



**Comstock Metals Ltd.**  
**Financial Statements**  
**Year Ended September 30, 2020**

**Expressed in Canadian Dollars**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Comstock Metals Ltd.:

### Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

January 27, 2021

**Comstock Metals Ltd.**

## Statements of financial position

(Expressed in Canadian dollars)

	Notes	September 30, 2020	September 30, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 274,905	\$ 217,726
Other receivables		15,582	10,500
Prepaid expenses and deposits		18,645	19,525
		<b>309,132</b>	<b>247,751</b>
<b>Non-current assets</b>			
Investments	3	1,767,602	1,956,164
Equipment	4	824	1,138
Exploration and evaluation assets	5	2,701,391	2,964,097
		4,469,817	4,921,399
<b>TOTAL ASSETS</b>		<b>\$ 4,778,949</b>	<b>\$ 5,169,150</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6, 8	\$ 62,462	\$ 45,554
<b>TOTAL LIABILITIES</b>		<b>62,462</b>	<b>45,554</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	20,429,912	19,998,105
Share-based payment reserve	7	2,612,965	2,607,064
Deficit		(18,326,390)	(17,481,573)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,716,487</b>	<b>5,123,596</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 4,778,949</b>	<b>\$ 5,169,150</b>

Nature and continuance of operations (Note 1)

Commitments (Note 11)

Subsequent events (Note 13)

Approved on behalf of the Board:

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*"Steven Goldman"*

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*"Arnold Tenney"*

**Comstock Metals Ltd.**

## Statements of comprehensive loss

(Expressed in Canadian dollars)

	Notes	Year Ended	
		September 30, 2020	September 30, 2019
<b>Expenses</b>			
Amortization	4	\$ 314	\$ 478
Filing fees		22,963	17,961
Interest	3	-	1,272
Investor relations		9,367	71,000
Management fees	8	120,000	205,838
Office, administrative and miscellaneous	8	96,806	139,758
Professional fees		106,998	122,594
Rent	8	20,051	20,345
Share based compensation	7, 8	5,901	76,893
Travel		1,376	3,369
Loss from operations		(383,776)	(659,508)
<b>Other items</b>			
Interest income		1,978	9,102
Option revenue	5	-	218,319
Gain on debt settlement	5	-	10,000
Foreign exchange (loss) gain		(5,361)	2,296
Impairment of mineral property	5	(269,096)	(4,543,651)
Loss on sale of mineral property	5	-	(240,723)
Cash finder's fees paid on sale of mineral property	5	-	(11,775)
Non-cash finder's fees paid on sale of mineral property	5	-	(108,731)
Unrealized fair value loss on investments	3	(188,562)	(756,768)
Realized loss on expiration of warrants	3	-	(95,353)
		(461,041)	(5,517,284)
<b>Net and comprehensive loss</b>		<b>\$ (844,817)</b>	<b>\$ (6,176,792)</b>
<b>Basic and diluted loss per share</b>	7	<b>\$ (0.04)</b>	<b>\$ (0.33)</b>

See accompanying notes to the financial statements

Comstock Metals Ltd.  
 Statements of changes in equity  
 (Expressed in Canadian dollars)

	Notes	Share capital					Total
		Number of shares*	Amount	Obligation to issue shares	Share-based payment reserve	Deficit	
Balance at October 1, 2018		18,369,507	\$ 19,972,105	\$ 25,000	\$ 2,530,171	\$ (11,304,781)	\$ 11,222,495
Shares issued for mineral properties	5	180,000	26,000	(25,000)	-	-	1,000
Share based compensation	7	-	-	-	76,893	-	76,893
Net and comprehensive loss		-	-	-	-	(6,176,792)	(6,176,792)
<b>Balance at September 30, 2019</b>		<b>18,549,507</b>	<b>\$ 19,998,105</b>	<b>\$ -</b>	<b>\$ 2,607,064</b>	<b>\$ (17,481,573)</b>	<b>\$ 5,123,596</b>
Share issued by private placement	7	3,391,239	254,343	-	-	-	254,343
Share issue costs	7	-	(14,379)	-	-	-	(14,379)
Proceeds from exercise of warrants	7	2,557,906	191,843	-	-	-	191,843
Share based compensation	7	-	-	-	5,901	-	5,901
Net and comprehensive loss		-	-	-	-	(844,817)	(844,817)
<b>Balance at September 30, 2020</b>		<b>24,498,652</b>	<b>\$ 20,429,912</b>	<b>\$ -</b>	<b>\$ 2,612,965</b>	<b>\$ (18,326,390)</b>	<b>\$ 4,716,487</b>

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change. See also Note 7.

