

CONNAUGHT VENTURES INC.

FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

YEAR ENDED JULY 31, 2020



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Connaught Ventures Inc.

Opinion

We have audited the financial statements of Connaught Ventures Inc. (the "Company"), which comprise the statements of financial position as at July 31, 2020 and 2019, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate 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 comprises the information included in Management's Discussion and Analysis.

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

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

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

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

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

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

(cont'd...)

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 Rakesh Patel.

DMCL

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

November 27, 2020



An independent firm
associated with Moore
Global Network Limited

CONNAUGHT VENTURES INC.
STATEMENTS OF FINANCIAL POSITION
AS AT JULY 31,
(Expressed in Canadian Dollars)

	2020	2019
ASSETS		
Current		
Cash	\$ 1,635,190	\$ 205,724
	<u>\$ 1,635,190</u>	<u>\$ 205,724</u>
LIABILITIES		
Current		
Accrued payables	\$ 8,000	\$ 18,898
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	1,715,030	230,372
Reserve (Note 4)	40,703	40,703
Deficit	<u>(128,543)</u>	<u>(84,249)</u>
	<u>1,627,190</u>	<u>186,826</u>
	<u>\$ 1,635,190</u>	<u>\$ 205,724</u>

Nature and continuance of operations (Note 1)

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

CONNAUGHT VENTURES INC.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JULY 31,
(Expressed in Canadian Dollars)

	2020	2019
EXPENSES		
Administration	\$ 182	\$ 59
Professional fees	32,641	29,545
Share-based compensation (Note 4)	-	30,076
Transfer agent and filing fees	<u>11,471</u>	<u>15,709</u>
Loss and comprehensive loss for the year	\$ (44,294)	\$ (75,389)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.05)
Weighted average number of common shares outstanding	2,024,000	1,514,608

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

CONNAUGHT VENTURES INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED JULY 31, 2020 and 2019
(Expressed in Canadian Dollar)

	<u>Share Capital</u>			Reserve	Total Shareholders' Equity
	Common Shares	Amount	Deficit		
Balance, July 31, 2018	2,000,000	\$ 100,000	\$ (8,860)	\$ -	\$ 91,140
Shares issued for cash (Note 4)	2,000,000	200,000	-	-	200,000
Share issuance costs (Note 4)	-	(72,028)	-	10,627	(61,401)
Share-based payments (Note 4)	-	-	-	30,076	30,076
Exercise of warrants (Note 4)	24,000	2,400	-	-	2,400
Net and comprehensive loss for the year	-	-	(75,389)	-	(75,389)
Balance, July 31, 2019	4,024,000	230,372	(84,249)	40,703	186,826
Shares issued for cash (Note 4)	12,500,000	1,500,000	-	-	1,500,000
Share issuance costs (Note 4)	-	(15,342)	-	-	(15,342)
Net and comprehensive loss for the year	-	-	(44,294)	-	(44,294)
Balance, July 31, 2020	16,524,000	\$ 1,715,030	\$ (128,543)	\$ 40,703	\$ 1,627,190

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

CONNAUGHT VENTURES INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31,
(Expressed in Canadian Dollars)

	2020	2019
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss for the year	\$ (44,294)	\$ (75,389)
Item not affecting cash:		
Share-based payments	-	30,076
Change in non-cash working capital item:		
Accrued payables	(10,898)	18,898
Prepaid expenses	-	21,250
Net cash used in operating activities	<u>(55,192)</u>	<u>(5,165)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issuance of share capital	1,500,000	202,400
Share issuance costs	<u>(15,342)</u>	<u>(61,401)</u>
Net cash from financing activities	<u>1,484,658</u>	<u>140,999</u>
Increase in cash during the year	1,429,466	135,834
Cash, beginning of year	<u>205,724</u>	<u>69,890</u>
Cash, end of year	<u>\$ 1,635,190</u>	<u>\$ 205,724</u>

There were no non-cash transactions for the year ended July 31, 2020.

During the year ended July 31, 2019, included in share issuance costs was agent warrants valued at \$10,627.

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Connaught Ventures Inc. (the “Company”) is a company domiciled in Canada. The Company was incorporated on April 3, 2018 under the laws of the Province of British Columbia. The address of the Company’s registered and head office is Suite 1510, 789 West Pender Street, Vancouver, B.C., V6C 1H2.

