



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canasil Resources Inc.

Opinion

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

In our opinion, these consolidated 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 ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had working capital of \$913,694 as at December 31, 2020, which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months, as of that date, the Company's accumulated deficit was \$30,131,252. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Hawkshaw.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 29, 2021

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

| ASSETS | 2020 | 2019 |
|---|--------------|--------------|
| Current | | |
| Cash and cash equivalents | \$ 926,340 | \$ 818,015 |
| Receivables | 93,519 | 36,164 |
| Prepaid expenses | 24,502 | 12,751 |
| | 1,044,361 | 866,930 |
| Reclamation bonds | 47,000 | 47,000 |
| Right-of-use asset – office (Note 6) | 29,889 | 69,742 |
| Property and equipment (Note 5) | 75,065 | 38,115 |
| | \$ 1,196,315 | \$ 1,021,787 |

LIABILITIES

| | | |
|---|-----------|-----------|
| Current | | |
| Accounts payable and accrued liabilities | \$ 96,413 | \$ 73,911 |
| Current portion of lease liability (Note 6) | 34,254 | 40,042 |
| | 130,667 | 113,953 |
| Lease liability (Note 6) | - | 34,253 |
| | 130,667 | 148,206 |

SHAREHOLDERS' EQUITY

| | | |
|---|--------------|--------------|
| Share capital (Note 7) | 23,797,739 | 21,837,835 |
| Contributed surplus | 6,774,331 | 6,484,218 |
| Accumulated other comprehensive income | 624,830 | 624,830 |
| Deficit | (30,131,252) | (28,073,302) |
| | 1,065,648 | 873,581 |
| | \$ 1,196,315 | \$ 1,021,787 |

Nature and continuance of operations (Note 1)
Subsequent events (Note 14)

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McLinnis", Director

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

| | Number of Shares | Share Capital (Note 7) | Contributed Surplus (Note 8) | Accumulated Other Comprehensive Income (loss) | Deficit | Total |
|--|---------------------|------------------------------|------------------------------------|--|-----------------|--------------|
| Balance – December 31, 2018 | 104,206,622 | \$ 21,837,835 | \$ 6,484,218 | \$ 625,458 | \$ (28,742,727) | \$ 204,784 |
| Comprehensive income (loss) for the year | - | - | - | (628) | 669,425 | 668,797 |
| Balance – December 31, 2019 | 104,206,622 | 21,837,835 | 6,484,218 | 624,830 | (28,073,302) | 873,581 |
| Private placement - units | 5,087,500 | 407,000 | - | - | - | 407,000 |
| Private placement - units | 7,827,500 | 1,565,500 | - | - | - | 1,565,500 |
| Share issuance costs | - | (43,650) | - | - | - | (43,650) |
| Exercise of stock options | 350,000 | 21,000 | - | - | - | 21,000 |
| Fair value of stock options exercised | - | 10,054 | (10,054) | - | - | - |
| Share-based compensation | - | - | 300,167 | - | - | 300,167 |
| Comprehensive loss for the year | - | - | - | - | (2,057,950) | (2,057,950) |
| Balance – December 31, 2020 | 117,471,622 | \$ 23,797,739 | \$ 6,774,331 | \$ 624,830 | \$ (30,131,252) | \$ 1,065,648 |

