

United Hunter Oil & Gas Corp.

Financial Statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of United Hunter Oil & Gas Corp.

Opinion

We have audited the financial statements of United Hunter Oil & Gas Corp., (the "Company"), which comprise the statement of financial position as at December 31, 2020 and 2019, and the statements of loss and comprehensive loss, changes in deficit and 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 December 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 2 in the financial statements, which indicates that the Company incurred a net loss of \$258,293 during the year ended December 31, 2020 and as of that date, the Company had an accumulated deficit of \$13,095,486, a working capital deficit of \$228,114 and a cash flow deficit from operations of \$170,917. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we will 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 when it becomes available 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 29, 2021
Toronto, Ontario

United Hunter Oil & Gas Corp.

Statements of Financial Position

(expressed in Canadian dollars)

	Notes	As at December 31,	
		2020	2019
		\$	\$
Assets			
Current			
Cash		172,154	9,669
Receivables		4,296	3,581
Due from Bocana Resources Ltd.	1 and 5	20,400	-
Prepaid expenses		10,107	9,591
		<u>206,957</u>	<u>22,841</u>
Liabilities			
Current			
Accounts payable and accrued liabilities		432,571	343,412
Advance payable	6	2,500	-
Loan payable	7	-	5,152
		<u>435,071</u>	<u>348,564</u>
Shareholders' equity (deficit)			
Share capital	8	10,289,489	9,933,587
Contributed surplus		2,577,883	2,577,883
Deficit		(13,095,486)	(12,837,193)
		<u>(228,114)</u>	<u>(325,723)</u>
		<u>206,957</u>	<u>22,841</u>
Going-concern	2		
Subsequent events	1		

Approved by the Board:

Timothy J. Turner
Director

Christian Shomber
Director

United Hunter Oil & Gas Corp.

Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

		Years ended December 31,	
		2020	2019
	Notes	\$	\$
Expenses			
Professional fees		24,331	38,601
Management fees	12	206,099	204,543
Consulting fees		-	14,189
Stock-based compensation		-	24,067
General and administrative		14,668	11,101
Public company costs		29,581	18,862
Travel		-	8,598
Foreign exchange gain		(8,429)	(2,568)
Interest		-	152
Transaction costs	1	8,240	-
Interest income	5	(400)	-
Gain on settlement of accounts payable		(15,797)	-
		<u>258,293</u>	<u>317,546</u>
Loss and comprehensive loss		(258,293)	(317,546)
Basic and diluted loss per share		(0.01)	(0.02)
Weighted average number of shares outstanding - basic and diluted		20,859,473	17,480,375

United Hunter Oil & Gas Corp.

Statements of Changes in Deficit

(expressed in Canadian dollars)

	Share capital		Contributed surplus	Deficit	Total
	Number of shares	Amount \$			
Balance, December 31, 2019	17,480,375	9,933,587	2,577,883	(12,837,193)	(325,723)
Private placement (Note 8)	7,275,000	363,750	-	-	363,750
Share issue costs	-	(7,848)	-	-	(7,848)
Loss	-	-	-	(258,293)	(258,293)
Balance, December 31, 2020	24,755,375	10,289,489	2,577,883	(13,095,486)	(228,114)
Balance, December 31, 2018	17,480,375	9,933,587	2,553,816	(12,519,647)	(32,244)
Stock-based compensation	-	-	24,067	-	24,067
Loss	-	-	-	(317,546)	(317,546)
Balance, December 31, 2019	17,480,375	9,933,587	2,577,883	(12,837,193)	(325,723)

United Hunter Oil & Gas Corp.

Statements of Cash Flows

(expressed in Canadian dollars)

	Years ended December 31,	
	2020	2019
	\$	\$
Cash flow from operating activities		
Loss	(258,293)	(317,546)
Items not affecting cash		
Stock-based compensation	-	24,067
Foreign exchange gain	(8,429)	-
Interest income not received	(400)	-
Interest not paid	(152)	152
Gain on settlement of accounts payable	(15,797)	-
Changes in non-cash working capital		
Receivables	(715)	10,332
Prepaid expenses	(516)	11,889
Accounts payable and accrued liabilities	113,385	156,330
	<u>(170,917)</u>	<u>(114,776)</u>
Cash flow from financing activities		
Private placement	363,750	-
Share issue costs	(7,848)	-
Advance received	2,500	-
Loan repayment	(5,000)	5,000
	<u>353,402</u>	<u>5,000</u>
Cash flow from investing activities		
Advance to Bocana	(20,000)	-
	<u>(20,000)</u>	<u>-</u>
Net change in cash	162,485	(109,776)
Cash, beginning of year	9,669	119,445
Cash, end of year	<u>172,154</u>	<u>9,669</u>
Supplementary information		
Interest paid	-	-
Income taxes paid	-	-

United Hunter Oil & Gas Corp.

