**

Share issuance costs are applied to reduce the proceeds of share capital issued in the year they are incurred.

**(i) Stock-Based Compensation**

The Company uses the fair value method of valuing its equity settled stock-based compensation plans. Under this method, compensation cost attributable to stock-based plans are measured at their fair value on the grant date and expensed in profit or loss over the vesting period with a corresponding credit to reserves. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model. When options are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired options is transferred to deficit.

Equity settled stock-based compensation with non-employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the services.

**(j) Valuation of Equity Units in Private Placements**

The Company uses the fair value method to value any warrants and broker warrants issued in private placements. The fair value assigned to share purchase warrants is recorded as a reduction to share capital and an increase to reserves. The fair value assigned to broker warrants is recorded as share issue costs and an increase to reserves. The fair value of each warrant is estimated on the date of the grant using the Black-Scholes warrant-pricing model. Warrant pricing models require the input of highly subjective assumptions, including the expected price volatility and changes in these assumptions can materially affect the fair value estimate. When warrants are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

**(k) Loss per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive warrants and options outstanding that may add to the total number of common shares.

As at June 30, 2020 and 2019, all outstanding warrants and options are anti-dilutive. As a result, all options and warrants are excluded from the calculation of diluted loss per share.

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**3. Significant Accounting Policies (cont'd)**

**(l) Decommissioning Liabilities**

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in accretion of decommissioning liability in the statement of loss. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when there is a legal obligation to restore the site.

**(m) Equipment Rental Revenue**

The Company earns revenue from renting certain equipment. The rental arrangements do not transfer substantially all of the risk and rewards incidental to the ownership of the equipment and as such, are determined to be operating leases. Revenue from operating leases is recognized on a straight-line basis over the term of the lease agreement.

**(n) Government Grants**

The Company is eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred in the province of Quebec. The refundable tax credit is recorded as a government grant under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. Credits related to resources are recognized in the statement of loss at their estimated fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the credits.

**(o) Changes in Accounting Policies**

During the year ended June 30, 2020, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 16 and IFRIC 23. These new standards and changes did not have any material impact on the Company's financial statements.

**(p) Recent Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after July 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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**3. Significant Accounting Policies (cont'd)**

**(p) Recent Accounting Pronouncements (cont'd)**

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

**4. Significant Judgements, Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company’s accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

*Income taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company’s provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company’s income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company’s interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

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**4. Significant Judgements, Estimates and Assumptions (cont'd)**

*Decommissioning and restoration costs*

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is one that reflects current market assessments and the risks specific to the liability.

*Stock-based compensation*

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

*Valuation of the refundable mining duties credit and the refundable tax credit for resources*

The refundable mining duties credit and the refundable tax credit for resources for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities using the tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Uncertainties exist with respect to the interpretation of tax regulations, including the mining duties credit and the tax credit for resources for which certain expenditures could be disallowed by the taxation authorities in the calculation of credits, and the amount and timing of their collection. The calculation of the Company's mining duties credit and tax credit for resources necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been received from the relevant taxation authority. Differences arising between the actual results following the final resolution of some of these items and the assumptions made, or future changes to such assumptions, could necessitate adjustments to the mining duties credit and tax credit for resources, the exploration and evaluation expenses, and the income tax expense in future periods.

*Commitments and contingencies*

Refer to Note 15.

**GRANADA GOLD MINE INC.**  
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**5. Amounts Receivable**

	June 30, 2020	June 30, 2019
Rental revenue receivable (Note 13)	\$ 75,575	\$ 47,250
Sales taxes receivable	119,407	193,522
Mining tax credits receivable	218,587	-
	<u>\$ 413,569</u>	<u>240,772</u>

The above amounts receivable are net of expected credit losses of \$nil (2019 - \$nil).

**6. Deposit – Long-term**

As at June 30, 2020 and 2019, the Company has a non-interest-bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site. Subsequent to June 30, 2020, the Company paid an additional amount to the Quebec government which increased the deposit to a total of \$353,947.