Comstock Metals Ltd.  
Statements of cash flows  
(Expressed in Canadian dollars)

	Year Ended	
	September 30, 2020	September 30, 2019
<b>Operating activities</b>		
Net loss	\$ (844,817)	\$ (6,176,792)
Adjustments for non-cash items:		
Amortization	314	478
Non-cash bonus paid to CEO on sale of mineral property	-	74,588
Share based compensation	5,901	76,893
Gain on settlement of debt	-	(10,000)
Loss on sale of mineral property	-	240,723
Non-cash finder's fees paid on sale of mineral property	-	108,731
Unrealized fair value loss on investment	188,562	756,768
Realized loss on expiration of warrants	-	95,353
Impairment of exploration and evaluation assets	269,096	4,543,651
Changes in non-cash working capital items:		
Receivables	(5,082)	9,164
Prepaid expenses and deposits	880	52,350
Accounts payable and accrued liabilities	16,908	(7,731)
<b>Net cash flows used in operating activities</b>	<b>(368,238)</b>	<b>(235,824)</b>
<b>Investing activities</b>		
Cash received from sale of mineral properties	-	471,000
Expenditures on exploration and evaluation assets	(6,390)	(608,596)
<b>Net cash flows used in investing activities</b>	<b>(6,390)</b>	<b>(137,596)</b>
<b>Financing activities</b>		
Shares issued for private placements	254,343	-
Share issue costs	(14,379)	-
Proceeds from exercise of warrants	191,843	-
Loan borrowed from shareholder (Note 3)	-	663,300
Loan repaid to shareholder (Note 3)	-	(663,300)
<b>Net cash flows provided by financing activities</b>	<b>431,807</b>	<b>-</b>
Increase (Decrease) in cash	57,179	(373,420)
Cash, beginning	217,726	591,146
<b>Cash, ending</b>	<b>\$ 274,905</b>	<b>\$ 217,726</b>

**Non-cash transactions and supplemental disclosures**

Investment shares received from sale of mineral property	\$ -	\$ 2,130,000
Investment warrants received from sale of mineral property	\$ -	\$ 356,250
Shares issued for mineral properties	\$ -	\$ 26,000

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 1. Nature and continuance of operations

Comstock Metals Ltd. (the “Company” or “Comstock”) was incorporated on December 13, 2007 under the laws of the province of British Columbia, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada. The Company’s shares are traded on the TSX Venture Exchange (“Exchange”) under the symbol “CSL”.

The head office, registered office, principal address and records office of the Company are located at 850 West Hastings Street, Suite 310, Vancouver, British Columbia, Canada, V6C 1E1.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at September 30, 2020, the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, loans from directors and companies controlled by directors and or private placement of common shares. 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 operations.

During the year ended September 30, 2020, there was a global outbreak of a novel coronavirus identified as “COVID-19”. On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. The Company is closely monitoring the impact of the pandemic on all aspects of its business but anticipates that COVID-19 may impact the Company’s ability to raise financing.



## **Comstock Metals Ltd.**

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### **2. Significant accounting policies and basis of preparation**

The audited financial statements were authorized for issue on January 27, 2021 by the directors of the Company.

##### ***Statement of compliance to International Financial Reporting Standards***

These financial statements of the Company have been prepared in accordance 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 Company's financial statements were consolidated with Minera Comstock, S.A., de C.V. in Mexico up to the date of the completion of the Corona property option agreement in November 2018 (see Note 5) and are no longer consolidated as at December 31, 2019 and onward.

##### ***Basis of preparation***

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

##### ***Significant estimates and assumptions***

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of net assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions where there are significant risk of material adjustments to assets and liabilities in future accounting periods include the amortization of equipment, recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, and the recoverability of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

##### ***Significant judgments***

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applied in preparing the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The classification / allocation of expenditures as exploration and valuation expenditures or operating expenses.

##### ***Foreign currency translation***

The functional currency is determined using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 2. Significant accounting policies and basis of preparation (cont.)

##### Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

##### **Equipment**

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives, using the following rates:

<b>Class of equipment</b>	<b>Amortization rate</b>
Computer hardware	50%
Computer software	50%
Camp equipment	20%
Office furniture and equipment	20%

##### **Exploration and evaluation expenditures**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant, and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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**2. Significant accounting policies and basis of preparation (cont.)****Share-based payments**

Share-based payments to employees are measured at the fair value of the instruments and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of the options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**Financial instruments***Classification*

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

<b>Financial assets/liabilities</b>	<b>Classification</b>
Cash	FVTPL
Other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Investments	FVTPL

**Comstock Metals Ltd.**

Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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**2. Significant accounting policies and basis of preparation (cont.)**

***Financial instruments (cont.)***

*Measurement*

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive 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 comprehensive loss in the period in which they arise.