Notes to Financial Statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

1. Nature of operations

United Hunter Oil & Gas Corp. (the "Company") is a public company engaged in the exploration and development of mineral properties. The Company was incorporated under the *Business Corporations Act (Ontario)* on February 22, 2008 and was continued under the *Business Corporations Act (British Columbia)* on January 23, 2020. The Company's registered office is located at 400 - 725 Granville Street, Vancouver, BC V7Y 1G5.

Amalgamation agreement

On March 26, 2021, the Company signed an amalgamation agreement ("Amalgamation Agreement") with Bocana Resources Ltd. ("Bocana"), which sets forth the terms and conditions of a reverse takeover transaction (the "Amalgamation").

Bocana is a private corporation incorporated under the *Canada Business Corporations Act* and carrying on business as a mineral exploration company focused on the acquisition, exploration and development of mineral properties in Bolivia. Bocana, through its wholly-owned subsidiary, Huiracocha International Service SRL, holds a 100% working interest in the mineral properties known as the Escala Area Concessions located at the Department of Potosi, Sud Lipez Province, Bolivia ("Escala") and has pending additional applications with the Corporación Minera de Bolivia to acquire the mining rights to two additional concession areas, also in the Sud Lipez Province of Bolivia. The Chief Executive Officer, who is also a director of the Company, owns approximately 15.57% of the outstanding common shares of Bocana.

Pursuant to the Amalgamation Agreement, Bocana will amalgamate with the Company to form an amalgamated entity ("Resulting Issuer"). Each outstanding Bocana share shall be exchanged for one common share of the Resulting Issuer ("Resulting Issuer Common Share"). Outstanding Bocana warrants shall be exchanged on the same basis. Every 1.6877 outstanding common shares of the Company shall be exchanged for one Resulting Issuer Common Share. The Company's outstanding stock options shall be exchanged on the same basis. Upon completion of the Amalgamation, but prior to the completion of any private placements, or debt settlements after March 26, 2021, the shareholders of the Company will own approximately 14,668,113 Resulting Issuer Common Shares (22.48%) and the shareholders of Bocana will own approximately 50,585,200 Resulting Issuer Common Shares (77.52%).

The Amalgamation is subject to the following conditions:

- a) Bocana completing a private placement of up to 20,000,000 subscription receipts at \$0.10 for gross proceeds of up to \$2,000,000, with each subscription receipt exchangeable into one unit consisting of one Bocana Share and one warrant entitling the holder to purchase one Bocana Share for \$0.10 for 36 months following the closing date of the Amalgamation (completed, see below).
- b) Bocana converting outstanding debts of \$80,084 into 800,840 Bocana Shares.
- c) the Company converting outstanding debts of \$307,886 into 5,131,433 common shares.
- d) approval by the directors of the Company and Bocana.
- e) approval of the TSX Venture Exchange
- f) shareholder approval of the Company and Bocana
- g) closing by August 30, 2021.

In connection with the proposed Amalgamation, the Company advanced a loan \$20,000 to Bocana (see Note 5).

For the period August 7, 2020 to December 31, 2020, the Company incurred transaction costs of \$8,240 with respect to the proposed Amalgamation.

Private placements by Bocana

On April 1, 2021, the Bocana completed the following private placements:

- a) 19,467,500 subscription receipts at a price of \$0.10 per subscription receipt for gross proceeds of \$1,946,750. Each subscription receipt entitles the holder, without payment of any additional consideration and without further action on the part of the holder, to receive one Bocana Unit, upon the satisfaction of certain escrow release conditions. Each Bocana Unit shall consist of one Bocana Share and one warrant entitling the holder to purchase one Bocana Share for \$0.25 for 36 months following the closing date of the Amalgamation. Upon the closing of the Amalgamation and the release of the proceeds from escrow, Bocana will pay a cash commission of \$95,040 to finders and issue 950,400 finder's warrants entitling the holder purchase one Bocana Unit for \$0.10 for a period of 36 months following the closing date of the Amalgamation.
- b) 4,202,500 Bocana Units at a price of \$0.10 per Bocana Unit for gross proceeds of \$420,250. In connection with the private placement, Bocana paid a cash commission of \$13,280 and issued 132,800 finder's warrants entitling the holder purchase one Bocana Unit for \$0.10 for 36 months following the closing date of the Amalgamation.

