# Lion Rock Resources Inc.

# (formerly King's Bay Resources Corp.)

## Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

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# Independent Auditor's Report

To the Shareholders of Lion Rock Resources Inc. (formerly King's Bay Resources Corp.)

## Opinion

We have audited the consolidated financial statements of Lion Rock Resources Inc. (formerly King's Bay Resources Corp.) (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended December 31, 2022. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be a key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Recoverability of Exploration and Evaluation Assets

As disclosed in Note 6 of the consolidated financial statements, the carrying value of exploration and evaluation assets represents a significant asset of the Group. Refer to Note 4 and Note 5 of the consolidated financial statement for a description of the accounting policy and significant judgments applied to exploration and evaluation assets.

At each reporting period end, management applies judgment in assessing whether there are any indicators of impairment relating to exploration and evaluation assets. If there are indicators of impairment, the recoverable amount of the related asset is estimated in order to determine the extent of any impairment. Indicators of impairment may include (i) the period during which the entity has the right to explore in the specific area has expired during the year or will expire in the near future and is not expected to be renewed; (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and (iv) sufficient data exists to indicate that the carrying amount of the mining claims and deferred exploration costs is unlikely to be recovered in full from successful development or by sale.

**Why the matter was determined to be a key audit matter**

We considered this a key audit matter due to (i) the significance of the exploration and evaluation assets balance and (ii) the judgments made by management in its assessment of indicators of impairment related to mining claims and deferred exploration costs, which have resulted in a high degree of subjectivity in performing audit procedures related to these judgments applied by management.

**How the matter was addressed in our audit**

We have evaluated management's assessment of impairment indicators per IFRS 6 Exploration for and Evaluation of Mineral Resources, including but not limited to:

- Reviewing the Group's rights to explore in the relevant exploration areas and assessing whether the rights to tenure remained current at balance date;

- Considering the status of the relevant exploration areas by holding discussions with management, and reviewing the Group's exploration budget and directors' minutes;

- Assessing whether any data exists to suggest that the carrying value of the exploration and evaluation assets is unlikely to be recovered through development or sale; and

- Assessing the adequacy of the related disclosures in Note 4, Note 5 and Note 6 of the consolidated financial statements.

**Asset retirement obligations**

The Company recognizes asset retirement obligations ("ARO") for future reclamation efforts related to current and past sites. As described in Note 8 of the consolidated financial statements, the ARO totaled $1.35 million as at December 31, 2022.

**Why the Matter is a Key Audit Matter**

We identified the Group's ARO as a key audit matter due to: (i) the significant judgment and estimate made by management in determining this obligation, including the assessment of the nature and extent of future work to be performed, the future cost of performing the rehabilitation work, and the timing of when the rehabilitation will take place; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures related to the significant assumptions; and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the subject matter.

**How the Key Audit Matter was Addressed in the Audit**

In responding to the key audit matter, we performed the following audit procedures, amongst others:

- We obtained an understanding of management's process to develop their ARO estimate;

- We evaluated the methodology used, and tested the significant assumptions and data used in the ARO calculation with the assistance of a subject matter expert;

- We performed recalculation to verify the accuracy of the estimate; and

- We evaluated the adequacy of the Company's disclosures relating to rehabilitation obligations.

**Other matter**

The consolidated financial statements of Lion Rock Resources Inc. (formerly King's Bay Resources Corp.) for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 18, 2022.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

We obtained the other information prior to the date of this auditor's report. 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 in this auditor's report. 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, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’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 Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**"Crowe MacKay LLP"**

**Chartered Professional Accountants**
**Vancouver, Canada**
**May 1, 2023**

## Lion Rock Resources Inc. (formerly King's Bay Resources Corp.)

Consolidated Statements of Financial Position
As at December 31,
Expressed in Canadian Dollars