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

| | 2020 | 2019 |
|---|-----------------------|--------------------|
| Expenses | | |
| Accounting and audit | \$ 35,180 | \$ 40,749 |
| Consulting | 765 | 2,593 |
| Depreciation – equipment (Note 5) | 8,811 | 2,503 |
| Depreciation – right-of-use asset – office (Note 6) | 39,853 | 39,852 |
| Director fees (Note 10) | 36,000 | 36,000 |
| Exploration and evaluation (Note 4) | 1,119,144 | 725,472 |
| Foreign exchange loss | 26,234 | 3,916 |
| Interest – lease liability (Note 6) | 6,387 | 10,841 |
| Interest income | (6,956) | (11,650) |
| Investor relations and promotions | 74,893 | 12,542 |
| Legal fees | 19,736 | 28,955 |
| Listing and filing fees | 8,990 | 7,479 |
| Management fees (Note 10) | 87,500 | 150,000 |
| Office rent, services and supplies | 38,244 | 32,844 |
| Salaries and wages (Note 10) | 230,352 | 231,280 |
| Shareholder communications | 24,558 | 11,987 |
| Share-based compensation (Notes 8 and 10) | 300,167 | - |
| Transfer agent fees | 7,279 | 4,800 |
| Travel and accommodation | 813 | 412 |
| | <u>(2,057,950)</u> | <u>(1,330,575)</u> |
| Gain on sale of mineral property (Note 4) | - | 2,000,000 |
| Income (loss) for the year | (2,057,950) | 669,425 |
| Other comprehensive loss | | |
| Change in fair value of marketable securities, net of taxes (Note 3) | - | (628) |
| Comprehensive income (loss) for the year | \$ (2,057,950) | \$ 668,797 |
| | | |
| Income (loss) per share – basic and diluted | \$ (0.02) | \$ 0.01 |
| | | |
| Weighted-average number of shares outstanding | | |
| – basic | 111,697,701 | 104,206,622 |
| – diluted | 111,697,701 | 104,442,336 |

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

| CASH RESOURCES PROVIDED BY (USED IN) | 2020 | 2019 |
|---|--------------------|--------------------|
| Operating activities | | |
| Income (loss) for the year | \$ (2,057,950) | \$ 669,425 |
| Items not involving cash | | |
| Depreciation – equipment | 8,811 | 2,503 |
| Depreciation – right-of-use asset – office | 39,853 | 39,852 |
| Share-based compensation | 300,167 | - |
| Gain on sale of mineral property | - | (2,000,000) |
| Changes in non-cash working capital | | |
| Receivables | (57,355) | 21,118 |
| Prepaid expenses | (11,751) | (133) |
| Accounts payable and accrued liabilities | 22,502 | (53,137) |
| | <u>(1,755,723)</u> | <u>(1,320,372)</u> |
| Investing activities | | |
| Proceeds on sale of mineral property | - | 2,000,000 |
| Proceeds on sale of marketable securities | - | 55,372 |
| Purchase of equipment | (45,761) | - |
| | <u>(45,761)</u> | <u>2,055,372</u> |
| Financing activities | | |
| Shares issued for cash | 1,993,500 | - |
| Share issuance costs | (43,650) | - |
| Principal payments – lease liability | (40,041) | (35,299) |
| | <u>1,909,809</u> | <u>(35,299)</u> |
| Change in cash and cash equivalents for the year | 108,325 | 669,701 |
| Cash and cash equivalents - beginning of year | <u>818,015</u> | <u>118,314</u> |
| Cash and cash equivalents - end of year | \$ 926,340 | \$ 818,015 |
| Supplemental schedule of non-cash investing and financing transactions | | |
| Fair value of stock options exercised | \$ 10,054 | \$ - |
| Unrealized losses on marketable securities | \$ - | \$ 628 |
| Right-of-use asset – office | \$ - | \$ 109,594 |
| Lease liability | \$ - | \$ 109,594 |
| Supplemental cash flow information | | |
| Interest received | \$ 12,148 | \$ 2,195 |
| Interest paid – lease liability | \$ 6,796 | \$ 10,084 |
| Income taxes paid | \$ - | \$ - |

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (“Canasil” or the “Company”) is a mineral exploration company incorporated in British Columbia with its head office located at 1760 – 750 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interests in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain ore reserves. The Company’s continuing operation is dependent upon the confirmation of reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2020 the Company had working capital of \$913,694 (2019 - \$752,977), which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months (*Note 14*). Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests. These material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. The Company has incurred operating losses since inception and as at December 31, 2020 had an accumulated deficit of \$30,131,252 (2019 - \$28,073,302).

