# ARCPACIFIC RESOURCES CORP.

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEARS ENDED

# JANUARY 31, 2020 AND 2019

# (EXPRESSED IN CANADIAN DOLLARS)

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of ArcPacific Resources Corp.

**Opinion**

We have audited the accompanying consolidated financial statements of ArcPacific Resources Corp. (the "Company") which comprise the consolidated statements of financial position as at January 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

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

**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 Auditors' 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 audits 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 is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter - Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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 audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

**Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' report is Ted McLellan.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
June 15, 2020

**ARCPACIFIC RESOURCES CORP.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT JANUARY 31, 2020 AND 2019**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash | $ | 239,383 | $ | 51,310 |
| Tax recoverable | | 9,021 | | 869 |
| Prepaid expenses and deposits | | 67,500 | | 2,500 |
| | | 315,904 | | 54,679 |
| Exploration and evaluation assets (Note 5) | | 43,353 | | 34,856 |
| | $ | 359,257 | $ | 89,535 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Accounts payable (Note 6) | $ | 340,835 | $ | 256,330 |
| Loans payable (Note 7) | | 91,500 | | 111,000 |
| | | 432,335 | | 367,330 |
| **SHAREHOLDERS' DEFICIENCY** | | | | |
| Share capital (Note 8) | | 3,654,955 | | 3,221,795 |
| Contributed surplus (Note 8) | | 678,095 | | 633,362 |
| Deficit | | (4,406,128) | | (4,132,952) |
| | | (73,078) | | (277,795) |
| | $ | 359,257 | $ | 89,535 |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
SUBSEQUENT EVENT (Note 12)

Authorized for issuance on behalf of the Board on June 15, 2020:

*/s/ "Nizar Bharmal"* Director

*/s/ "Ken Chung"* Director

**ARCPACIFIC RESOURCES CORP.**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | | **2020** | | **2019** |
|---|---|---|---|---|
| Expenses | | | | |
| Consulting fees | $ | 134,100 | $ | 112,000 |
| Investor communications | | 723 | | - |
| Management fees (Note 6) | | 12,000 | | 12,000 |
| Office and miscellaneous | | 28,970 | | 12,105 |
| Professional fees | | 23,014 | | 22,594 |
| Rent | | 4,750 | | 6,620 |
| Share-based payments (Note 6 and 8) | | 9,362 | | - |
| Transfer agent and filing fees | | 20,403 | | 21,827 |
| Travel and promotion | | 26,508 | | 18,056 |
| Loss before other items | | (259,830) | | (205,202) |
| Other items | | | | |
| Gain (loss) on debt settlement (Note 6 and 8) | | (13,400) | | 6,900 |
| Interest income | | 54 | | 33 |
| | | (13,346) | | 6,933 |
| Net loss and comprehensive loss | $ | (273,176) | $ | (198,269) |
| Loss per share (basic and diluted) | $ | (0.03) | $ | (0.02) |
| Weighted average number of common shares outstanding | | 10,807,956 | | 9,203,540 |

**ARCPACIFIC RESOURCES CORP.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**
**FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | Common Shares | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Contributed Surplus | Deficit | Total |
| | | $ | $ | $ | $ |
| Balance, January 31, 2018 | 7,595,571 | 3,091,424 | 633,362 | (3,934,683) | (209,897) |
| Shares issued for: | | | | | |
| Private placements (Note 8) | 2,000,000 | 100,000 | - | - | 100,000 |
| Exploration and evaluation assets (Note 8) | 774,583 | 34,856 | - | - | 34,856 |
| Share issuance costs | - | (4,485) | - | - | (4,485) |
| Comprehensive loss | - | - | - | (198,269) | (198,269) |
| Balance, January 31, 2019 | 10,370,154 | 3,221,795 | 633,362 | (4,132,952) | (277,795) |
| Shares issued for: | | | | | |
| Private placements (Note 8) | 6,760,000 | 258,714 | 79,286 | - | 338,000 |
| Debt settlements (Note 8) | 3,136,000 | 235,200 | (65,000) | - | 170,200 |
| Share issuance costs | - | (39,669) | - | - | (39,669) |
| Agent warrants issued (Note 8) | - | (21,085) | 21,085 | - | - |
| Share-based payments (Note 8) | - | - | 9,362 | - | 9,362 |
| Comprehensive loss | - | - | - | (273,176) | (273,176) |
| Balance, January 31, 2020 | 20,266,154 | 3,654,955 | 678,095 | (4,406,128) | (73,078) |