*Impairment of financial assets at amortized cost*

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

*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 comprehensive loss.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 2. Significant accounting policies and basis of preparation (cont.)

##### *Impairment of assets*

The carrying amount of the Company's assets (which includes equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

##### *Cash*

Cash include cash on hand, deposits held at call with banks, and bank overdrafts.

##### *Income taxes*

###### Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

###### Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 2. Significant accounting policies and basis of preparation (cont.)

##### **Income taxes** (cont.)

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

##### Flow-through shares:

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability"). Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a flow-through tax recovery.

##### **Restoration and environmental obligations**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

## 2. Significant accounting policies and basis of preparation (cont.)

### *IFRS 16 – Leases. IFRS 16 Leases replaces IAS 17 Leases*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company has adopted IFRS 16 Leases effective for fiscal years beginning October 1, 2019. The Company does not have any leases and has determined that the new policy will not have an impact on its financial statements.

## 3. Investments

Name	Type	September 30, 2020		September 30, 2019	
		Number	Fair Value	Number	Fair Value
E3 Metals Corp.	common shares	1,000,000	\$ 425,000	1,000,000	\$ 475,000
White Gold Corp.	common shares	1,387,210	1,290,105	1,387,210	1,345,594
White Gold Corp.	warrants	350,625	52,497	350,625	135,570
<b>Total Investments</b>			<b>\$ 1,767,602</b>		<b>\$ 1,956,164</b>

On August 8, 2018, the Company entered into a joint venture agreement with E3 Metals Corp. (TSXV: ETMC) (“E3 Metals”) to acquire and develop prospective mineral assets in the battery metal space. On August 20, 2018 (the “Closing Date”), the Company purchased 1,000,000 units (“Units”) in E3 Metals’ private placement in consideration of a payment of \$400,000. Each Unit consisted of one common share in the capital of E3 Metals and one common share purchase warrant (a “Warrant”). Each Warrant entitled the holder thereof to acquire one common share at a price of \$0.40 for a period of 4 months following the Closing Date, and a price of \$0.60 thereafter for the balance of the term, with all Warrants expiring 1 year from the Closing Date. The Warrants expired unexercised during the year ended September 30, 2019, resulting in a realized loss of \$95,353. The fair value of the shares was \$475,000 as September 30, 2019. The fair value of the E3 Metals shares is \$425,000 as of September 30, 2020 resulting in an unrealized loss of \$50,000 (2019 – unrealized gain of \$65,000). The Company accounts for this investment at FVTPL.

On February 28, 2019, the Company sold its QV mineral property to White Gold Corp. (“White Gold”) (TSXV: WGO) for net proceeds (after bonuses and finder’s fees, see Note 5) that included 1,387,210 common shares of White Gold then trading with a fair value of \$1,969,838 at \$1.42 per share and 350,625 share purchase warrants of White Gold to acquire one common share for 3 years at an exercise price equal to \$1.50. The fair value of the warrants was \$333,094, determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.79%; Expected life of 3 years; Expected volatility of 112% and dividend yield of nil. The total fair value of the shares and warrants received was \$1,481,164 as of September 30, 2019. The total fair value of the White Gold investment as of September 30, 2020 is \$1,342,602 resulting in an unrealized loss of \$138,562 (2019 - \$821,768). The common shares were fair valued at \$1,290,015 and the warrants were fair valued at \$52,497 using the Black-Scholes Option Pricing Model and the following assumptions: Expected life: 1.41 years; Risk free rate: 0.28%; Expected volatility: 66%; Expected dividend rate: 0% and Expected forfeiture rate: 0%. The Company accounts for this investment at FVTPL.

On September 17, 2019, the Company borrowed \$663,300 (US\$500,000) from a shareholder of the Company in order to exercise its warrants in E3 Metals in the event there was an increase in share price of E3 Metals before the warrants expired. The Company determined not to exercise the warrants and the loan was repaid in full on September 23, 2019. The loan was made at a 10% interest rate, and the Company recorded and paid \$1,272 in interest expense for the seven days it held the loan.

See also Note 13.