**7. Exploration and Evaluation Projects**

The Company has determined that as at June 30, 2020 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified as mining properties. Accordingly, the Company has expensed all exploration and evaluation expenditures in the year. As of June 30, 2020, and 2019, the Company did not hold any assets classified as mining properties.

Granada Property, Quebec, Canada

The Company holds a 100% interest to certain mining leases and claims. The mining leases are subject to a 2% Gross Metal Royalty ("GMR"), ½ of which may be purchased for \$1,000,000 and a 1% Net smelter royalty (NSR) and 23 of the original mining claims are subject to a 1% NSR. Additionally, there is a 2% NSR on 4 properties optioned from the D2D3 Group ("D2D3") in 2010, half of which may be purchased for \$1,000,000.

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**8. Property, Plant and Equipment**

	June 30, 2020				
	Balance		Balance		
	June 30,		June 30,	Accumulated	
	2019	Additions	2020	Amortization	Net
Equipment	\$112,472	\$ -	\$112,472	\$22,495	\$89,977
Vehicles	24,440	50,657	75,097	22,529	52,568
	<u>\$136,912</u>	<u>\$50,657</u>	<u>\$187,569</u>	<u>\$45,024</u>	<u>\$142,545</u>
	June 30, 2019				
	Balance		Balance		
	June 30,		June 30,	Accumulated	
	2018	Additions	2019	Amortization	Net
Equipment	\$140,591	\$ -	\$140,591	\$28,119	\$112,472
Vehicles	34,917	-	34,917	10,477	24,440
	<u>\$175,508</u>	<u>\$ -</u>	<u>\$175,508</u>	<u>\$38,596</u>	<u>\$136,912</u>

**9. Secured Loans Payable**

On August 4, 2015, the Company entered into two loan agreements and a Supply and Services agreement for proceeds totaling \$800,000.

The first loan agreement is with an existing shareholder and is a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The second loan is from a company owned by a director of the Company and comprises a \$100,000 demand loan also over a three-year term at an interest rate of 8% calculated monthly and payable annually. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

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**9. Secured Loans Payable (cont'd)**

The third agreement is a Supply and Services non-interest bearing loan for \$500,000 over the 12 months following the execution of the loan agreement from a company owned by a director of the Company. The lender has the option to obtain loan principal repayments including interest as applicable, in gold valued at US \$800 per ounce if the Company reaches commercial production. The Supply and Services loan is to be used for specific projects on the property. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 11, 2015 and January 8, 2016, the Company entered into a second and third loan agreement with an existing shareholder for a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 22, 2017, the Company entered into convertible loan agreements with existing shareholders for demand loans for proceeds of \$250,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender. The outstanding principal amount of the loan is convertible into common shares of the Company at the option of the lender at any time at a conversion price of \$0.05 per share for the first year and then \$0.10 per share starting in the second year and until maturity. The conversion feature has been classified as an equity instrument with an estimated value of \$74,856 and has been included in equity reserves on the statement of financial position. The liability portion of the convertible debentures was estimated to be \$175,144 and will be accreted to its face value over the 3 year term of the loan using an effecting interest rate of 20%. Accretion and interest expense relating to these loans totalled \$52,936 for the year ended June 30, 2020 (2019 - \$43,281).

The Granada Gold property is registered as security against these loans. As a triggering event has not taken place, no value has been attributed to the derivative relating to the right of the lenders to demand repayment in gold valued at US \$800 per ounce.

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**9. Secured Loans Payable (cont'd)**

Loan activity for the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2020	June 30, 2019
Opening balance	\$ 1,464,926	\$ 1,491,648
Interest accrual	125,552	120,886
Accretion	29,296	21,515
Repayments	-	(169,123)
Closing balance	<u>\$ 1,619,774</u>	<u>\$ 1,464,926</u>

**10. Trade and Other Payables and Provisions**

	June 30, 2020	June 30, 2019
Trade payable	\$ 421,231	\$ 378,773
Due to related parties (Note 13)	847,955	1,041,256
Part XII.6 taxes and interest (i)	866,042	752,786
Flow-through indemnification provision (ii)	4,128,255	3,273,631
	<u>\$ 6,263,483</u>	<u>\$ 5,446,446</u>