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future. Additionally, the outbreak of the COVID-19 global pandemic has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date, the Company’s operations have not been materially affected by the pandemic, however, it is not possible to predict the duration or magnitude of the adverse results of the outbreak and its future effects on the Company’s business or ability to raise funds.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee using those standards in effect for the reporting year ended December 31, 2020. The Company’s board of directors approved these consolidated financial statements for issue on April 29, 2021.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for those items classified as fair value through profit and loss or fair value through other comprehensive income, using the accrual basis of accounting, except for cash flow information.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries, CRD Minerals Corp., Canmine Minerals Inc., Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

Cash and cash equivalents

Cash and cash equivalents include cash balances held through current operating bank accounts and guaranteed investment certificates at major financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in nominal value.

Marketable securities

Marketable securities consist of common shares of publicly traded companies that were held by the Company and classified as fair value through other comprehensive income. The shares were recorded at fair value; gains or losses arising from changes in fair value were recorded as other comprehensive income (loss) and included in accumulated other comprehensive income (loss). Gains and losses realized upon sale remain in accumulated other comprehensive income (loss).

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum.

Exploration and evaluation

The Company is currently in the exploration stage in respect of all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Exploration and evaluation – *continued*

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing. Expenditure recoveries are recorded in the period that the payments are received.

Financial Instruments

The Company classifies its financial instruments in accordance with IFRS 9 – *Financial Instruments*, based on the Company's business model for managing its financial instruments, including the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics. Financial instruments are classified under three primary measurement categories: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, upon initial recognition the Company can make a one-time irrevocable election to designate them as FVTOCI.

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

FVTOCI

Investments in equity instruments classified as FVTOCI are initially recognized at fair value plus transaction costs. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income with no subsequent reclassification to profit or loss upon derecognition. Realized gains and losses recognized upon derecognition remain within accumulated other comprehensive income.

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – continued

The following table summarizes the classification of the Company's financial instruments:

| <u>Financial Instrument</u> | <u>Classification</u> |
|-----------------------------|-----------------------|
| Cash and cash equivalents | FVTPL |
| Receivables | Amortized cost |
| Reclamation bonds | Amortized cost |
| Accounts payable | Amortized cost |

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The liability is accreted over time to reflect an interest element in the estimated future cash flows considered in the initial measurement. The Company's estimates of provisions for restoration obligations could change as a result of changes in regulations, the discount rate, the extent of environmental remediation required, the means of reclamation, or the cost estimates. Changes in estimates are recorded in the period in which the estimates are revised. The Company has determined that it has no significant restoration obligations as at December 31, 2020.

Impairment

Non-financial assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets. The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as 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.

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. In situations where options are granted to non-employees and some or all of the services provided cannot be specifically valued, the services are measured at the fair value of the share-based compensation. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. The Company computes the dilutive effect of options, warrants and similar instruments and its effect on earnings per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share due to their anti-dilutive effect.

Share capital

Share capital issued for non-monetary consideration is recorded at the fair value of the non-monetary consideration received, or at the fair value of the shares issued if the fair value of the non-monetary consideration cannot be measured reliably, on the date of issue. The Company uses the residual value approach in respect of unit offerings, whereby the amount assigned to the warrant is the excess, if any, of the unit price over the trading price of the Company's shares at the date of issuance.

Leases

The Company currently leases its office premises under a three-year lease agreement. Under IFRS 16, the Company has presented a right-of-use asset representing its office premises, and an offsetting lease liability representing the future cash payments due under the lease agreement.

The Company has recorded a lease liability measured at the present value of the remaining lease payments due under its lease agreement using the Company's estimated incremental borrowing rate. The right-of-use asset has been measured at an amount equal to the initial lease liability. Payments made under the lease agreement are recorded as principal and interest due under the lease liability, using the effective interest rate method. The right-of-use asset is depreciated on a straight-line basis over the remaining term of the lease. Accordingly, in the statement of cash flows, interest expense has been included in operating activities and the principal reduction of the lease liability has been presented as a financing activity.

Subsequent to the date of initial recognition, the carrying amounts of the lease liability and right-of-use asset are subject to remeasurement to reflect any lease modifications or revised in-substance fixed lease payments.

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements – *continued*

The Company's most significant accounting judgements relate to the probability of recognition of the benefit of deferred tax assets, the determination of assumptions used to estimate share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. 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 balance sheet date. 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.