**Comstock Metals Ltd.**

Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**4. Equipment**

	Computer hardware	Computer software	Camp equipment	Office furniture and equipment	Total
<b>Cost:</b>					
At September 30, 2019	\$ 5,565	\$ 10,305	\$ 2,140	\$ 508	\$ 18,518
<b>At September 30, 2020</b>	<b>\$ 5,565</b>	<b>\$ 10,305</b>	<b>\$ 2,140</b>	<b>\$ 508</b>	<b>\$ 18,518</b>
<b>Amortization:</b>					
At September 30, 2018	\$ 5,245	\$ 9,848	\$ 1,462	\$ 347	\$ 16,902
Charge for the period	133	189	126	30	478
At September 30, 2019	5,378	10,037	1,588	377	17,380
Charge for the period	78	110	102	24	314
<b>At September 30, 2020</b>	<b>\$ 5,456</b>	<b>\$ 10,147</b>	<b>\$ 1,690</b>	<b>\$ 401</b>	<b>\$ 17,694</b>
<b>Net book value:</b>					
At September 30, 2019	\$ 187	\$ 268	\$ 552	\$ 131	\$ 1,138
<b>At September 30, 2020</b>	<b>\$ 109</b>	<b>\$ 158</b>	<b>\$ 450</b>	<b>\$ 107</b>	<b>\$ 824</b>



**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**5. Exploration and evaluation assets**

	Preview SW	Rawhide	Corona (Mexico)	Total September 30, 2020	Total September 30, 2019
<b>Property acquisition costs</b>					
Balance, beginning of period	\$ 2,695,000	\$ 116,000	\$ 1	\$ 2,811,001	\$ 5,040,509
Additions	-	-	-	-	76,000
Impairment write-down	-	(116,000)	-	(116,000)	(2,305,508)
<b>Balance, end of period</b>	<b>2,695,000</b>	<b>-</b>	<b>1</b>	<b>2,695,001</b>	<b>2,811,001</b>
<b>Exploration and evaluation costs</b>					
Balance, beginning of period	-	153,096	-	153,096	1,875,707
Costs incurred during period:					
Assays and drilling	-	-	-	-	31,195
Camp and field costs	5,080	-	-	5,080	246,220
Drilling	-	-	-	-	143,099
Geological and geophysics	1,310	-	-	1,310	134,418
Government grants	-	-	-	-	(50,000)
Supplies and equipment	-	-	-	-	10,600
Impairment write-down	-	(153,096)	-	(153,096)	(2,238,143)
<b>Balance, end of period</b>	<b>6,390</b>	<b>-</b>	<b>-</b>	<b>6,390</b>	<b>153,096</b>
<b>Total</b>	<b>\$ 2,701,390</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 2,701,391</b>	<b>\$ 2,964,097</b>

***Preview SW and Old Cabin, Saskatchewan and Ontario, Canada***

On September 13, 2016, the Company and Select Sands Corp. ("Select Sands") completed a transaction pursuant to which the Company purchased Select Sands' Preview SW gold project located in Saskatchewan and the Old Cabin property in Ontario (the "Assets"). The Company acquired the Assets in exchange for 4 million common shares in the capital of the Company and the assumption of certain option obligations associated with the Assets. The fair value of the 4 million shares was \$5,200,000. The Company allocated 95% of the cost to Preview SW at \$4,940,000 and 5% of the cost to Old Cabin at \$260,000.

Pursuant to the agreement, the option obligations associated with the Assets include: payment of \$60,000 upon receipt of a positive feasibility study and issuance of such number common shares of the Company, determined by dividing \$87,500 by the closing price of the Company's common shares on Exchange on the day before the acceptance by the Exchange of the transaction with Select Sands, upon making a production decision as well as a 2.5% NSR of which 1% of the NSR can be purchased for \$1,000,000 at any time prior to a production decision and the remaining 1.5% NSR can be purchased for \$2,000,000.

During the year ended September 30, 2019, the Company recognized an impairment of \$4,541,812 on the Preview SW gold project to reduce its value to \$2,695,000 based on the result of an independent fair market valuation performed by an arm's length certified business valuation consultant.

During the year ended September 30, 2019, the Company recognized an impairment of \$1,839 on the Old Cabin Property. On November 16, 2018, the Old Cabin property was sold for \$96,000 and the Company received the proceeds from the sale on November 19, 2018.

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**5. Exploration and evaluation assets (cont.)*****Rawhide Property option agreement***

On April 3, 2018, the Company entered into an option agreement whereby it could acquire a 100% interest in five mining claims comprising 42 claim units (662 ha) located in the Gowganda area of the historic Greater Cobalt Mining Camp of northern Ontario, comprising the Rawhide cobalt-silver property (the "Rawhide Property"). Under the terms of the option agreement, the Company could earn a 100% interest in the Rawhide Property by making cash and common share payments to the optionors, and completing exploration expenditure commitments. Details are provided in the table below.