Private placement by the Company

Concurrently, on April 1, 2021, the Company completed a private placement of 12,289,001 units at a price of \$0.06 per unit for gross proceeds of \$737,340. Each unit consists of one common share and one warrant entitling the holder to purchase one common share for \$0.15 until April 1, 2024. In connection with the Amalgamation, the units shall be subject to an exchange ratio of 1.6877 units to 1 comparable unit of the Resulting Issuer. In connection with the private placement, the Company paid finder's fees of \$40,584 and issued 676,400 finder's warrants entitling the holder to purchase one unit for \$0.06 until April 1, 2021.

2. Going concern

These financial statements have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business.

The Company does not generate revenue. During the year ended December 31, 2020, the Company recorded a loss of \$258,293 (2019 - \$317,546) and as at that date, the Company had an accumulated deficit of \$13,095,486 (2019 - \$12,837,193), working capital deficit of \$228,114 (2019 - \$ 325,723) and cash flow deficit from operations of \$170,917 (2019 - \$114,776). The losses, accumulated deficit and cash flow deficit from operations limit the Company's ability to meet its existing obligations and fund its working capital requirements and the costs to complete and finance the Proposed Transaction, or alternatively, the acquisition, exploration and development of mineral properties. As a result, these factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

On March 11, 2020, the World Health Organization assessed the coronavirus outbreak ("COVID-19") as a pandemic. In Canada, the Government of Ontario declared an emergency under s7.0.1(1) of the *Emergency Management and Civil Protection Act* on March 17, 2020 with respect to COVID-19. As of the date of these financial statements, the extent to which COVID-19 impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted and dependent upon new information which may emerge concerning the severity of COVID-19 and actions taken to contain this or its impact, among others.

The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of mineral properties. The Company is actively seeking to raise the necessary equity financing, however, the extent to which COVID-19 impacts the Company's results cannot be predicted with certainty. The economic instability as a result of COVID-19 means there can be no assurance that additional equity financing will be available. See Note 1, *Private placements by Bocana* and *Private placement by the Company*.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

The financial statements were approved and authorized for issue by the Board of Directors on April 29, 2021.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

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

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about judgments, assumptions and estimation uncertainties that have a risk of resulting in a material adjustment within the next financial year are as follows:

Going concern

The Company applied judgment in assessing its ability to continue as a going concern for at least 12 months. See Note 2.

Valuation of due from Bocana

The Company uses estimates in the determination of expected credit losses on the amount due from Bocana.

Deferred income taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. See Note 11.

4. Significant accounting policies

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

Foreign currencies

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Canadian dollars at the exchange rate in effect on the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the statement of loss and comprehensive loss.

Financial instruments

Financial assets are required to be initially measured at fair value and subsequently classified at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Company's financial assets includes cash and due from Bocana which are classified at amortized cost because the Company's business model is to hold these financial instruments to maturity to collect contractual cash flows consisting solely of payments of principal and interest on the principal amount outstanding.

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Financial liabilities include accounts payable and accrued liabilities, advance payable and loan payable which are initially measured at fair value and subsequently classified at amortized cost.

Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. In situations where the Company issues units, the value of the warrants is included as a separate reserve of the Company's equity.

Share-based payments

The Company offers a stock option plan for its officers, directors, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation or asset and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital. In the event that vested stock options expire, previously recognized share-based compensation is not reversed. In the event that stock options are forfeited, previously recognized share-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments including shares issued to acquire exploration and evaluation are based on the fair value of the goods and services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

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 estimated reliably, 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 finance cost. No provisions were recorded as at December 31, 2020 and 2019.

Income tax

Income tax expense comprises current and deferred taxes. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of 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:

- temporary differences on 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;

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted.

5. Due from Bocana

The amount due from Bocana is unsecured and bears interest at the rate of 5% per annum. Upon closing of the Proposed Transaction, the amount will be repayable on such date and terms as the directors of the Company and Bocana may then agree and if the closing of the Proposed Transaction does not occur, the amount will be repayable on August 8, 2021.

	\$
Balance, December 31, 2019	—
Advance	20,000
Interest	400
Balance, December 31, 2020	20,400

6. Advance payable

The advance payable, due to a company controlled by a shareholder, is unsecured, non-interest bearing and has no fixed terms of repayment.

7. Loan payable

On August 6, 2020, the Company repaid the loan payable of \$5,000 and accrued interest. The loan payable was unsecured, interest-bearing at the rate of 10% per annum and due on demand.

8. Share capital

Authorized

Unlimited number of common shares without par value.
 Unlimited number of preference shares, issuable in series.

Private placement of common shares

On July 14, 2020, the Company completed a private placement of 7,275,000 common shares at a price of \$0.05 per common share for gross proceeds of \$363,750. In connection with the private placement, the Company paid finders' fees of \$4,850.