**ARCPACIFIC RESOURCES CORP.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019**
**(EXPRESSED IN CANADIAN DOLLARS)**

| | | 2020 | | 2019 |
|---|---|---|---|---|
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES | | | | |
| Net loss for the year | $ | (273,176) | $ | (198,269) |
| Items not involving cash: | | | | |
| Loss (gain) on debt settlement | | 13,400 | | (6,900) |
| Share-based payments | | 9,362 | | - |
| Changes in non-cash working capital balances: | | | | |
| Tax recoverable | | (8,152) | | 111 |
| Prepaid expenses and deposits | | (65,000) | | 6,000 |
| Accounts payable | | 181,304 | | 97,191 |
| | | (142,262) | | (101,867) |
| INVESTING ACTIVITY | | | | |
| Exploration and evaluation assets | | (8,497) | | - |
| | | (8,497) | | - |
| FINANCING ACTIVITIES | | | | |
| Loan payable advances | | 40,500 | | 26,000 |
| Shares issued for private placements | | 338,000 | | 100,000 |
| Share issuance costs | | (39,669) | | (4,485) |
| | | 338,831 | | 121,515 |
| CHANGE IN CASH DURING THE YEAR | | 188,073 | | 19,648 |
| CASH, BEGINNING OF YEAR | | 51,310 | | 31,662 |
| CASH, END OF YEAR | $ | 239,383 | $ | 51,310 |
| SUPPLEMENTAL DISCLOSURE | | | | |
| Shares issued for exploration and evaluation assets | $ | - | $ | 34,856 |
| Shares issued for debt settlement | $ | 235,200 | $ | - |
| Agent warrants issued | $ | 21,085 | $ | - |

No interest or income taxes were paid in cash during the years ended January 31, 2020 and 2019.

1. NATURE OF OPERATIONS AND GOING CONCERN

ArcPacific Resources Corp. (the "Company") was incorporated pursuant to the British Columbia Business Corporations Act on February 1, 2011. The Company changed its name to ArcPacific Resources Corp. on December 21, 2016. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "ACP".

The address of the Company's corporate office and its principal place of business is 1001-1166 Alberni Street, Vancouver, British Columbia, Canada V6E 3Z3.

The principal business of the Company is the identification, evaluation and acquisition of mineral properties in Canada. At January 31, 2020, the Company owned a 100% interest in the Lucky Mike Mineral Property (the "Property"). The Company has not yet determined whether the Property may contain a mineral resource that may eventually be economically recoverable. The economic viability of the Property will depend on the establishment of an ore reserve, the confirmation of the Company's interest in the mineral claims and the ability of the Company to obtain the necessary financing to complete its development and place it into commercial production.

On November 18, 2019, the Company intended to expand its resource business to include the potential participation in a key new liquefied natural gas ("LNG") project development in North America and entered into an agreement to acquire a privately held corporation, US West LNG Corp. ("LNGCo") (Note 4). LNGCo is a party to a non-binding letter of intent to participate for an up to 80% interest in a proposed new western North American LNG export project. The project has a proposed initial capacity of 4 million metric tonnes per annum (MTPA), with the potential to expand to 8 million MTPA, and will utilize existing infrastructure to access cheap, reliable natural gas from Canada as the feedstock for the LNG. At an initial 4 million MTPA, the LNG project will utilize feedstock of about 600 million cubic feet of natural gas per day (about 100,000 barrels of oil equivalent per day). In addition to access to infrastructure for the delivery of the natural gas as the feedstock, the new LNG project has key export access, for delivery of the LNG produced to buyers in Asia. The Letter of Intent was expired on December 15th, 2019 and the Company has decided to hold off due to Covid19 pandemic and economic uncertainties. The Company will consider proceeding the LNG business when the market improves.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future. The Company has incurred losses since its inception and had an accumulated deficit of $4,406,128 and a working capital deficiency of $116,431 at January 31, 2020. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors and generating profitable operations in the future. The March 2020 pandemic outbreak of COVID-19 could cause delays in the Lucky Mike Mineral Property exploration and LNG projects and continue to have a negative impact on the stock markets, affecting trading prices of the Company's shares and its ability to raise new capital. These factors give rise to a material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business. Such adjustments could be material.