The Company and vendors of the Rawhide property option agreement amended the terms of the agreement on January 27, 2020. The payments of shares and cash as well as expenditures on exploration that were due at 18 and 24 months from signing were removed and replaced with the following:

<b>Due Date</b>	<b>Cash Payment</b>	<b>Share Payment*</b>	<b>Expenditures on Exploration</b>
Receipt of regulatory approval (paid)	\$30,000	40,000	-
6 Months from Signing (paid)	\$30,000	40,000	-
12 Months from Signing (paid)	\$35,000	40,000	\$100,000
April 3, 2020 (not paid)	\$17,500	-	-
June 30, 2020 (not paid)	-	80,000	-
October 31, 2020 (not paid)	\$17,500	-	-
April 30, 2021	\$22,500	-	-
October 31, 2021	\$22,500	-	-
December 31, 2021	-	-	\$400,000
<b>Total</b>	<b>\$175,000</b>	<b>200,000</b>	<b>\$500,000</b>

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change. See also Note 7.

The option agreement was approved by the Exchange. The Company made the first three payments of cash and shares to the vendors. The Company completed its first year expenditure commitment of \$100,000. In addition, if the option were to be exercised by the Company, the optionors would retain a 2% Net Smelter Returns royalty ("NSR") on future production from the Rawhide Property, 1% of which could be purchased at any time for \$1 million.

The Company did not make the option payment of \$17,500 that was due on April 3, 2020. The Company has determined it will not be further exploring the Rawhide property and will not be making future option payments. During the year ended September 30, 2020 the Company impaired a total of \$269,096 in acquisition and exploration costs to reduce the carrying value to \$Nil.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 5. Exploration and evaluation assets (cont.)

##### *QV Property, Yukon, Canada*

On February 28, 2019, (the "Closing Date") the Company sold its QV Property to White Gold for compensation valued at \$2,861,250 based upon a cash payment of \$375,000, 1,500,000 common shares of the vendor White Gold (the "Subject Shares"), then trading with a fair value of \$1.42 per share and 375,000 share purchase warrants of White Gold (the "Warrants") to acquire one common share for 3 years at an exercise price equal to \$1.50. The fair value of the Warrants was \$356,250, determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.79%; Expected life of 3 years; Expected volatility of 112% and dividend yield of nil. The total value of the compensation was determined to be \$2,861,250 (see also Note 3).

In connection with the completion of the sale, the Company paid a finders' fee to Red Cloud Klondike Strike Inc., an advisor to the Company, consisting of \$11,775 in cash, 67,790 Subject Shares and 13,125 Warrants. The Subject Shares were fair valued at \$1.42 per share for a value of \$96,262 and the Warrants were fair valued at \$12,469 using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.79%; Expected life of 3 years; Expected volatility of 112% and dividend yield of nil.

As well, pursuant to the terms of an agreement with Lambent Consulting Inc., the entity through which the Company's CEO, Steven Goldman, provides services to the Company, Lambent Consulting Inc. was paid a bonus payment consisting of \$11,250 in cash, 45,000 Subject Shares and 11,250 Warrants. The Subject Shares were fair valued at \$1.42 per share for a value of \$63,900 and the Warrants were fair valued at \$10,688 using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.79%; Expected life of 3 years; Expected volatility of 112% and dividend yield of nil.

The Company held a 100% interest in the QV Property. The QV Property was subject to a 2.0% NSR. The Company had the right to acquire 1.0% of the NSR for a payment of \$2,500,000. Commencing June 22, 2015, the Company began making annual cash advance payments of \$25,000 until the commencement of commercial production (the "Advance Royalty"). The Advance Royalty was deductible against the NSR. The Company could pay the Advance Royalty in cash or by issuing common stock of the Company based on the average closing price of its shares in the 10 trading days prior to the due date of the Advance Royalty.

Prior to the sale, on July 11, 2018, the Company and optionor agreed to settle the \$25,000 Advance Royalty owed from June 22, 2018 for 500,000 common shares of the Company. On November 14, 2018, these common shares were issued at a fair value of \$15,000, resulting in a gain of \$10,000.

During the year ended September 30, 2019, the Company recognized a loss on the sale of the QV Property of \$240,723.

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**5. Exploration and evaluation assets (cont.)*****Corona Property, Mexico***

During the year ended September 30, 2013, the Company completed all option requirements and earned a 50% interest in the Corona property. During the year ended September 30, 2014, the Company wrote down the carrying value to \$1.