3. MARKETABLE SECURITIES

The Company acquired common shares of Orex Minerals Inc. ("Orex") through a private placement. At the time of the acquisition of these shares, the Company had an option agreement with Orex on the Sandra-Escobar project (*Note 4*) and the shares were considered a strategic investment in the project and were not designated as held for trading. The Company elected to measure these shares at FVTOCI.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Expressed in Canadian Dollars

3. MARKETABLE SECURITIES – *continued*

During 2019, the Company sold 700,000 Orex shares for net cash proceeds of \$55,372 and a loss of \$14,584. Gains realized upon sale remain in accumulated other comprehensive income and are not recognized in profit or loss. The Company also recorded unrealized losses of \$628, net of deferred income tax impact of \$nil, through accumulated other comprehensive income.

4. EXPLORATION AND EVALUATION

The Company expenses costs relating to the exploration and evaluation of its mineral properties in the period incurred. A description of the Company's mineral interests follows:

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in certain claims within the La Esperanza project area, subject to a net smelter returns royalty ("NSR") of up to 1%. The claims are located in Zacatecas State, Mexico. The Company acquired a 100% interest in these claims in May 2011 and purchased the NSR in 2016. From 2006 to 2010, the Company also added further claims, by direct staking, to increase the size of the project area.

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking as well as the purchase of a 100% interest in certain claims comprising the central area of the project, which are subject to a 0.5% NSR that can be purchased from the owner for US\$500,000.

Nora project, Mexico

The Company holds a 100% interest in the Nora project, located in Durango State, Mexico, which was acquired through staking.

Sandra-Escobar project, Mexico

Between 2004 and 2006, the Company acquired, by staking, the Sandra claims located in Durango State, Mexico. In accordance with a 2009 agreement with Pan American Silver Corp. ("Pan American"), the Company also earned a 40% interest in Pan American's Escobar claims in 2012, which are contiguous with the Sandra claims. In addition to these claims, the Company also acquired various other claims in the area from third parties, all of which formed the Sandra-Escobar project.

In September 2015, the Company signed an option agreement with Orex on the Sandra-Escobar project providing Orex with the right to earn up to an 65% interest in the project over a three-year period. Orex paid the Company \$500,000 and incurred US\$2,000,000 in exploration expenditures to earn a 55% interest in the project and declined its option to earn an additional 10% interest.

In June 2019, the Company sold its interest in the project to Pan American for \$2,000,000 plus a 2% net smelter returns royalty interest ("NSR Royalty Interest") payable on Pan American's share of the project; the NSR Royalty Interest can be reduced to 1% upon payment of \$4,000,000 to the Company.

Other projects

The Company has staked other claims located in Durango State, Mexico, which include the Colibri, Carina, and Vizcaino projects. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these projects.

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4. EXPLORATION AND EVALUATION – continued

Expenditures for the years ended December 31 and cumulative expenditures to December 31, 2020 are as follows:

| | Expenditures 2020 | Expenditures 2019 | Cumulative 2020 |
|----------------------------|----------------------|----------------------|----------------------|
| Brenda, Canada | \$ 25,601 | \$ 4,000 | \$ 2,421,771 |
| - Expenditure recoveries | (1,200) | (1,993) | (225,773) |
| Vega, Canada | 1,633 | 96,251 | 383,002 |
| - Expenditure recoveries | (28,129) | (10,045) | (75,190) |
| Other, Canada | 400 | 657 | 142,824 |
| - Expenditure recoveries | - | - | (22,776) |
| La Esperanza, Mexico | 362,412 | 395,041 | 3,912,706 |
| - Expenditure recoveries | - | - | (262,373) |
| - Option payments received | - | - | (300,000) |
| Salamandra, Mexico | 71,373 | 95,529 | 6,376,879 |
| - Expenditure recoveries | - | - | (223,652) |
| - Option payments received | - | - | (553,989) |
| Nora, Mexico | 581,523 | 89,219 | 1,154,848 |
| Sandra-Escobar, Mexico | - | 11,349 | 2,020,973 |
| - Expenditure recoveries | - | - | (177,486) |
| - Option payments received | - | - | (500,000) |
| Other, Mexico | 105,531 | 45,464 | 3,194,657 |
| - Expenditure recoveries | - | - | (131,346) |
| - Option payments received | - | - | (133,471) |
| | <u>\$ 1,119,144</u> | <u>\$ 725,472</u> | <u>\$ 17,001,604</u> |