2. BASIS OF PREPARATION (continued)

a) Statement of compliance

The consolidated financial statements are prepared in accordance with accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on June 15, 2020.

b) Functional currency

The functional and presentation currency of the Company is the Canadian dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, US West LNG Corp., a company incorporated in British Columbia. All inter-company balances and transactions have been eliminated upon consolidation.

b) Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3(k). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience, current and future economic conditions and various other factors including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods if the revision affects both the current and future periods.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Significant accounting estimates and judgments (continued)

*Critical accounting estimates*

i. the inputs used in accounting for share-based payments; and
ii. the inputs used in determining the recoverable amount of assets that are considered impaired.

*Critical accounting judgments*

i. the evaluation of the Company's ability to continue as a going concern;
ii. the determination of the categories of financial assets and financial liabilities;
iii. the assessment of indicators of impairment of exploration and evaluation assets and related determination and write-down of the assets, where applicable;
iv. the determination of whether it is likely that future taxable profits will be available to utilize against any deferred tax assets; and
v. the recognition of provisions for decommissioning, restoration, rehabilitation and environmental obligations.

d) Deferred finance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issuance costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to profit or loss.

e) Exploration and evaluation assets

All expenditures related to the cost of exploration and evaluation of mineral resources and petroleum and natural gas resources including acquisition costs for interests in property claims are capitalized as exploration and evaluation assets classified as intangible assets. General exploration costs not related to specific properties are expensed as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Once the technical feasibility and commercial viability of the extraction of a resource in an area of interest are demonstrable, capitalized costs of the related property are reclassified as property and equipment and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present: the rights to explore have expired or are near to expiry with no expectation of renewal; no further substantive expenditures are planned or budgeted; exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered; or indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full by development or sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Exploration and evaluation assets (continued)

The recoverability of properties and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its exploration and evaluation properties contain economically recoverable reserves. Amounts capitalized to exploration and evaluation assets do not necessarily reflect present or future values.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

When properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain in profit or loss.

Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount. Payments on property option agreements are made at the discretion of the Company and, accordingly, are recorded on a cash basis. The Company's entitlement to mineral exploration tax credits are recognized when the amount can be measured reliably and it is probable that the economic benefit will flow to the Company.

f) Impairment of non-financial assets

The carrying amounts of the Company's exploration and evaluation assets are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash-generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect of time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

h) Government assistance

British Columbia ("B.C.") mining exploration tax credits for certain exploration expenditures incurred in B.C. are recognized as a reduction of the exploration and development costs of the respective mineral property upon when the amount can be measured reliably and it is probable that the economics will flow to the Company.

i) Basic and diluted loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

j) Income taxes

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 period end date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Income taxes (continued)

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 statement of financial position date. Deferred tax is not recognized for temporary differences which arise 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.

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.

k) Financial instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets at FVTOCI
Elected investments in equity investments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss). There are no financial assets classified in this category.