On December 7, 2015, Golden Goliath Resources Ltd. ("Golden Goliath"), which holds the other 50% interest in the Corona property, announced that it had signed an option agreement with Fresnillo PLC that includes the Corona property. Under the terms of the agreement, Fresnillo PLC may earn a 100% interest (subject to a 1% NSR half of which may be purchased for US\$500,000) in the Corona property as well six other properties held by Golden Goliath by making cash payments totaling US\$3 million over three years and by paying all property taxes and conducting all assessment work required to keep the properties in good standing. During the year ended September 30, 2019, the option agreement was completed and exercised by Fresnillo PLC and the Company received the final option payment of \$218,319. The Company retains a 0.5% NSR on the Corona property.

**6. Accounts payable and accrued liabilities**

	September 30, 2020	September 30, 2019
Trade payables (Note 8)	\$ 36,462	\$ 25,554
Accrued liabilities	26,000	20,000
	<b>\$ 62,462</b>	<b>\$ 45,554</b>

**7. Share capital*****Authorized share capital***

Unlimited number of common shares without par value.

***Common share consolidation***

On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis which resulted in 18,549,507 shares outstanding post-consolidation. All references to common shares, stock options, warrants and loss per share in these financial statements have been adjusted to reflect this change.

***Issued share capital***

At September 30, 2020, there were 24,498,652 issued and fully paid common shares (September 30, 2019 18,549,507).

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 7. Share capital (cont.)

##### Year ended September 30, 2020

On May 28, 2020, the Company closed a non-brokered private placement and issued 3,391,239 units (the "Units") priced at \$0.075 per Unit for gross proceeds of \$254,343 (the "Offering"). The Units issued under the Offering consist of one common share of the Company and one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable for a period of 36 months from closing into one common share at an exercise price of \$0.075. The Company paid share issuance costs in the amount of \$14,379.

The Company issued 2,557,906 common shares from the exercise of 2,557,906 warrants. The Company received total proceeds of \$191,843 from the exercise of the warrants.

##### Year ended September 30, 2019

##### Shares issued for debt

On May 10, 2019, the Company issued an aggregate of 40,000 common shares with a fair value of \$5,000 in accordance with the terms of the Rawhide property option agreement. On October 3, 2018, The Company issued an aggregate of 40,000 common shares with a fair value of \$6,000 in accordance with the terms of the Rawhide property option agreement (see also Note 5).

On November 14, 2018, the Company issued an aggregate of 100,000 common shares with a fair value of \$15,000 in satisfaction of \$25,000 of indebtedness, resulting in a gain on debt settlement of \$10,000. This indebtedness was owing to the optionor of the Company's QV Property for the 2018 advance royalty payment (see also Note 5).

##### **Stock options**

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 30 days following cessation of the optionee's position with the Company.

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**7. Share capital (cont.)****Stock options (cont.)**

The changes in options during the years ended September 30, 2020 and 2019 are as follows:

	September 30, 2020		September 30, 2019	
	Number of options*	Weighted average exercise price	Number of options*	Weighted average exercise price
Options outstanding, beginning	1,663,000	\$ 0.70	1,263,000	\$ 0.87
Expired	(536,000)	0.83	400,000	\$ 0.25
<b>Options outstanding and exercisable, ending</b>	<b>1,127,000</b>	<b>\$ 0.67</b>	<b>1,663,000</b>	<b>\$ 0.70</b>

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change.

No stock options were granted or exercised during the year ended September 30, 2020. On April 4, 2019, the Company granted 400,000 stock options to directors, officers and a consultant of the Company. The options vest 50% on April 4, 2019 and 50% on October 14, 2019. During the year ended September 30, 2019, the total fair value of these options was \$60,000 using the Black-Scholes Option Pricing Model and the following assumptions:

	<u>2019</u>
Expected life:	5 years
Risk free rate:	1.56%
Expected volatility:	136%
Expected dividend rate:	0%
Expected forfeiture rate:	0%

The Company recognized \$5,901 (2019 - \$76,893) of share-based compensation from the vesting of options in the current year.

The following options were outstanding and vested as of September 30, 2020:

Expiry date	Outstanding*	Vested*	Exercise price
March 17, 2021	58,000	58,000	\$1.25
April 7, 2021	24,000	24,000	\$1.25
August 15, 2021	127,000	127,000	\$1.775
March 1, 2022	240,000	240,000	\$0.975
May 30, 2023	240,000	240,000	\$0.35
June 15, 2023	130,000	130,000	\$0.25
April 4, 2024	308,000	308,000	\$0.25
	<b>1,127,000</b>	<b>1,127,000</b>	

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change.