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | **$** | **569,785** | $ | 163,504 |
| Goods and Services Tax receivable | | **11,806** | | - |
| Prepaid expenses | | **-** | | 2,099 |
| | | **581,591** | | 165,603 |
| **Exploration and evaluation assets (Note 6)** | | **1,912,469** | | - |
| | **$** | **2,494,060** | $ | 165,603 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (Note 11) | **$** | **83,088** | $ | 36,179 |
| Goods and Services Tax payable | | **-** | | 4,959 |
| Loans payable (Note 7) | | **179,000** | | - |
| | | **262,088** | | 41,138 |
| **Asset retirement obligation (Note 8)** | | **1,350,000** | | - |
| | | **1,612,088** | | 41,138 |
| **Shareholders' Equity** | | | | |
| Share capital (Notes 9 and 11) | | **22,089,766** | | 20,980,266 |
| Reserves | | **-** | | 424,250 |
| Deficit | | **(21,207,794)** | | (21,280,051) |
| | | **881,972** | | 124,465 |
| | **$** | **2,494,060** | $ | 165,603 |

Note 2 – Going concern

Approved and authorized by the Board of Directors on May 1, 2023:

| | |
|---|---|
| *"Kevin Bottomley"* | *"Nathan Tribble"* |
| President, Director | Director |

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

## Lion Rock Resources Inc. (formerly King's Bay Resources Corp.)

Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31,
Expressed in Canadian Dollars

| | 2022 | 2021 |
|---|---|---|
| **Expenses** | | |
| Accounting and audit fees (Note 11) | **$ 69,230** | $ 61,300 |
| Accretion (Note 9d) | **-** | 2,192 |
| Consulting fees (Note 11) | **58,289** | - |
| Legal fees | **74,367** | 13,663 |
| Office and general | **9,973** | 1,131 |
| Public company costs | **80,552** | 15,965 |
| Rent (Note 11) | **16,000** | - |
| Shareholder communications and investor relations | **43,582** | 7,638 |
| **Operating Expenses** | **(351,993)** | (101,889) |
| **Other Income (Loss)** | | |
| Loss on settlement of debt (Note 9b) | **-** | (270,000) |
| Extinguish gain (Note 9d) | **-** | 52,450 |
| **Net Loss and Comprehensive Loss for the Year** | **$ (351,993)** | $ (319,439) |
| **Basic and Diluted Loss per Share** | **$ (0.03)** | $ (0.04) |
| **Weighted Average Number of Common Shares Outstanding** – Basic and Diluted | **13,506,932** | 8,558,596 |

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

**Lion Rock Resources Inc. (formerly King's Bay Resources Corp.)**
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021
Expressed in Canadian Dollars

| | Number of Shares | Share Capital $ | Reserves $ | Equity Portion of Convertible Note $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | **2,752,365** | **19,865,083** | **424,250** | **57,324** | **(20,960,612)** | **(613,955)** |
| Shares issued for cash (Note 9b) | 4,920,000 | 615,000 | - | - | - | 615,000 |
| Shares issued for debt (Note 9b) | 1,916,320 | 509,540 | - | - | - | 509,540 |
| Share issuance costs | - | (9,357) | - | - | - | (9,357) |
| Equity portion of convertible notes (Note 9d) | - | - | - | (57,324) | - | (57,324) |
| Net loss for the year | - | - | - | - | (319,439) | (319,439) |
| **Balance, December 31, 2021** | **9,588,685** | **20,980,266** | **424,250** | **-** | **(21,280,051)** | **124,465** |
| Shares issued for cash (Note 9b) | 6,000,000 | 750,000 | - | - | - | 750,000 |
| Shares issued for acquisition of LRE (Note 9b) | 2,080,000 | 364,000 | - | - | - | 364,000 |
| Share issuance costs | - | (4,500) | - | - | - | (4,500) |
| Expiration of stock options (Note 10) | - | - | (424,250) | - | 424,250 | - |
| Net loss for the year | - | - | - | - | (351,993) | (351,993) |
| **Balance, December 31, 2022** | **17,668,685** | **22,089,766** | **-** | **-** | **(21,207,794)** | **881,972** |