- (i) The Company has estimated potential Part XII.6 taxes in relation to unspent flow-through expenditures for fiscal years 2011 to 2017. During the year ended June 30, 2020, the Company had accrued an additional \$113,256 (2019 - \$35,847) for Part XII.6 taxes, interest and penalties on the shortfall. See Note 15.
- (ii) The Company has estimated potential indemnity in relation to unspent flow-through expenditures for fiscal years 2011 to 2017. During the year ended June 30, 2020, the Company accrued an additional \$930,887 (2019 - \$419,252) for indemnification and interest on the shortfall. See Note 15.

**11. Share Capital**

**Authorized**

Unlimited number of common shares without par value

**Issued**

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	71,308,020	\$ 62,613,721	59,656,302	\$ 60,425,765
Private placements	23,253,800	1,671,176	11,651,718	1,423,923
Premium on FT shares	-	-	-	(133,772)
Share issue costs	-	(63,156)	-	(70,816)
Warrants expired	-	1,277,690	-	968,621
Balance, end of year	<u>94,561,820</u>	<u>\$ 65,499,431</u>	<u>71,308,020</u>	<u>\$ 62,613,721</u>

**GRANADA GOLD MINE INC.**  
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**11. Share Capital (cont'd)**

On October 18, 2018, the Company closed a private placement in which it issued 2,942,140 units at \$0.15 per unit for gross proceeds of \$441,321. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.18 per share for a period of three years. Certain directors and officers of the Company participated in this private placement by acquiring 2,192,140 units for \$328,821.

On November 6, 2018, the Company closed a private placement in which it issued 3,994,666 units at \$0.15 per unit for gross proceeds of \$599,200. Each unit comprises one common share and one common share purchase warrant exercisable at \$0.18 per share for a period of three years. Certain directors and officers of the Company participated in this private placement by acquiring 173,333 units for \$26,000.

On December 21, 2018, the Company closed a flow-through private placement financing raising gross proceeds of \$500,000. The Company issued 2,631,579 flow-through shares at a price of \$0.19 per flow-through share. Finder's fees totaling \$35,000 and 200,000 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.155 per share for two years from closing.

On May 29, 2019, the Company closed a flow-through private placement financing raising gross proceeds of \$250,000. The Company issued 2,083,333 flow-through shares at a price of \$0.12 per flow-through share. Finder's fees totaling \$10,000 and 166,166 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.12 per share for two years from closing.

On September 27, 2019, the Company closed a private placement in which it issued 9,253,800 units at \$0.10 for gross proceeds of \$925,380. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.15 for a period of three years. Finder's fees totaling \$39,900 and 469,000 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.15 per share for three years. An officer of the Company participated in this private placement by acquiring 1,300,000 units for \$130,000.

On January 3, 2020, the Company closed a private placement financing raising gross proceeds of \$200,000. A total of 2,000,000 units were issued with each unit consisting of one common share in the capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one share of the Company for a period of two years from closing at an exercise price of \$0.15 per share.

On May 8 and 12, 2020, the Company closed a private placement in which it issued an aggregate of 12,000,000 units at a price of \$0.10 per unit. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one share of the Company for a period of two years from closing at an exercise price of \$0.12 per share. Finder's fees were paid in connection with the private placement in the amount of \$25,715 cash and 157,150 broker warrants on the same terms as the private placement warrants. Two officers of the Company participated in this private placement by acquiring 4,000,000 units for \$400,000.

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**12. Reserves - Warrants**

The Company records the estimated fair value of warrants issued on the grant date. The fair value is determined using the Black-Scholes option pricing model. The following were used for the Black-Scholes option pricing model:

	2020	2019
Risk-free interest rate	0.27% - 1.63%	1.43% - 2.37%
Expected volatility	90% - 97%	87% - 109%
Expected dividend yield	0.00	0.00
Expected life (years)	2.0	2.0-3.0
Estimated fair value at grant date	\$0.02 - \$0.03	\$0.042 - \$0.067
Share price at time of grant	\$0.07 - \$0.08	\$0.096 - \$0.155