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. The Company has no financial assets measured at amortized cost and has classified accounts payable and loans payable as financial liabilities measured at amortized cost.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transactions costs expensed in the statements of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net income (loss) in the period in which they arise. The Company classified cash at FVTPL and has no financial liabilities classified in this category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial instruments (continued)

(iii) Impairment of financial assets at amortized cost

The Company recognized a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

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

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of net income (loss).

l) Leases

The Company recognizes a right-of-use asset and a lease liability based on the present value of the future lease payments at the commencement date. The commencement date is when the lessor makes the leased asset available for use by the Company, typically the possession date. The discount rate used in the present value calculation for lease payments is the incremental borrowing rate for each leased asset or portfolio of leased assets with similar characteristics by reference to the Company's creditworthiness, the original term of the lease, the quality of the underlying leased asset, and the economic environment where the leased asset is located. The lease term is determined as the non-cancellable periods of a lease, together with periods covered by a renewal option if the Company is reasonably certain to exercise that option and a termination option if the Company is reasonably certain not to exercise that option.

Lease payments for short-term leases with a term of 12 months or less and leases of low-value assets are treated as operating leases, with rent expense recognized in cost of sales or expenses on a straight-line or other systematic basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Leases (continued)

Lease liabilities are measured at the present value of future lease payments, discounted using the Company's incremental borrowing rates, and include the fixed payments, variable lease payments that depend on an index or a rate, less any lease incentives receivable. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there are changes to the lease payments, a change in lease term, a change in the assessment of an option to purchase the underlying asset, a change in expected residual value guarantee, or a change in future lease payments due to a change in index or rate tied to the payment.

Right-of-use assets are measured at the initial amount of the lease liabilities, lease payments made at or before the commencement date less any lease incentives received, initial direct costs if any, and decommissioning costs to restore the site to the condition required by the terms and conditions of the lease. Subsequent to initial measurement, the Company applies the cost model to the right-of-use assets and measures the asset at cost less any accumulated depreciation, accumulated impairment losses in accordance with IAS 36, and any remeasurements of the lease liabilities. Assets are depreciated from the commencement date on a straight-line basis over the earlier of the end of the assets' useful lives or the end of the lease terms.

During the year ended January 31, 2020, all of the Company's leases are short-term leases with a term of 12 months or less and are recorded as operating leases.

m) Share-based payments

From time to time, the Company grants options to purchase common shares to directors, officers, employees and non-employees. The Company accounts for share-based payments, including stock options, at their fair value on the grant date and recognizes the cost as a compensation expense over the period that the employees become entitled to the award. The fair value of the options on the grant date is determined using the Black-Scholes pricing model for stock option awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. A corresponding increase is recognized in shareholders' equity for these costs.

n) New standards, interpretations and amendments

<u>IFRS 16 *Leases*</u>

IFRS 16 supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New standards, interpretations and amendments (continued)

- A lease asset is initially measured at cost, and is then depreciated similarity to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

On adoption of IFRS 16, the Company used the following additional practical expedients:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases with terms less than 12 months and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systematic basis over the lease term;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on February 1, 2019. Accordingly, the comparative information presented for the prior period has not been restated and is presented as previously reported under IAS 17 and related interpretations. As at February 1, 2019, all of the Company's leases are short-term leases with a term of 12 months or less and recorded as operating leases. As such there was no effect of initial application recognized in retained earnings at February 1, 2019.

o) New standards, interpretations and amendments issued but not yet adopted

A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2020, or later periods. The Company has not early adopted these new standards in preparing these financial statements. The new standards are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. ACQUISITION OF US WEST LNG CORP.

On November 18, 2019, the Company entered into a Share Purchase Agreement (the "Agreement") with LNGCo. Pursuant to the terms of the Agreement, the Company acquired all of the issued and outstanding shares of LNGCo for a nominal amount of $1. The transaction did not constitute a business combination since LNGCo did not meet the definition of a business under IFRS 3*, Business Combinations.* Upon the completion of the acquisition, LNGCo had no assets.