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

## Lion Rock Resources Inc. (formerly King's Bay Resources Corp.)

Consolidated Statements of Cash Flows
For the Years Ended December 31,
Expressed in Canadian Dollars

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net loss for the year | **$** | **(351,993)** | $ | (319,439) |
| Adjustments for items not involving cash: | | | | |
| Accretion expense | | **-** | | 2,192 |
| Loss on settlement of debt | | **-** | | 270,000 |
| Extinguish gain | | **-** | | (52,450) |
| Changes in non-cash operating working capital: | | | | |
| Goods and Services Tax receivable | | **(10,699)** | | 6,491 |
| Prepaid expenses | | **2,099** | | (2,099) |
| Accounts payable and accrued liabilities | | **20,103** | | (201,586) |
| **Net Cash Used in Operating Activities** | | **(340,490)** | | (296,891) |
| **Investing Activity** | | | | |
| Cash assumed on acquisition of Lion Rock Exploration Inc. | | **1,271** | | - |
| **Net Cash Provided by Investing Activity** | | **1,271** | | - |
| **Financing Activities** | | | | |
| Shares issued for cash | | **750,000** | | 590,000 |
| Share issuance costs | | **(4,500)** | | (9,357) |
| Convertible promissory notes | | **-** | | (123,435) |
| **Net Cash Provided by Financing Activities** | | **745,500** | | 457,208 |
| **Increase in Cash** | | **406,281** | | 160,317 |
| **Cash, Beginning of Year** | | **163,504** | | 3,187 |
| **Cash, End of Year** | **$** | **569,785** | $ | 163,504 |
| **Non-cash Investing and Financing Activities and Supplemental Disclosures** | | | | |
| Asset retirement obligation | **$** | **1,350,000** | $ | - |
| Shares issued for acquisition of LRE | **$** | **364,000** | $ | - |
| Loans acquired on acquisition of LRE | **$** | **179,000** | $ | - |
| Fair value of stock options expired | **$** | **424,250** | $ | - |
| Interest paid | **$** | **-** | $ | - |
| Income taxes paid | **$** | **-** | $ | - |

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

## 1. NATURE OF OPERATIONS

Lion Rock Resources Inc. ("Lion Rock" or the "Company") was incorporated in Canada pursuant to the *Canada Business Corporations Act* on March 20, 1998. On August 11, 2020, the Company continued from being incorporated under Canadian federal jurisdiction to being incorporated under the *Business Corporations Act* of British Columbia. The Company is a public company, and as of July 12, 2022, is listed on the TSX Venture Exchange in Canada with the symbol "ROAR". The Company is in the business of acquiring, exploring, developing and evaluating mineral resource properties. The Company changed its name from King's Bay Resources Corp. to Lion Rock Resources Inc. on July 7, 2022.

The head office, principal address, and registered and records office of the Company are located at 1680 – 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

## 2. GOING CONCERN

The Company has not generated any revenues and has a net loss of $351,993 during the year ended December 31, 2022 (2021 - $319,439) and accumulated deficit of $21,207,794 (2021 - $21,280,051) since inception. As at December 31, 2022, the Company has working capital of $319,503 (2021 - $124,465). These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively seeking to raise the necessary capital to meet its funding requirements. The conditions described above indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The Company is not expected to be profitable during the ensuing twelve months, and therefore, must rely on securing additional funds from either debt or equity financings for cash consideration. While the Company is expanding its best efforts to achieve the continued financing, there is no assurance that any such activity will generate sufficient funds for future operations.

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events, including the outbreaks of the coronavirus (COVID-19) pandemic, relations between NATO and the Russian Federation regarding the situation in Ukraine, and potential economic global challenges, such as the risk of higher inflation and the energy crises, may create further uncertainty and risk with respect to the prospects of the Company's business.

## 3. BASIS OF PRESENTATION

### Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and interpretations of the International Financial Reporting Interpretations Committee.