**Warrant Transactions**

	2020		2019	
	Number of Warrants	Value	Number of Warrants	Value
Balance, beginning of year	20,117,565	\$ 1,664,148	16,430,133	\$ 2,246,311
Issued by private placements	23,253,800	654,204	6,936,806	366,598
Issued as compensation	626,150	19,657	366,666	22,004
Expired	(12,814,093)	(1,277,690)	(3,616,040)	(968,621)
Issue costs related to warrants	-	(29,116)	-	(2,144)
Balance, end of period	<u>31,183,422</u>	<u>\$ 1,031,203</u>	<u>20,117,565</u>	<u>\$ 1,664,148</u>

**Warrants outstanding as at June 30, 2020 are as follows:**

Number of Warrants	Exercise Price	Expiry Date
2,942,140	0.180	October 10, 2021
3,994,666	0.180	November 6, 2021
200,000	0.155	December 21, 2020
166,666	0.120	May 31, 2021
9,253,800	0.150	September 27, 2022
469,000	0.150	September 27, 2022
2,000,000	0.150	January 8, 2022
12,000,000	0.120	May 12, 2022
157,150	0.120	May 12, 2022
<u>31,183,422</u>		

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**12. Reserves - Options**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model with the following assumptions:

	2020	2019
Risk-free interest rate	0.40% - 1.60%	1.33% - 2.21%
Expected volatility	132% - 134%	138% - 144%
Expected dividend yield	0.00	0.00
Expected life (years)	5 years	5 years
Estimated fair value at grant date	\$0.09 - \$0.17	\$0.11 - \$0.17
Share price at time of grant	\$0.10 - 0.195	\$0.12 - 0.185

Option Activity	2020			2019		
	Number of Options	Weighted Average Exercise price	Value	Number of Options	Weighted Average Exercise price	Value
Balance, first of year	5,252,375	0.31	\$1,990,721	5,173,625	0.37	\$ 2,346,675
Granted	3,275,000	0.12	377,058	1,075,000	0.14	156,971
Expired	(825,000)	0.28	(233,184)	(996,250)	0.15	(512,925)
Balance, end of year	<u>7,702,375</u>	<u>0.23</u>	<u>\$2,134,595</u>	<u>5,252,375</u>	<u>0.31</u>	<u>\$ 1,990,721</u>

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**12. Reserves – Options (continued)**

Options outstanding as at June 30, 2020 are as follows:

Number of Options	Options Vested	Exercise Price	Expiry Date
418,750	418,750	1.040	January 4, 2022
593,750	593,750	0.400	February 12, 2021
25,000	25,000	0.800	May 9, 2021
50,000	50,000	0.800	July 7, 2021
31,250	31,250	0.800	September 9, 2021
1,033,625	1,033,625	0.400	March 24, 2022
1,600,000	1,600,000	0.300	February 14, 2023
200,000	200,000	0.140	August 30, 2023
275,000	275,000	0.150	January 24, 2024
200,000	200,000	0.100	June 4, 2024
1,175,000	1,175,000	0.120	October 4, 2024
400,000	400,000	0.100	January 6, 2025
400,000	400,000	0.175	January 10, 2025
700,000	700,000	0.100	May 5, 2025
600,000	600,000	0.120	May 5, 2025
<u>7,702,375</u>	<u>7,702,375</u>	<u>0.277</u>	

**13. Related Party Transactions**

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors (executive and non-executive), President and Chief Executive Officer and Chief Financial Officer are key management personnel.

The remuneration to key management personnel during the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2020	June 30, 2019
Key management compensation	\$752,327	\$838,995
Stock-based compensation	63,000	62,427
	<u>\$815,327</u>	<u>\$901,422</u>

- a) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the year ended June 30, 2020, the total amount for such services provided was \$440,001 (2019 – \$440,001) of which \$440,000 (2019 – \$440,000) was recorded in exploration expenses and \$1 (2019 - \$1) in professional fees.