5. EXPLORATION AND EVALUATION ASSETS

Lucky Mike Mineral Project, British Columbia

On July 20, 2011, the Company entered into an Option Agreement (the "Lucky Mike Agreement") with a non-related third party (the "Optionor"). The Lucky Mike Agreement was amended on September 13, 2012 and subsequently amended on November 14, 2013. The Company was granted an exclusive option to acquire a 100% interest in certain mineral claims located in the Nicola Mining Division, British Columbia. The claims consist of 29 contiguous mineral claims comprising 6,085.74 hectares. In order to earn its option, the Company paid $55,000 in cash, issued 33,333 common shares valued at $30,000 to the Optionor and incurred $900,000 in exploration work.

In accordance with the terms of the Lucky Mike Agreement, the Optionor will retain a 2% net smelter returns royalty (the "NSR") in respect of the Property. The Company has the option to purchase the NSR for $1,000,000 at any time during a five-year period commencing from the date of commercial production.

On September 24, 2014, the Company entered into an Agreement (the "Farm Out Agreement") as amended on June 14, 2016 with two Korean-registered companies, namely, Nexgeo Inc. ("Nexgeo") and Korea Resources Corporation ("Kores"), whereby both companies (the "Consortium") would jointly contribute expenditures in the exploration of the Lucky Mike property thereby earning a right to acquire a 69% interest in the Lucky Mike Project (the "Project") under the following terms:

a. An aggregate of $500,000 (the "First Exploration Contribution") to fund an initial work program for the Project, which has been approved by the Consortium. The Consortium must pay $250,000 to the Company no later than September 5, 2014 (received) and $100,000 to the Company no later than September 30, 2014 (received). The balance of $150,000 (received) must be paid upon completion of drilling at the Project site pursuant to an initial work program;

b. An additional $1,104,824 (the "Second Exploration Contribution") (received) to fund at least one work program for the Project approved by the Consortium, which must be undertaken and completed by the Company during the period from January 1, 2015 to December 31, 2015; and

c. An additional $800,000 (the "Third Exploration Contribution") (received) to fund at least one work program for the Project approved by the Consortium, which must be undertaken and completed by the Company during the period from January 1, 2016 to December 31, 2016.

Upon completion of the work program under the Third Exploration Contribution, the Company would transfer to the Consortium a 69% interest in the Project.

The Consortium has the right at any time to exercise an Off-Ramp Option during the term of the Farm Out Agreement and/or within 30 days after receiving an official technical report on the most recently completed work program during the period from January 1, 2016 to December 31, 2016, at its own discretion by giving 30 days written notice to the Company, and upon exercise of the Off-Ramp Option, this Farm Out Agreement and all rights and obligations of the parties under the agreement would terminate ("Off-Ramp Option").

If, after making the Third Exploration Contribution, the Consortium exercises the Off-Ramp Option then this Farm Out Agreement and the Consortium would be deemed to have renounced all its rights or interest in the Project and would have no right to acquire any portion of any interest in the Project and would have no further obligations or liabilities to the Company.

**(EXPRESSED IN CANADIAN DOLLARS)**

5. EXPLORATION AND EVALUATION ASSETS (continued)

Lucky Mike Mineral Project, British Columbia (continued)

Upon the Consortium acquiring a 69% interest in the Project, this Farm Out Agreement will terminate and the parties will form a joint venture (the "Joint Venture") for the purpose of carrying out all such acts which are necessary or appropriate, directly or indirectly, to hold the Project, explore the Project for minerals, and if feasible develop a mine thereon, and so long as it is feasible, operate such mine and exploit the mineral extracted from the Project.

On August 4, 2017, the Company executed a deed of release and amendment on the Farm Out Agreement with the Consortium to release Nexgeo from the joint exploration agreement and to transfer its 13% interest in the Lucky Mike Project to the Company in consideration of shares of the Company. During the year ended January 31, 2019, the Company's ownership of the Lucky Mike property has increased from 31% to 44% (see Note 8).

On August 3, 2018, the Company amended the agreement with Kores to extend Kores' right of first refusal with respect to the Lucky Mike Project by a period of one year. Pursuant to the amending agreement, Kores holds the right to acquire a 56% interest in the Project until August 3, 2019. During the year ended January 31, 2020, Kores opted not to exercise the right. As a result, the Company's ownership of Lucky Mike property has increased to 100%.