## 3. BASIS OF PRESENTATION – continued

### Basis of Measurement and Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary acquired on July 7, 2022, Lion Rock Exploration Inc. ("LRE"), for the periods presented. Intercompany balances and transactions are eliminated in preparation of the Company's consolidated financial statements.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

### Approval of the Financial Statements

The audited consolidated financial statements of Lion Rock for the year ended December 31, 2022 were authorized for issue in accordance with a resolution of the directors on May 1, 2023.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting 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. However, actual outcomes can differ from these estimates.

### Management Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- The assessment of the Company's ability to continue as a going concern requires significant judgment. The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in Note 2.
- The application of the Company's accounting policy for exploration and evaluation assets and impairment of the capitalized costs requires judgment in determining whether there are indicators or impairment under IFRS 6.
- The determination of the acquisition of LRE as an asset acquisition rather than a business combination requires management judgment whether LRE met the definition of business, as disclosed in Note 6.
- The determination of the asset retirement obligation on the Maybrun Property requires management judgment on the timing and amount of remediation costs, as disclosed in Note 8.

## 5. SIGNIFICANT ACCOUNTING POLICIES

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

### Cash

Cash consists of cash on hand and deposits in banks.

**5. SIGNIFICANT ACCOUNTING POLICIES** – continued

**Exploration and Evaluation Assets**

- *Exploration and evaluation expenditures*

  Exploration and evaluation expenditures are expensed as incurred, until the property reaches the development stage. The development stage is considered to begin once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

  Proceeds received for farm-out arrangements or recoveries of costs are credited against the cost of the related claims. The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount. Mineral property acquisition costs include cash costs and the fair market value of common shares issued, based on the trading price of the shares issued for mineral property interests, pursuant to the terms of the related property agreements. Payments related to a property acquired under an option or joint venture agreement are made at the sole discretion of the Company, and are recorded as mineral property acquisition costs upon payment. Exploration and evaluation assets are classified as intangible assets.

- *Impairment*

  The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount, and at least annually. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the period.

  Under IFRS 6 Exploration for and Evaluation of Mineral Resources, one or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment:

  i. The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
  ii. Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
  iii. Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
  iv. Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**5. SIGNIFICANT ACCOUNTING POLICIES** – continued

**Asset Retirement Obligations**

Future obligations to retire an asset including site closure, dismantling, remediation and on-going treatment and monitoring are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk-free rate. The measurement determination is based on estimated future cash flows, the current risk-free discount rate, and an estimated inflation factor. The value of restoration provisions is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free interest rate. The liability is added to the carrying amount of the associated asset, and this additional carrying amount is depreciated over the life of the asset. The liability is accreted to full value over time through periodic charges to earnings. This unwinding of the discount is expensed in profit or loss. As reclamation work is performed or liabilities are otherwise settled, the recorded amount of the liability is reduced.

**Share-based Payment Transactions**

The Company grants stock options to buy common shares of the Company to directors, officers and employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the Company.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

For those options that expire or are forfeited after vesting, the recorded value is transferred from reserves to deficit.

**Income Taxes**

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

**5. SIGNIFICANT ACCOUNTING POLICIES** – continued

**Income Taxes** – continued

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Share Capital**

The Company records proceeds from share issuances, net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the common shares are issued.

**Warrants**

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a $nil carrying amount is assigned to the warrants.

**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 period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**Related Party Transactions**

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. Parties are also considered to be related if they are subject to common control, 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.