Expenditures for the years ending December 31, by activity, are as follows:

| | 2020 | 2019 |
|----------------------------|---------------------|-------------------|
| Administration | \$ 177,491 | \$ 187,356 |
| Assays | 26,549 | 13,230 |
| Consulting | 4,054 | - |
| Drilling | 222,930 | - |
| Field costs | 51,051 | 16,914 |
| Geological | 194,415 | 156,481 |
| Land holding costs | 385,688 | 307,469 |
| Legal | 4,436 | - |
| Mapping and surveying | 18,257 | 10,604 |
| Road building | 46,339 | 9,457 |
| Transportation and rentals | 15,435 | 32,244 |
| Travel and accommodation | 1,828 | 3,755 |
| Expenditure recoveries | (29,329) | (12,038) |
| | <u>\$ 1,119,144</u> | <u>\$ 725,472</u> |

Mineral title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

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5. PROPERTY AND EQUIPMENT

| | Land | Automotive | Computer | Field Equipment | Furniture and Fixtures | Total |
|-------------------------------------|-----------|------------|-----------|--------------------|---------------------------|------------|
| Cost | | | | | | |
| December 31, 2018 | \$ 31,686 | \$ 63,175 | \$ 27,036 | \$ 31,971 | \$ 34,068 | \$ 187,936 |
| Additions | - | - | - | - | - | - |
| December 31, 2019 | 31,686 | 63,175 | 27,036 | 31,971 | 34,068 | 187,936 |
| Additions | - | 37,155 | 2,873 | 5,733 | - | 45,761 |
| December 31, 2020 | 31,686 | 100,330 | 29,909 | 37,704 | 34,068 | 233,697 |
| Accumulated Depreciation | | | | | | |
| December 31, 2018 | - | 60,368 | 25,514 | 31,415 | 30,021 | 147,318 |
| Additions | - | 842 | 685 | 166 | 810 | 2,503 |
| December 31, 2019 | - | 61,210 | 26,199 | 31,581 | 30,831 | 149,821 |
| Additions | - | 6,163 | 1,023 | 977 | 648 | 8,811 |
| December 31, 2020 | - | 67,373 | 27,222 | 32,558 | 31,479 | 158,632 |
| Net Book Value | | | | | | |
| December 31, 2019 | \$ 31,686 | \$ 1,965 | \$ 837 | \$ 390 | \$ 3,237 | \$ 38,115 |
| December 31, 2020 | \$ 31,686 | \$ 32,957 | \$ 2,687 | \$ 5,146 | \$ 2,589 | \$ 75,065 |

6. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company has a lease agreement for its office premises that expires September 30, 2021 and contains no renewal clause. Current monthly payments are \$3,956 and include basic rent and a pro rata share of common operating costs. On January 1, 2019, the date of initial application under IFRS 16, the Company recorded this agreement as a lease liability with an initial measurement equal to the present value of the remaining lease payments using the Company's estimated incremental borrowing rate of 12%. The lease liability is subsequently measured at amortized cost using the effective interest rate method and adjusted for interest and principal. The right-of-use asset has been measured at an amount equal to the initial lease liability and is subsequently depreciated on a straight-line basis over the remaining term of the lease.

Details of the right-of-use asset for the year are as follows:

| | 2020 | 2019 |
|-----------------------------|-----------|------------|
| Balance – beginning of year | \$ 69,742 | \$ 109,594 |
| Depreciation for the year | (39,853) | (39,852) |
| Balance – end of year | \$ 29,889 | \$ 69,742 |

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6. RIGHT-OF-USE ASSET AND LEASE LIABILITY - *continued*

Details of the lease liability for the year are as follows:

| | 2020 | 2019 |
|--|---------------|------------------|
| Balance – beginning of year | \$ 74,295 | \$ 109,594 |
| Payments made during year | (46,837) | (45,383) |
| Interest portion of payments | 6,796 | 10,084 |
| | <u>34,254</u> | <u>74,295</u> |
| Less: current portion | (34,254) | (40,042) |
| Balance: long-term portion – end of year | <u>\$ -</u> | <u>\$ 34,253</u> |

Accrued interest payable on the lease liability to December 31, 2020 totalled \$349 (2019 - \$757).