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**7. Share capital (cont.)****Stock options (cont.)**

At September 30, 2020, the weighted average remaining contractual life of outstanding options was 2.27 years (2019 – 3.23 years).

**Warrants**

The changes in warrants during the years ended September 30, 2020 and 2019 are as follows:

	September 30, 2020		September 30, 2019	
	Number of warrants*	Weighted average exercise price	Number of warrants*	Weighted average exercise price
Warrants outstanding, beginning	4,952,014	\$ 0.70	8,721,126	\$ 0.80
Issued	3,391,239	0.075	-	-
Exercised	(2,557,906)	0.075	-	-
Expired	(4,952,014)	0.70	(3,769,111)	\$ 0.95
<b>Warrants outstanding, ending</b>	<b>833,333</b>	<b>\$ 0.075</b>	<b>4,952,014</b>	<b>\$ 0.70</b>

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change.

The following warrants were outstanding as of September 30, 2020:

Expiry date	Quantity*	Exercise price
May 28, 2023	833,333	\$0.075
	<b>833,333</b>	

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change. See also Note 13.

At September 30, 2020, the weighted average remaining contractual life of warrants outstanding was 2.66 years (September 30, 2019 – 0.48 years).

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**7. Share capital (cont.)*****Basic and diluted loss per share***

The calculation of basic and diluted (loss) earnings per share for the year ended September 30, 2020 was based on the loss attributable to common shareholders of \$844,817 (2019 – \$6,176,792) and the weighted average number of common shares outstanding of 19,710,890 (2019 – 18,512,520).

Diluted (loss) earnings per share for the year ended September 30, 2020 does not include the effect of 1,127,000 stock options (2019 – 1,663,000) and 833,333 share purchase warrants (2019 – 4,952,014) as the effect would be anti-dilutive.

***Share-based payment reserve***

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

**8. Related party transactions**

The Company incurred the following transactions with respect to officers and directors of the Company or corporations controlled by them during the year ended September 30, 2020 and 2019:

***Key management personnel compensation***

	September 30, 2020	September 30, 2019
Administration, director and consulting fees	\$ 78,000	\$ 120,500
Management fees	120,000	205,838
Share-based compensation to directors and officers	5,749	75,845
	<b>\$ 203,749</b>	<b>\$ 402,183</b>

***Related party balances included in accounts payable and accrued liabilities***

	September 30, 2020	September 30, 2019
Due to officers and directors for consulting fees	\$ 8,650	\$ 8,650
Due to company with a common director	1,548	3,555
	<b>\$ 10,198</b>	<b>\$ 12,205</b>

The Company paid \$18,987 for shared rent and office services (2019 - \$38,847) to a company with common directors during the year ended September 30, 2020.



## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

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#### 9. Financial instruments and risk management

The Company's financial instruments consist of cash, other receivables, accounts payable and investments.

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The Company's cash is measured using level 1 inputs. The fair value of the Company's investment in the shares of a public company is measured using level 1 inputs. The fair value was determined by reference to the underlying share price quoted on the open market at the reporting date. The fair value of the Company's investment in the warrants of a public company is measured using level 3 inputs. The fair value was determined by through calculation using the Black-Scholes Option Pricing Model at the reporting date (Note 3).

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and interest risk.

##### ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation causing the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash. The Company manages credit risk by placing cash with major Canadian financial institutions. Management believes that credit risk is low.

##### ***Interest Rate Risk***

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company's exposure to interest rate risk relates to its ability to maintain the current rate of interest on its cash equivalents. Management believes the interest rate risk to be minimal.

##### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital to continue its operations and discharge its commitments as they become due. Management believes liquidity risk is high.

##### ***Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk. The Company's functional currency is the Canadian dollar. The Company does not use any form of derivative or hedging instruments to reduce its foreign currency risk. Management believes that the market risk is low with the exception of the value of the investments in E3 Metals and White Gold (Note 3) which are affected by price risk.

## Comstock Metals Ltd.

### Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

#### 10. Capital management

The Company identifies capital as cash and share capital. The Company manages its capital structure and makes adjustments to it depending on the funds available to the Company for acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management.

The properties in which the Company has interests are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out its planned exploration and pay for on-going general and administrative expenses, the Company will use existing working capital and raise additional capital as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and there were no changes in its approach to capital management during the year ended September 30, 2020.