Total costs incurred on exploration and evaluation assets are summarized as follows:

| | $ |
|---|---|
| Acquisition costs: | |
| Balance, January 31, 2018 | 73,267 |
| Shares issued for acquisition costs | 34,856 |
| Balance, January 31, 2019 and 2020 | 108,123 |
| Deferred exploration expenditures: | |
| Balance, January 31, 2018 and 2019 | (73,267) |
| Geologist fees, survey and assays | 500 |
| Exploration costs | 7,997 |
| Balance, January 31, 2020 | (64,770) |
| Total costs, January 31, 2019 | 34,856 |
| Total costs, January 31, 2020 | 43,353 |

**(EXPRESSED IN CANADIAN DOLLARS)**

## 6. RELATED PARTY TRANSACTIONS AND BALANCE

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management includes directors and key officers of the Company, including President, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

The remuneration of key management personnel during the years ended January 31, 2020 and 2019 is summarized below:

| | **2020**<br>**$** | **2019**<br>**$** |
|---|---|---|
| Key management compensation | | |
| Management fees | 12,000 | 12,000 |
| Share-based payments (Note 8) | 6,554 | - |

On November 7, 2019, the Company granted 350,000 stock options to certain directors and officers of the Company with a fair value of $6,554 (Note 8). The options are exercisable immediately to purchase one common share of the Company at $0.075 per share, which expires on November 6, 2020.

On January 16, 2020, the Company issued 376,000 common shares with a fair value of $28,200 to settle $18,800 of payables owing to the CEO of the Company (Note 8). A loss on debt settlement of $9,400 was recognized in the consolidated statement of loss and comprehensive loss.

On January 16, 2020, the Company issued 200,000 common shares with a fair value of $15,000 to settle $10,000 of payables owing to a company related to a director of the Company (Note 8). As the transaction involves a creditor that is also a shareholder of the Company acting in the capacity thereof, the resulting difference of $5,000 is recognized in the statements of changes in shareholders' deficiency.

The following is a summary of balances owning to the CEO and a company with a common director of the Company:

| | **2020**<br>**$** | **2019**<br>**$** |
|---|---|---|
| Amounts included in accounts payable | 19,800 | 28,600 |

Unless otherwise noted, amounts due to related parties are non-interest bearing, unsecured and due on demand.

## 7. LOANS PAYABLE

As at January 31, 2020, the loans payable of $91,500 (2019 - $111,000) were due to certain Company shareholders. The loans are unsecured, non-interest bearing and due on demand.

8. SHARE CAPITAL

Authorized:

The Company is authorized to issue an unlimited number of common shares without par value.

Issued and outstanding:

As at January 31, 2020, the issued share capital is comprised of 20,266,154 (2019 - 10,370,154) common shares.

*During the year ended January 31, 2020:*

On December 30, 2019, the Company closed the first tranche of its non-brokered private placement of 2,600,000 units of the Company at $0.05 per unit for gross proceeds of $130,000. Each unit consists of one common share of the Company (a “Common Share”) and one half of one warrant of the Company with a whole warrant entitling the holder to purchase one Common Share at $0.10 for a period of two years. Gross proceeds from this private placement of $97,274 were allocated to share capital and $32,726 to warrants based on their relative fair values. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.69%, expected life of 2 years, expected volatility of 119.50% and no expected dividends.

In connection with the above private placement, the Company issued 182,000 finders’ warrants as finders’ fees. Each finders’ warrant is exercisable at $0.10 per share for two years. The fair value of the finders’ warrants was determined to be $17,145, calculated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.69%, expected life of 2 years, expected volatility of 119.50% and no expected dividends.

On January 16, 2020, the Company issued 536,000 common shares with a fair value of $40,200 for settlement of $26,800 in debt with creditors that are not the Company’s shareholders, of which 376,000 common shares were issued to the CEO of the Company (Note 6). A loss on debt settlement of $13,400 was recognized in the consolidated statement of loss and comprehensive loss during the year ended January 31, 2020.