Stock options

On December 3, 2019, the shareholders of the Company approved a new stock option plan. The Company may grant stock options to directors, officers, employees and consultants for up to 3,496,075 stock options, representing 20% of the issued and outstanding common shares on December 3, 2019. The exercise price for stock options will not be less than the closing market price of the common shares on the day immediately before the date of the grant, less any discount permissible under the rules of the TSX Venture Exchange. The maximum term for stock options will be 10 years and the options will vest on the date of grant.

A summary of the Company's stock options outstanding and exercisable at December 31, 2020 is presented below:

	Weighted- average exercise price \$	Number of stock options
Balance, December 31, 2018 and December 31, 2019	0.25	1,400,000
Cancelled on resignation of a director	0.25	(200,000)
Balance, December 31, 2020	0.25	1,200,000

Exercise price	Expiry date	Number of stock options outstanding and exercisable
\$0.25	August 20, 2023	1,200,000

The weighted average remaining contractual life of the outstanding stock options is 2.64 years.

9. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash, due from Bocana, accounts payable and accrued liabilities, advance payable and loan payable

The fair value of cash, due from Bocana, accounts payable and accrued liabilities, advance payable and loan payable approximates their carrying value due to their short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data

The Company does not have any financial instruments measured at fair value.

10. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities, including credit risk, liquidity risk and market 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.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with 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 market conditions and the Company's activities.

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. Credit risk arises from the Company's cash and due from Bocana. The Company's limits its exposure to credit risk on its cash by holding its cash in deposits with high credit quality Canadian chartered banks. The Company assessed the credit risk of the amount due from Bocana to be low given the proposed amalgamation with Bocana. See Note 1.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company intends to meet its current obligations in the following year with funds to be raised through private placements, shares for debt settlements and related party loans. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The amounts for accounts payable and accrued liabilities are subject to normal trade terms. As the Company does not generate revenue, the Company's operation is dependent upon the Company's ability to secure equity financing to meet its existing obligation and finance the acquisition, exploration and development of mineral properties. See Note 2.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk

Foreign exchange risk is the risk of financial loss to the Company due to a change in foreign exchange rates. The majority of the Company's cash is held in Canadian dollars. Foreign exchange risk arises as the Company makes expenditures denominated in US dollars and has cash of US\$3,952 (2019 - \$4,552) and accounts payable of US\$207,226 (2019 - \$115,155). If the foreign exchange related to the Company's US dollar balances increased or decreased by 10%, with all other variables held constant, cash and accounts payable would have increased or decreased by \$503 (2019 - \$455) and \$26,384 (2019 - \$11,516), respectively.

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk. However, management of the Company believes there is no significant exposure to foreign currency fluctuations due to the limited number of transactions conducted in US dollars.

Interest rate risk

Interest rate risk is the risk of financial loss to the Company due to a change in interest rates. The Company's exposure to interest rate risk is limited to due from Bocana and loans payable which bear interest at fixed rates of interest.

Capital management

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's principal source of capital is from the issue of common shares, advance payable and loans payable. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

11. Income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 26.5% (2019 - 26.5%) to the net loss for the year. The reasons for the difference are as follows:

Provision for income taxes

	2020	2019
	\$	\$
Expected income tax recovery based on statutory rate	(68,448)	(84,149)
Increase resulting from:		
Share-based payments	–	6,377
Share issue costs	(2,078)	–
Change in unrecognized deferred income tax assets	70,526	77,772
Deferred income tax recovery	–	–

Deferred income tax balances

The Company's deferred income tax assets are as follows:

	2020	2019
	\$	\$
Non-capital loss carryforward	2,228,852	2,157,094
Resource pools	604,666	604,666
Share issue costs	7,136	8,368
	2,840,654	2,770,128
Benefit of deferred tax assets not recognized	(2,840,654)	(2,770,128)
	—	—

Due to losses incurred in the current year and expected future operating results, management determined that it is unlikely that the deferred income tax assets will be realized. Accordingly, the deferred income tax assets have not been recognized.

Losses carried forward

At December 31, 2020, the Company had non-capital loss carryforwards which expire as follows:

	\$
2028	60,000
2029	515,000
2030	3,751,000
2031	1,085,000
2032	194,000
2033	347,000
2034	554,000
2035	299,000
2036	285,000
2037	253,000
2038	491,000
2039	304,000
2040	270,000
	8,408,000

As at December 31, 2020, the Company had resource deductions of \$2,281,575 which may be carried forward indefinitely to reduce taxable income in future years.

12. Related party transactions

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. In addition to transactions already disclosed, the following are transactions with key management personnel:

	Years ended December 31,		Outstanding at December 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Management fees	206,099	204,543	414,929	251,757
Stock-based compensation	—	24,067	—	—
	206,099	228,610	414,929	251,757