During the year ended July 31, 2019 the Company completed the process of applying to list its common shares on the TSX-Venture Exchange (“TSX-V”) as a Capital Pool Company (“CPC”) as defined in Policy 2.4 of the TSX-V Corporate Finance Manual and completed its initial public offering of its common shares on October 29, 2018 (Note 4).

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. While the Company has positive working capital of \$1,627,190 at July 31, 2020, it has a deficit of \$128,543 on this date and has not generated any revenue, creating significant doubt as to the Company’s ability to continue as a going concern. The Company’s continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses within 24 months of listing on the TSX-V.

The Company’s continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The Company may require additional financing to meet its projected minimum financial obligations for the next fiscal year. The Company is aware, in making its assessment, of material uncertainties which may cast significant doubt on 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.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

2. BASIS OF PRESENTATION

Statement of Compliance

These 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”).

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

2. BASIS OF PRESENTATION (continued)

Basis of measurement

These financial statements have been prepared on an historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and presentation currency

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

Significant accounting judgments and estimates

The preparation of these financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these financial statements also requires management to exercise judgment in the process of applying the accounting policies.

The preparation of financial statements in accordance with IFRS requires the Company to make judgements apart from those involving estimates, in applying accounting policies. Management has determined that the only significant judgement applying to the financial statements for the year ended July 31, 2020 is the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Share capital

Common shares:

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

Non-monetary consideration:

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

Share-based payment transactions

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

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital (continued)

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Income taxes

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

Current tax expense 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 with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures 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 end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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

Loss per share

The Company presents basic and diluted loss per share 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 period. 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 effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on August 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model.

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

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL. Cash is classified at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

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

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

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

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

Leases

IFRS 16, Leases: This new standard replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The Company adopted IFRS effective August 1, 2019.

The Company has considered the impact of this change and has determined that, since the Company currently has no leases, the new standard has not had any material impact on the Company’s financial statements.

4. SHARE CAPITAL

Authorized: Unlimited common shares without par value

In October 2018, the Company completed its initial public offering and issued 2,000,000 common shares for gross proceeds of \$200,000. The Company paid a finder’s fee of \$20,000 and issued 200,000 agent warrants, entitling the holder to acquire one common share per warrant for \$0.10 for a period of two years. The Company has estimated the fair value of the agent warrants to be \$10,627 based on the Black-Scholes Option Pricing Model. The assumptions used for the Black-Scholes valuation of the agent warrants were as follows: a risk-free interest rate of 2.29%, an expected life of two years, a dividend rate of 0%, forfeiture rate of 0%, and an annualized volatility of 100%. In addition, the Company incurred other costs of \$41,401 in completing its initial public offering.

During the year ended July 31, 2019, the Company received \$2,400 on the exercise of 24,000 warrants.

In July 2020, the Company closed a non-brokered private placement of 12,500,000 common shares at a price of \$0.12 per share for gross proceeds of \$1,500,000. The Company incurred share issuance cost of \$15,342.

All securities issued in connection with the private placement are subject to a four-month hold period and to the terms of a CPC Escrow Agreement dated as of May 18, 2020.

STOCK OPTIONS

The Company has a rolling stock option plan (the “plan”) that authorizes the board of directors to grant incentive stock options to directors, officers, consultants and employees, whereby a maximum of 10% of the issued common shares are reserved for issuance under the plan. Under the Plan, the exercise price of each option may not be less than the market price of the Company’s shares at the date of grant. Options granted under the Plan will have a term not to exceed five years and be subject to vesting provisions as determined by the board of directors of the Company.

CONNAUGHT VENTURES INC.
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2020
(Expressed in Canadian Dollars)

4. SHARE CAPITAL (continued)

STOCK OPTIONS (continued)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, July 31, 2018	-	-
Granted	400,000	\$ 0.10
Outstanding and exercisable, July 31, 2019 and 2020	400,000	\$ 0.10

During the year ended July 31, 2020, the Company granted Nil (2019 - 400,000) stock options to directors and officers of the Company. The fair value of the options granted during the year was \$Nil (2019 - \$30,076), based on the Black-Scholes Option Pricing Model. The weighted average of the fair value per option was \$Nil (2019 - \$0.075). The Company used the following assumptions for the Black-Scholes Option Pricing Model:

	2020	2019
Risk-free interest rate	-	2.40%
Expected life of options	-	5.0 years
Annualized volatility	-	100%
Dividend rate	-	0.00%
Forfeiture rate	-	0.00%

As at July 31, 2020, the Company had 400,000 stock options exercisable at a price of \$0.10 per option to October 28, 2023.