On January 16, 2020, the Company issued 2,600,000 common shares with a fair value of $195,000 for settlement of $130,000 in debt with certain Company shareholders, of which 200,000 common shares were issued to a company related to a director of the Company (Note 6). As the transaction involves creditors that are also shareholders of the Company acting in the capacity thereof, the resulting difference of $65,000 is recognized in the statements of changes in shareholders’ deficiency.

On January 24, 2020, the Company closed the second and final tranche of its non-brokered private placement of 4,160,000 units of the Company at $0.05 per unit for gross proceeds of $208,000. Each unit consists of one Common and one half of one warrant of the Company with a whole warrant entitling the holder to purchase one Common Share at $0.10 for a period of two years, subject to acceleration in certain events. Gross proceeds from this private placement of $161,440 were allocated to share capital and $46,560 to warrants based on their relative fair values. The fair value of the warrants was ccalculated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.53%, expected life of 2 years, expected volatility of 122.73% and no expected dividends.

In connection with the above private placement, the Company issued 85,400 finders’ warrants as finders’ fees. Each finders’ warrant is exercisable at $0.10 per share for two years. The fair value of the finders’ warrants was determined to be $3,940, calculated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.53%, expected life of 2 years, expected volatility of 122.73% and no expected dividends.

(EXPRESSED IN CANADIAN DOLLARS)

8. SHARE CAPITAL (continued)

*During the year ended January 31, 2020: (continued)*

During the year ended January 31, 2020, the Company incurred $39,669 of share issuance costs in connection to the private placements and issuance of common shares for settlement of debt.

*During the year ended January 31, 2019:*

On February 22, 2018, the Company acquired Nexgeo's 13% interest in the Lucky Mike Project by issuing 774,583 common shares of the Company with fair value of $34,856 (see Note 5).

On August 23, 2018, the Company closed a non-brokered private placement of 2,000,000 common shares at a price of $0.05 per share for gross proceeds of $100,000.

Stock options

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the directors on May 28, 2012 which complies with the rules and policies of the TSX Venture Exchange. Under the Plan, the aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company at the time of the granting of options. Options granted may not exceed a term of 10 years, and the term will be reduced to one year following the date of death of the optionee. All options vest when granted unless otherwise specified by the Board of Directors.

On November 7, 2019, the Company granted 500,000 stock options to certain directors, officers and consultants of the Company. The options are exercisable immediately to purchase one common share of the Company at $0.075 per share, and expire on November 6, 2020. The fair value of the options granted was determined using the Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.65%, expected life of 1 year, expected volatility of 97.83% and no expected dividends.

During the year ended January 31, 2020, the Company recognized $9,362 (2019 - $Nil) in share-based compensation related to these stock options.

A summary of the Company's stock options is as follows:

| | Number of Options | Weighted Average Exercise Price ($) |
|---|---|---|
| Outstanding and exercisable, January 31, 2018 | 350,000 | 0.06 |
| Expired | (350,000) | (0.06) |
| Outstanding and exercisable, January 31, 2019 | - | - |
| Granted | 500,000 | 0.075 |
| Outstanding and exercisable, January 31, 2020 | 500,000 | 0.075 |

As at January 31, 2020, the Company had stock options outstanding and exercisable to directors, officers and consultants as follows:

| Outstanding and Exercisable | Exercise Price $ | Weighted Average Remaining Contractual Life, in years | Expiry Date |
|---|---|---|---|
| 500,000 | 0.075 | 0.77 | November 6, 2020 |

**(EXPRESSED IN CANADIAN DOLLARS)**

8. SHARE CAPITAL (continued)

Warrants

A summary of the Company's share purchase warrants are as follows:

| | **Number of Warrants** | **Weighted Average Exercised Price ($)** |
|---|---|---|
| Outstanding and exercisable, January 31, 2018 and 2019 | - | - |
| Issued | 3,647,400 | 0.10 |
| Outstanding and exercisable, January 31, 2020 | 3,647,400 | 0.10 |