**5. SIGNIFICANT ACCOUNTING POLICIES** – continued

**Financial Instruments**

The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

- Amortized cost

  Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

- FVTOCI

  Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI. This classification includes certain equity instruments where IFRS 9 *Financial Instruments* allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

- FVTPL

  Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Financial liabilities are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

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

| | **Classification** |
|---|---|
| **Financial Assets** | |
| Cash | FVTPL |
| **Financial Liabilities** | |
| Accounts payable and accrued liabilities | Amortized cost |
| Loans payable | Amortized cost |

The financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Financial liabilities are derecognized when its contractual obligations are discharged, cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

**5. SIGNIFICANT ACCOUNTING POLICIES** – continued

**Accounting standards issued but not yet effective**

*Disclosure of Accounting Policies (Amendments to International Accounting Standard ("IAS 1") Presentation of Financial Statements and International Financial Reporting Standards Practice Statement 2 ("IFRS Practice Statement 2") Making Materiality Judgments)*

These amendments continue the International Accounting Standards Board's ("IASB") clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

These amendments are effective for reporting periods beginning on or after January 1, 2023. These amendments are expected to reduce the disclosure of accounting policies for the Company.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to International Accounting Standard ("IAS 12") Income Taxes*

These amendments clarify how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

These amendments to IAS 12 are effective for years beginning on or after January 1, 2023. The Company is in the process of assessing any potential impacts.

*Classification of Liabilities as Current or Non-current (Amendments to IAS 1 Presentation of Financial Statements)*

IAS 1 has been amended to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

These amendments to IAS 1 are effective for years beginning on or after January 1, 2023. These amendments are expected to have no impact for the Company.

Expressed in Canadian Dollars

## 6. EXPLORATION AND EVALUATION ASSETS

**Maybrun Property**

On July 7, 2022, the Company acquired all of the issued and outstanding common shares of LRE in exchange for the issuance of 2,000,000 common shares (valued at $350,000) to the shareholders of LRE and the issuance of 80,000 common shares (valued at $14,000) to the former vendors of the Maybrun Property.

The acquisition of LRE has been accounted for as an acquisition of assets and liabilities, as LRE does not meet the definition of a business under IFRS 3 *Business Combinations*. The acquisition of the net assets of LRE was recorded at the fair value of the consideration transferred of $364,000, as detailed above.

| **Net Assets Acquired** | | |
|---|---|---|
| Cash | $ | 1,271 |
| Goods and Services Tax and other receivables | | 6,066 |
| Exploration and evaluation assets | | 1,912,469 |
| Accounts payable and accrued liabilities | | (26,806) |
| Loans payable | | (179,000) |
| Asset retirement obligation | | (1,350,000) |
| | $ | 364,000 |

As a result of the acquisition of LRE, the Company acquired 100% of the interest in the Maybrun Property, a mineral exploration property located in Ontario.

A summary of exploration and evaluation assets for the years ended December 31, 2022 and 2021 is as follows:

| | | **Maybrun Property** |
|---|---|---|
| **Balance, December 31, 2020 and 2021** | **$** | **-** |
| **Acquisition Costs** | | |
| Acquisition | | 1,912,469 |
| **Balance, December 31, 2022** | **$** | **1,912,469** |

## 7. LOANS PAYABLE

Upon the acquisition of LRE, the Company assumed loans payable. The amounts are unsecured, non-interest-bearing and due on demand.

## 8. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation provision consists of costs associated with mine reclamation and closure activities. These activities, which are site specific, generally include costs for earthworks, revegetation, water treatment, waste management and demolition.

The Company estimated the fair value of the asset retirement obligation for the Maybrun Property to be $1,350,000 (2021 - $nil). The fair value of the liability was determined to be equal to the estimated remediation costs. The Company is still in the early stages of developing a remediation plan, which will then require approval from the relevant governmental authorities. Due to the early stages of the remediation plan, the Company is unable to predict with any precision the timing of the cash flow related to the reclamation activities. The Company anticipates the reclamation activities and related costs to occur over a significant period of time, with the majority of the expenditures expected to occur from 2024 onwards.

## 9. SHARE CAPITAL

a) Authorized

Unlimited number of Class A common voting shares with no par value
Unlimited number of Class B common non-voting shares with no par value

b) Issued and outstanding

On January 22, 2021 and March 6, 2023, the Company consolidated its shares on a 10:1 and 2.5:1 basis, respectively. All shares shown in these consolidated financial statements are at their post-consolidated value.