Total undiscounted payments due under the lease agreement are as follows:

| | Amount |
|------|------------------|
| 2021 | <u>\$ 35,986</u> |

7. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

There were no shares issued from treasury during the year ended December 31, 2019.

In March 2020, the Company completed a non-brokered private placement by issuing 5,087,500 units at a price of \$0.08 per unit for gross proceeds of \$407,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.12 per share for a period of two years. The warrants are subject to an acceleration clause should the closing price of the Company's shares exceed \$0.25 per share for a period of 20 consecutive trading days. The Company paid finders' fees of \$3,720 on a portion of the placement as well as legal and filing fees of \$5,974.

In July 2020, the Company completed a non-brokered private placement by issuing 7,827,500 units at a price of \$0.20 per unit for gross proceeds of \$1,565,500. Each unit consisted of one common share and one-half of one two-year share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.25 per share in the first year or \$0.30 in the second year. The warrants are subject to an acceleration clause should the closing price of the Company's shares exceed \$0.50 per share for a period of 20 consecutive trading days. The Company paid finders' fees of \$21,900 on a portion of the placement as well as legal and filing fees of \$12,056.

In December 2020, the Company issued 350,000 shares upon the exercise of stock options for proceeds of \$21,000. The fair value of the options at the time of grant was estimated at \$10,054 and this amount was transferred from contributed surplus to share capital upon exercise of the options.

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8. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan that complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares. Stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

Stock option and share purchase warrant transactions are summarized as follows:

| | Warrants | | Options | |
|--------------------------------|------------------|---------------------------------|----------------|---------------------------------|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, December 31, 2018 | 2,309,250 | \$ 0.25 | 7,565,000 | \$ 0.10 |
| Expired | - | \$ - | (325,000) | \$ 0.10 |
| Outstanding, December 31, 2019 | 2,309,250 | \$ 0.25 | 7,240,000 | \$ 0.10 |
| Expired/amended | (2,309,250) | \$ 0.25 | (4,600,000) | \$ 0.06 |
| Amended | - | \$ - | 4,600,000 | \$ 0.11 |
| Exercised | - | \$ - | (350,000) | \$ 0.06 |
| Issued/granted | 5,087,500 | \$ 0.12 | 1,750,000 | \$ 0.08 |
| Issued/granted | <u>3,913,750</u> | \$ 0.25 | <u>250,000</u> | \$ 0.11 |
| Outstanding, December 31, 2020 | 9,001,250 | \$ 0.18 | 8,890,000 | \$ 0.13 |
| Exercisable, December 31, 2020 | 9,001,250 | \$ 0.18 | 8,890,000 | \$ 0.13 |

At December 31, 2020, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

| | Number of Shares | Exercise Price | Expiry Date |
|----------|------------------|----------------|--|
| Options | 400,000 | \$ 0.21 | March 1, 2021 (<i>expired March 1, 2021</i>) |
| | 1,155,000 | \$ 0.20 | January 20, 2022 |
| | 735,000 | \$ 0.20 | January 25, 2022 |
| | 1,750,000 | \$ 0.08 | May 22, 2025 |
| | 250,000 | \$ 0.11 | November 9, 2025 |
| | 4,600,000 | \$ 0.11 | December 21, 2025 |
| | <u>8,890,000</u> | | |
| Warrants | 4,250,000 | \$ 0.12 | March 5, 2022 |
| | 837,500 | \$ 0.12 | March 11, 2022 |
| | 3,913,750 | \$ 0.25 | July 31, 2022 (<i>i</i>) |
| | <u>9,001,250</u> | | |

(i) Exercise price increases to \$0.30 per share on July 31, 2021.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. STOCK OPTIONS AND WARRANTS - *continued*

At December 31, 2020, the weighted-average remaining life for the outstanding stock options was 3.81 years and 1.35 years for the outstanding warrants.