The following table summarizes share purchase warrants outstanding and exercisable as at January 31, 2020:

| **Outstanding and exercisable** | **Exercise Price $** | **Weighted Average Remaining Contractual Life, in years** | **Expiry Date** |
|---|---|---|---|
| 1,482,000 | 0.10 | 1.92 | December 30, 2021 |
| 2,165,400 | 0.10 | 1.98 | January 24, 2022 |
| 3,647,400 | | 1.96 | |

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

| | **2020 $** | **2019 $** |
|---|---|---|
| Combined statutory tax rate | 27% | 27% |
| Income tax recovery at combined statutory rate | (73,758) | (53,533) |
| Permanent differences and other | (6,985) | (1,211) |
| Change in unrecognized tax benefits | 80,743 | 54,744 |
| Deferred income tax recovery | - | - |

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

| | **2020 $** | **2019 $** |
|---|---|---|
| Non-capital loss carry forwards | 731,072 | 659,866 |
| Exploration and evaluation assets | 127,699 | 127,699 |
| Share issuance costs | 9,295 | (242) |
| Total gross deferred income tax assets | 868,066 | 787,323 |
| Deferred tax assets not recognized | (868,066) | (787,323) |
| Net deferred income tax assets (liabilities) | - | - |

**(EXPRESSED IN CANADIAN DOLLARS)**

9. INCOME TAXES (continued)

As at January 31, 2020, the Company had $2,695,000 of non-capital loss carry forwards available to reduce taxable income for future years. These losses expire as follows:

| **Years of expiry** | **$** |
|---|---|
| 2032 | 57,000 |
| 2033 | 104,000 |
| 2034 | 241,000 |
| 2035 | 655,000 |
| 2036 | 517,000 |
| 2037 | 409,000 |
| 2038 | 226,000 |
| 2039 | 236,000 |
| 2040 | 250,000 |
| | 2,695,000 |

10. MANAGEMENT OF CAPITAL

The Company defines capital as debt and all accounts in equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern.

As at January 31, 2020, the Company had capital resources consisting of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company will continue to rely on capital markets to support continued growth. The Company is not subject to any externally imposed capital requirement.

11. FINANCIAL INSRUMENTS AND FINANCIAL RISK

Fair value and classification of financial instruments

The Company's financial instruments include cash, accounts payable and loans payable. Financial instruments are classified into one of the following categories: FVTPL, FVTOCI, or amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

| **Financial Instrument** | **Category** | **2020 $** | **2019 $** |
|---|---|---|---|
| Cash | FVTPL | 239,383 | 51,310 |
| Accounts payable | Amortized cost | 340,835 | 256,330 |
| Loans payable | Amortized cost | 91,500 | 111,000 |

IFRS 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

11. FINANCIAL INSRUMENT AND FINANCIAL RISK (continued)

Fair value and classification of financial instruments (continued)

The fair value of cash is determined based on “Level 1” inputs. The carrying value of accounts payable and loans payable approximates their fair values due to the relatively short periods to maturity.

Financial risk management objectives and policies

The Company’s financial instruments include cash, accounts payable and loans payable. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company’s expenses are denominated in Canadian dollars. The Company’s corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary liabilities.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

(iii) *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. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash, the Company places the instrument with a high credit quality financial institution.

(iv) *Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company’s projects and operations. As at January 31, 2020, the Company had cash of $239,383 to settle current liabilities of $432,335 which fall due for payment within 12 months.

12. SUBSEQUENT EVENT

On March 11, 2020, various authorities declared a pandemic related to COVID 19 resulting in restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. These restrictions are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates.

The pandemic could cause delays in the Lucky Mike Mineral Property exploration and LNG projects and continue to have a negative impact on the stock markets, affecting trading prices of the Company’s shares and its ability to raise new capital. The Company believes that these potential delays are temporary and it expects to resume its pursuits as restrictions are alleviated. The duration and effects of the restrictions are not currently determinable and no provision has been made in these financial statements for any effects that the Company may experience if the restrictions are other than temporary.