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**13. Related Party Transactions (cont'd)**

- b) The Company retains the services of two officers and two directors to carry out administrative services. During the year ended June 30, 2020, the total amount for such services provided was \$312,327 (2019 – \$190,549) which was recorded in professional fees.
- c) As of June 30, 2020, the Company owed \$848,502 (2019 - \$1,041,256) to a company of which a senior officer or director is also a senior officer or director. These amounts are unsecured, non-interest bearing and due on demand.
- d) As of June 30, 2020, the Company is owed \$75,575 (2019 - \$47,250) by a company of which a senior officer is also a senior officer. This amount is unsecured, non-interest bearing and due on demand.
- e) During the year ended June 30, 2020, the Company recorded \$248,784 in equipment rental revenue (2019 – \$269,691) from a company of which a senior officer is also a senior officer.
- f) As of June 30, 2020, the Company had advanced \$7,327 to a director and officer of the Company (2019 - \$nil). This amount is unsecured, non-interest bearing and will be used to offset expenses incurred on the Company's behalf.
- g) As of June 30, 2020, the Company owed a director of the Company \$6,780 (2019 - \$192,643 to officers and directors of the Company). This amount is unsecured, non-interest bearing and due on demand.
- h) During the year, the Company received income of \$13,500 from companies of which a senior officer of the Company is a senior officer (2019 - \$nil), which is included in exploration and evaluation expenses.
- i) See Notes 9, 11, 15 and 16(d).

**14. Reclamation Obligation**

The Company's provision for closure and reclamation costs is based on management's estimates of the costs to rehabilitate the area explored as well as an estimate of the future timing of the costs to be incurred.

The Company has assessed its total provision to be \$380,079 (June 30, 2019 - \$nil) based on a total future liability of approximately \$386,970, a discount rate of 0.36% and an inflation rate of 1.8%. Reclamation is estimated to occur in 5 years.

**15. Commitments and Contingencies**

Environmental obligations

The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. As at June 30, 2020 and to the best knowledge of its management, the Company is, in conformity with the laws and regulations.

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**15. Commitments and Contingencies (cont'd)**

Flow-through obligations

The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- i) Two years following the flow-through investment;
- ii) One year after the Company has renounced the tax deductions relating to the exploration work.

During the year ended June 30, 2019, the Company received \$1,000,000 from flow-through share issuances. The Company believes the full amount has been spent on qualified exploration expenditures.

The Company has indemnified the subscribers of current and previous flow-through offerings against any tax related amounts that become payable by shareholders in the event the Company does not meet its expenditure commitment. See Note 10.

See Note 19 for details of flow-through financings that occurred subsequent to June 30, 2020.

Canada Revenue Agency audit

The Canada Revenue Agency ("CRA") is auditing certain of the Company's corporate tax returns and flow-through filings from 2012 to 2017 and has assessed that the Company had flow-through shortfalls in certain of those years. Accordingly, the Company has recorded a provision for the estimated cost to indemnify flow-through share subscribers for their possible personal income tax reassessments.

In estimating the liability, the Company has assumed the following:

- The subscribers would be taxable at the highest marginal personal tax rate;
- That all non-corporate subscribers are eligible for the federal 15% investment tax credit; and
- That Quebec subscribers are eligible for the 150% or 120% additional CEE deduction.

The ultimate amount owing and the timing of any payments to investors are highly uncertain as they are dependent on each taxpayer's individual tax situation as well as if, or when, they are reassessed by the CRA.

The Company has also accrued the estimated Part XII.6 tax and similar Quebec tax on the potential shortfalls.

The CRA has also assessed penalties of approximately \$2,200,000 which the Company has not accrued. The Company believes the assessment of these penalties is without merit and has filed Notices of Objection to dispute the assessment. The outcome of the Notices of Objection cannot be determined at this time and accordingly, no amounts have been accrued in these financial statements relating to the penalties.

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**15. Commitments and Contingencies (cont'd)**

A continuity of the provision for the shareholder indemnity for the years ended June 30, 2020 and 2019 is as follows:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Opening balance	\$3,273,631	\$2,854,378
Accrual for additional provision and interest	930,887	419,253
Reimbursements to investors	<u>(76,263)</u>	<u>-</u>
Ending balance	<u>\$4,128,255</u>	<u>\$3,273,631</u>

Service agreements

The Company has consulting service agreements with related parties (certain officers and directors).