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers, employees, and consultants of the Company during the years ended December 31. During 2020, the Company granted 2,000,000 new options and amended the terms of 4,600,000 existing options. Share-based compensation is recorded over the vesting period. All options granted and amended during the year vested immediately.

| | 2020 | 2019 |
|---|------------|------|
| Total options granted and amended | 6,600,000 | - |
| Average exercise price | \$ 0.10 | \$ - |
| Estimated fair value of options granted | \$ 113,908 | \$ - |
| Estimated fair value of options amended | \$ 186,259 | \$ - |
| Estimated fair value per option | \$ 0.05 | \$ - |

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions for options granted and amended during the year:

| | 2020 | 2019 |
|---------------------------------|-------|------|
| Risk-free interest rate | 0.44% | - |
| Expected dividend yield | 0.00% | - |
| Expected stock price volatility | 112% | - |
| Expected forfeiture rate | 0.00% | - |
| Expected option life in years | 5.06 | - |

The Company has recorded share-based compensation as follows:

| | 2020 | 2019 |
|----------------------------------|------------|------|
| Number of options vested in year | 6,600,000 | - |
| Compensation recognized in year | \$ 300,167 | \$ - |

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of the following:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Cash and cash equivalents | | |
| Cash on deposit | \$ 125,651 | \$ 62,081 |
| Guaranteed investment certificate | 800,689 | 755,934 |
| | <u>\$ 926,340</u> | <u>\$ 818,015</u> |
| Receivables | | |
| Value-added taxes | \$ 78,835 | \$ 15,138 |
| Goods and services tax and other | 14,684 | 21,026 |
| | <u>\$ 93,519</u> | <u>\$ 36,164</u> |
| Reclamation bonds | <u>\$ 47,000</u> | <u>\$ 47,000</u> |
| Accounts payable and accrued liabilities | | |
| Accounts payable | \$ 64,809 | \$ 43,154 |
| Accrued audit, legal, exploration and other | 31,604 | 30,757 |
| | <u>\$ 96,413</u> | <u>\$ 73,911</u> |

The Company's cash is measured at FVTPL using a Level 1 fair value measurement. Receivables, reclamation bonds, and accounts payable are measured at amortized cost. The carrying values of these instruments approximate their fair values due to their short-term nature.

The Company is exposed to various financial risks in respect of its financial instruments as detailed below. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's primary credit risk is associated with its cash and cash equivalents, receivables, and reclamation bonds.

The Company's Canadian cash, cash equivalents, and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks with high investment grade ratings. The Company also maintains cash balances denominated in pesos and U.S. dollars held through a major bank in Mexico, which also has a high investment grade rating. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company currently receives its IVA refunds without significant delays. The carrying value of the Company's cash, receivables, and reclamation bonds totals \$1,066,859 and represents the Company's maximum exposure to credit risk as at December 31, 2020 (2019 - \$901,179).

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in exchange rates. The Company carries cash, receivables, and accounts payable balances denominated in Mexican pesos and U.S. dollars, which are subject to currency risk due to fluctuations in the exchange rates with the Canadian dollar.

Due to the volatility of the exchange rates between the Canadian dollar, the peso, and the U.S. dollar, such currency risk could result in future gains or losses to the Company. During the year ended December 31, 2020, the Mexican peso weakened against the Canadian dollar by approximately 7%; the U.S. dollar weakened against the Canadian dollar by approximately 2%. Based on the Company's net monetary liabilities denominated in Mexican pesos and U.S. dollars as at December 31, 2020, a 10% fluctuation in the exchange rates of these currencies would result in a gain or loss of approximately \$6,000 (2019 - \$3,050). To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

Interest Rate Risk

Interest rate risk relates to the effect on the Company's financial instruments due to changes in market rates of interest. The Company holds cash equivalents and reclamation bonds, which include guaranteed investment certificates that earn interest at market rates and are exposed to interest rate risk given the volatility of interest rates over time. Due to the value and nature of the Company's other financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments.