#### 11. Commitments

##### *Agreement with President and CEO*

On May 15, 2019, the Company signed a new agreement with a company owned and controlled by its President and CEO (the "CEO") for a 12-month term. Under the agreement, the CEO is to be paid \$10,000 per month or \$15,000 per month when a private placement occurs. The CEO shall also receive a bonus of 3% of the value of any material asset sale that occurs during his term. In the event that no such material asset sale occurs during his term, the CEO shall be eligible to earn a bonus of up to \$50,000 as determined by the Company's other board members.

On May 15, 2020, the Company renewed its consulting agreement with its CEO for another one-year term. The agreement terms remain unchanged except that either party may terminate the agreement on three months written notice.

#### 12. Income taxes

A reconciliation of taxes at statutory tax rates with the reported taxes is as follows:

	September 30, 2020	September 30, 2019
Loss before income taxes	\$ (844,817)	\$ (6,176,792)
Corporate tax rate	27%	27%
Expected tax recovery at statutory tax rates	(228,101)	(1,667,734)
Non-deductible items	52,505	345,186
Share issuance costs	(3,882)	-
Other	(221,260)	415,951
Change in valuation allowance	400,738	906,597
	\$ -	\$ -

**Comstock Metals Ltd.**

## Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

**12. Income taxes (cont'd)**

The significant components of the Company's deferred tax assets are as follows:

	September 30, 2020	September 30, 2019
Equipment	\$ 5,429	\$ 5,344
Exploration and evaluation assets	2,330,592	2,101,141
Share issuance costs	16,431	25,845
Non-capital loss carry-forwards	1,452,631	1,269,015
	3,805,083	3,404,345
Valuation allowance	(3,805,083)	(3,404,345)
Net deferred tax assets	\$ -	\$ -

As of September 30, 2020, the Company has non-capital losses of approximately \$5,380,000 (2019 - \$4,700,000) to carry forward to reduce future year's taxable income, which expire between 2030 and 2040, and mineral resource pools of \$11,333,214 that have no expiry. Deferred tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is not anticipated to occur, and accordingly, the Company has recorded a valuation allowance for the deferred tax asset arising from these tax loss carry-forwards.

**13. Subsequent events*****Warrants Exercised***

The Company issued 833,333 common shares from the exercise of 833,333 warrants. The Company received total proceeds of \$62,500 from the exercise of the warrants.

***Return of Capital***

At the Company's Annual and Special General Meeting held on October 19, 2020, the Company's shareholders approved a motion to distribute the Company's investments in the 1,000,000 common shares of White Gold and 1,387,210 common shares of E3 Metals (the "Investments" – See also Note 3) to the Company's shareholders on a pro-rata basis by way of a return of capital. The Company retained its 350,625 warrants in White Gold.

On November 13, 2020 (the "Record Date"), the Company distributed the Investments to its shareholders. The closing price of White Gold was \$0.84 and the closing price of E3 Metals was \$1.22 on the Record Date. As a result, the Company's capital was reduced by a total of \$2,385,256.

Under the Exchange rules, the Company is required to reprice its options and warrants to reflect the reduction in the Company's capital by the fair value of the Investments in proportion to the Company's market capitalization as determined by the Company's closing share price of \$0.17 and 25,331,985 common shares issued and outstanding on the Record Date. The Company had no warrants outstanding on the Record Date. The Company repriced its outstanding options as per the following table (see also Note 7):

**Comstock Metals Ltd.**

Notes to the Financial Statements

(Expressed in Canadian dollars unless otherwise noted)

For the year ended September 30, 2020

<b>Expiry date</b>	<b>Options Outstanding*</b>	<b>Options Vested*</b>	<b>Original Exercise price*</b>	<b>Exercise Price Modifier</b>	<b>Modified Options Exercise price</b>
17-Mar-21	58,000	58,000	\$1.25	0.446118415	<b>\$0.56</b>
7-Apr-21	24,000	24,000	\$1.25	0.446118415	<b>\$0.56</b>
15-Aug-21	127,000	127,000	\$1.78	0.446118415	<b>\$0.79</b>
1-Mar-22	240,000	240,000	\$0.98	0.446118415	<b>\$0.43</b>
30-May-23	240,000	240,000	\$0.35	0.446118415	<b>\$0.16</b>
15-Jun-23	130,000	130,000	\$0.25	0.446118415	<b>\$0.11</b>
4-Apr-24	308,000	308,000	\$0.25	0.446118415	<b>\$0.11</b>
	<b>1,127,000</b>	<b>1,127,000</b>			

\* On May 26, 2020, the Company consolidated its issued and outstanding common shares on a 5 for 1 basis. All references to common shares in these financial statements have been adjusted to reflect this change.