- i) Effective January 1, 2007, and amended December 1, 2010, May 16, 2013 and March 1, 2015, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company to provide management services of Frank Basa in consideration for a nominal annual fee of \$1.

This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 480 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

- ii) Effective January 1, 2014, the Company entered into a management agreement with Mineral Recovery Management Systems Corp. ("MRMSC"), a company controlled by Frank Basa and Elaine Basa, to provide project management, engineering and geological services to the Company in consideration of \$25,000 per month for the services of Frank Basa and \$11,666.67 per month for the services of Elaine Basa. Either party may terminate this agreement by giving a four months' notice to the other, subject to certain provisions of the agreement.
- iii) Effective March 1, 2011 and amended February 1, 2012 and March 1, 2015, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$192,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

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**15. Commitments and Contingencies (cont'd)**

Claims, lawsuits and other complaints

The Company is subject to various claims, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are estimable. Although the outcome of such matters cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, operations or liquidity. The outcome of these litigations cannot be reasonably determined, as a result, no amounts have been accrued as at June 30, 2020.

**16. Financial Risk Management**

**Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, including commodity price risk;
- foreign currency exchange risk;
- interest rate risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfills its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team. There have been no changes in the risks, objectives, policies and procedures during the years ended June 30, 2020 and 2019.

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

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**16. Financial Risk Management (cont'd)**

**a) Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. Management believes the risk of loss to be minimal.

**b) Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations. Management believes that the credit risk with respect to financial instruments included in receivables is minimal.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation. The Company generates cash flow primarily from its financing activities.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

**Classification of Financial Instruments**

As at June 30, 2020 and 2019, the Company does not have any financial assets measured at fair value and that require classification within the fair value hierarchy.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate risk, and commodity prices will affect the Company's income, the value of its evaluation and exploration properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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**16. Financial Risk Management (cont'd)**

**a) Commodity price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world. As the Company is still in the exploration and evaluation stage, the fluctuation of gold and silver prices does not have a significant impact on the Company.

**b) Foreign currency exchange risk**

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's functional and reporting currency is the Canadian dollar. The movement on US rates related to the Canadian dollar may impact the future economic feasibility of the Company's mining interests. As the Company is still in the exploration and evaluation stage, the fluctuation of the US dollar does not have a significant impact on the Company.

**c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

**d) Canada Silver Cobalt Works Inc. units receivable**

In September 2015, the Company completed a share purchase agreement with Canada Silver Cobalt Works ("CCW"), formerly Canada Cobalt Works Inc. and Castle Silver Resources Inc. a publicly traded company, whereby CCW agreed to acquire all of the issued and outstanding common shares of CSM, the Company's wholly-owned subsidiary. The Company and CCW have certain directors and officers in common.

In consideration, CCW issued an aggregate of 10,000,000 units, in four equal instalments of 2,500,000 units per year over a three-year period. Each unit consisted of one common share and one common share purchase warrant, each exercisable at \$0.10 for a one-year period. The fair value of the final 2,500,000 units receivable by the Company as at June 30, 2018 was estimated to be \$3,517,656 based on the trading price of the common shares and a Black Scholes valuation performed on the warrants as of that date. These units were received during 2019 and were distributed to the shareholders of the Company as a dividend.

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**16. Financial Risk Management (cont'd)**

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- i) The Company receives low interest rates on its cash balances and carries debt with fixed interest rates. As such, the Company does not have significant interest rate risk.
- ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign currency risk.
- iii) The Company's receivables are composed primarily of refundable sales taxes owing from the government of Canada. As such, the Company does not have significant credit risk relating to its receivables.

**17. Capital Management Disclosures**

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, exploration and development of exploration and evaluation projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise and ability to raise financing of the Company's management to sustain future development of the business.

The Company considers its capital to be shareholders' equity, which is comprised of common shares, reserves and deficit, which as at June 30, 2020 totalled a shareholders' deficiency of \$7,266,508 (June 30, 2019 – \$6,192,621).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. 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.