ESCROW SHARES

2,000,000 shares issued to the principals of the Company and 12,500,000 shares issued to an investor under the CPC agreements are subject to escrow conditions required by applicable securities laws and the TSX-V requirements.

WARRANTS

The following table summarizes the Company's warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, July 31, 2018	-	\$ -
Issued	200,000	0.10
Exercised	(24,000)	0.10
Outstanding, July 31, 2019 and 2020	176,000	\$ 0.10

As at July 31, 2020, the Company had 176,000 warrants exercisable at \$0.10 per warrant to October 28, 2020. These warrants subsequently expired on October 28, 2020 without exercise.

4. SHARE CAPITAL (continued)

RESERVE

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

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash. Cash has been designated as fair value through profit and loss. The fair value of these financial instruments approximates their carrying value due to the short-term nature of these instruments, except for cash which is valued at a level 1 fair value measurement. All the Company's financial liabilities have contractual maturities less than 30 days and are subject to normal trade terms.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and other price risk. There has been no change in the way management managed these risks for the period.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The cash is held in a large Canadian financial institution, which has a strong credit rating from a primary credit rating institution.

b) Interest rate risk

Interest rate risk consists of two components:

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

Due to the short-term nature of the Company's financial instruments fluctuations in market rates do not have a significant impact on estimated fair values as of July 31, 2020. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital and liquidity.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity issuances. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

d) Price risk

Price risk is the risk of financial loss to the Company as a result of equity price fluctuations. The Company is exposed to price risk with respect to equity prices.

CONNAUGHT VENTURES INC.
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2020
(Expressed in Canadian Dollars)

6. CAPITAL MANAGEMENT

The Company is a Capital Pool Company and this involves a high degree of risk. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal as the Company does not generate cash flow from current operations. Accordingly, the Company is not subject to any externally imposed capital requirements.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this financing due to uncertain economic conditions. The Company believes that it will be able to raise sufficient funds from share issuances to fund its working capital for the coming year. There have been no changes to the Company's approach to capital management during the period.

Cash on hand will only be sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction. Additional funds may be required to finance the Company's Qualifying Transaction.

Cash from proceeds of share issuance are restricted pursuant to section 8.4 of TSX-V policy 2.4 as follows:

- (a) Until the Completion of the Qualifying Transaction, no more than the lesser of 30% of the gross proceeds from the sale of securities issued by the Company and \$210,000 may be used for purposes other than as provided in section 8.3.
- (b) Until the Completion of the Qualifying Transaction, no proceeds from the sale of securities of the Company may be used to acquire or lease a vehicle.
- (c) The restrictions in this Policy on expenditures and the use of proceeds continue to apply until Completion of the Qualifying Transaction.
- (d) If the Company completes a Qualifying Transaction before spending the entire proceeds on identifying and evaluating properties or businesses, the Company may use the remaining funds to finance or partly finance the acquisition of, or participation in the significant assets.

7. INCOME TAXES

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

	July 31, 2020	July 31, 2019
Net income (loss)	\$ (44,294)	\$ (75,389)
Statutory tax rate	27%	27%
Expected income tax recovery	(11,959)	(20,355)
Share issuance costs	(4,142)	19,448
Change in valuation allowance	16,101	907
Deferred income tax recovery	\$ -	\$ -

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

	July 31, 2020	July 31, 2019
Non-capital losses	\$ 43,314	\$ 22,611
Share issuance costs	14,983	19,448
	58,297	42,195
Valuation allowance	(58,297)	(42,195)
Net deferred tax asset	\$ -	\$ -

CONNAUGHT VENTURES INC.
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2020
(Expressed in Canadian Dollars)

7. INCOME TAXES (continued)

The Company has non-capital losses of approximately \$160,424 that may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through 2040. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.