Liquidity Risk

The Company is subject to liquidity risk such that it may not be able to meet its obligations under its financial instruments as they fall due (*Note 1*). The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business. To date, the Company's capital requirements have been met primarily by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes officers and directors. The compensation paid or payable to key management for the years ended December 31 is as follows:

| | 2020 | 2019 |
|-----------------|-------------------|-------------------|
| Salaries | \$ 225,000 | \$ 225,000 |
| Management fees | 87,500 | 150,000 |
| Director fees | 36,000 | 36,000 |
| | <u>\$ 348,500</u> | <u>\$ 411,000</u> |

In addition, the Company recorded share-based compensation of \$214,218 (2019 - \$nil) relating to stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 8.

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11. INCOME TAXES

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

| | 2020 | 2019 |
|---|----------------|------------|
| Income (loss) before income taxes for accounting purposes | \$ (2,057,950) | \$ 669,425 |
| Expected tax expense (recovery) for the year | (556,000) | 181,000 |
| Effect of different tax rate on foreign losses | (21,000) | 65,000 |
| Non-deductible expenses, non-taxable items and other | 4,000 | 160,000 |
| Taxable loss through AOCI | - | (4,000) |
| Change in unrecognized deductible temporary differences | 573,000 | (402,000) |
| Tax expense for the year | \$ - | \$ - |

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities as at December 31 are as follows:

| | 2020 | 2019 |
|----------------------------------|--------------|--------------|
| Non-capital losses | \$ 3,009,000 | \$ 2,816,000 |
| Exploration expenditures | 4,855,000 | 4,768,000 |
| Equipment | 52,000 | 39,000 |
| Share issuance costs | 9,000 | 11,000 |
| Investment tax credits | 40,000 | 40,000 |
| Capital losses | 2,000 | 2,000 |
| Unrecognized deferred tax assets | \$ 7,967,000 | \$ 7,676,000 |

The Company's deferred tax assets expire as follows:

| | 2020 | Expiry Date Range | 2019 |
|--------------------------|---------------|----------------------|---------------|
| Non-capital losses | \$ 10,808,000 | 2021 to 2040 | \$ 10,102,000 |
| Exploration expenditures | \$ 16,579,000 | Not applicable | \$ 16,287,000 |
| Equipment | \$ 184,000 | Not applicable | \$ 141,000 |
| Share issuance costs | \$ 35,000 | 2041 | \$ 41,000 |
| Investment tax credits | \$ 55,000 | 2027 to 2033 | \$ 55,000 |
| Capital losses | \$ 15,000 | Not applicable | \$ 7,000 |

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12. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and typically finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest-bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the current year.

13. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry. The Company operates in the following geographical locations:

| 2020 | Canada | Mexico | Total |
|-----------------------------|-----------|-----------|-----------|
| Property and equipment | \$ 3,584 | \$ 71,481 | \$ 75,065 |
| Right-of-use asset – office | \$ 29,889 | \$ - | \$ 29,889 |

| 2019 | Canada | Mexico | Total |
|-----------------------------|-----------|-----------|-----------|
| Property and equipment | \$ 3,126 | \$ 34,989 | \$ 38,115 |
| Right-of-use asset – office | \$ 69,742 | \$ - | \$ 69,742 |

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Company announced its intention to complete a non-brokered private placement of up to 5,000,000 units at a price of \$0.10 per unit for gross proceeds of up to \$500,000. Each unit will consist of one common share of the Company and one-half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at a price of \$0.15 during the first year or \$0.20 during the second year following the closing of the offering. If, commencing after the fourth month after closing, the closing price of the Company's shares exceeds \$0.25 per share for a period of 20 consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants to 30 days after the issuance of a news release announcing such acceleration. A finder's fee may be paid with respect to all or part of this placement. The terms of the placement are subject to acceptance by the TSX Venture Exchange.

The Company also granted 200,000 stock options to an investor relations consultant. The options are for a period of two years with an exercise price of \$0.15 per share. The options will vest in accordance with the policies of, and are subject to approval by, the TSX venture Exchange.