The Company currently has no significant source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects 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. There were no changes in the Company's approach to capital management during the years ended June 30, 2020 and 2019.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of June 30, 2020 and 2019, the Company may not be compliant with all of the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

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**18. Income Taxes**

a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory income tax rate of 26.9% (2019 – 26.9%) were as follows:

	Year Ended June 30, 2020 \$	Year Ended June 30, 2019 \$
(Loss) before income taxes	(3,703,710)	(4,564,278)
Combined statutory income tax rate	26.9%	26.9%
Expected income tax recovery based on statutory rate	(996,000)	(1,228,000)
Adjustment to expected income tax benefit:		
Stock-based compensation	101,000	42,000
Flow-through renunciation	112,000	135,000
Non-deductible expenses and other	(1,205,000)	891,000
Changes in benefit of tax assets not recognized	1,988,000	160,000
Deferred income tax provision (recovery)	-	-

b) Deferred income tax

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

	Year Ended June 30, 2020 \$	Year Ended June 30, 2019 \$
Non-capital loss carry-forwards	24,492,000	19,920,000
Exploration and evaluation	19,887,000	19,105,000
Share issuance costs	205,000	239,000
Investment tax credits	917,000	917,000
Property, plant and equipment	1,152,000	870,000
Other temporary differences	4,290,000	-
Tax benefits not recognized	50,943,000	41,051,000

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**18. Income Taxes (cont'd)**

c) Tax loss carry-forwards

As at June 30, 2020, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$24,492,000 (2019 - \$19,920,000 ) available to use against future taxable income. The non-capital losses expire between 2028 and 2040.

Expiry	Total \$
2028	171,000
2029	584,000
2030	1,329,000
2031	4,561,000
2032	2,450,000
2033	2,970,000
2034	2,888,000
2035	2,326,000
2036	2,080,000
2037	2,069,000
2038	1,306,000
2039	348,000
2040	1,410,000
	<u>24,492,000</u>

As at June 30, 2020, the Company had approximately \$5,226,000 (2019 – \$4,685,000), \$14,221,000 (2019 – \$13,979,000), \$264,000 (2019 – \$264,000) and \$177,000 (2019 – \$177,000) of Canadian development expenditures, Canadian exploration expenditures, foreign resource expenditures and depletion credit, respectively, which, under certain circumstances, may be utilized to reduce taxable income of future years.

In addition, the Company also had approximately \$987,000 (2019 – \$987,000) of pre-production mining expenditures, which under certain circumstances, may be used to reduce tax payable in future years.

**19. Subsequent Events**

On July 21, 2020, the Company closed a flow-through private placement financing raising gross proceeds of \$800,000. The Company issued 3,200,000 flow-through shares at a price of \$0.25 per flow-through share. Finder's fees totaling \$56,000 in cash and 224,000 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.25 per share for two years from closing.

In August and September 2020, the Company closed a private placement financing raising gross proceeds of \$910,000. The Company issued 3,956,521 units at a price of \$0.23 per unit. Each unit is comprised of one common share of the Company and one warrant to acquire one common share of the Company at an exercise price of \$0.28 for a period of three years. Finder's fees totaling \$57,968 in cash and 252,035 finder warrants were paid in connection with the financing. Each finder warrant is exercisable at \$0.28 per share for three years from closing.

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**19. Subsequent Events**

Subsequent to June 30, 2020, the Company sold a 50% interest in certain mineral leases to CCW for total consideration of \$1,499,910 payable through the issuance of 2,941,000 units of CCW to the Company. Each unit is comprised of one common shares of CCW and one share price warrant to acquire one common share of CCE at a price of \$0.55 for a period of 5 years. Of the CCW shares received, 559,500 were sold in September 2020 for gross proceeds of \$335,058.

Subsequent to June 30, 2020, 175,000 stock options with exercise prices of \$0.12 - \$0.15 per share were exercised for gross proceeds of \$23,250.

Subsequent to June 30, 2020, 1,317,000 warrants with exercise prices of \$0.12 - \$0.18 per share were exercised for gross proceeds of \$169,800.

See Note 6.