**During the year ended December 31, 2022:**

On July 7, 2022, Company closed a non-brokered private placement of 6,000,000 units at a price of $0.125 per unit for gross proceeds of $750,000. Each unit consisted of one common share and one-half of one share purchase warrant, with each warrant exercisable into one additional common share at a price of $0.25 for a period of two years from closing. The Company incurred share issuance costs of $4,500.

Concurrently, the Company closed its acquisition of LRE. The Company acquired all of the issued and outstanding common shares of LRE in exchange for the issuance of 2,000,000 common shares (valued at $350,000) to the shareholders of LRE and the issuance of 80,000 common shares (valued at $14,000) to the former vendors of the Maybrun Property.

**During the year ended December 31, 2021:**

On February 24, 2021, the Company closed a non-brokered private placement financing of 4,920,000 units at a price of $0.125 per unit for gross proceeds of $615,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of $0.25 until February 24, 2022. As the price for the unit was less than the market price of the share on the closing date, $nil has been assigned to the warrants. No finder's fees were issued pursuant to the financing. The Company incurred share issuance costs of $9,357.

On February 24, 2021, the Company issued a total of 1,916,320 common shares at a price of $0.125 per common share to certain creditors pursuant to certain debt settlement agreements. The securities issued under the debt settlement are subject to a statutory hold period expiring on June 25, 2021. In addition, 340,000 of the debt settlement shares are subject to added hold periods, such that 90% are released as to 15% every six months commencing August 24, 2021 until the full 90% has been released after 36 months. An insider of the Company received an aggregate 326,320 shares under the debt settlement.

Expressed in Canadian Dollars

**9. SHARE CAPITAL** – continued

c) Warrants

A summary of the Company's outstanding and exercisable warrants as at December 31, 2022 and 2021 are as follows:

| | **December 31, 2022** | | **December 31, 2021** | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price $ | Number of Warrants | Weighted Average Exercise Price $ |
| Balance, beginning of year | 4,920,000 | 0.25 | - | - |
| Issued | 3,000,000 | 0.25 | 4,920,000 | 0.25 |
| Expired | (4,920,000) | 0.25 | - | - |
| Balance, end of year | 3,000,000 | 0.25 | 4,920,000 | 0.25 |

The following warrants were outstanding and exercisable at December 31, 2022:

| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price $ | Warrants |
|---|---|---|---|
| July 8, 2024 | 1.52 | 0.25 | 3,000,000 |

d) Convertible promissory notes payable

On August 8, 2019, the Company closed its private placement offering of unsecured convertible notes for gross proceeds of $142,500 from several parties, including two directors of the Company. The loans are unsecured, carry an interest rate of 12% and are due August 8, 2020. The loans are convertible into units at a price of $0.50 per unit. Each unit consists of one common share and one share purchase warrant exercisable for two years. Each warrant may be exercised for one common share at a price of $0.875 if exercised in the first year and $1.50 if exercised in the second year. On August 8, 2020, the Company extended the convertible date of the notes for an additional twelve months.

The initial fair value of the principal portion of the convertible debenture was determined using a market interest rate for an equivalent non-convertible instrument at the issue date. The principal portion is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity. The remainder of the proceeds are allocated to the conversion option. On initial recognition, the unsecured convertible notes of $142,500 were broken down into the following financial components: a financial liability of $122,769 and an equity instrument of $19,731.

During the year ended December 31, 2020, the Company and investors mutually agreed to modify certain terms of the convertible debenture. The modifications were assessed to be substantial, and therefore, accounted for as an extinguishment of the original financial liabilities and recognition of a new financial liability. The Company recognized an extinguish loss of $11,397, a new equity portion of the modified convertible debentures of $37,593 and accretion expense of $32,240.

Expressed in Canadian Dollars

**9. SHARE CAPITAL** – continued

d) Convertible promissory notes payable – continued

On February 28, 2021, the Company and investors mutually agreed to cancel their convertible notes. Two of the convertible note holders received the principal and interest payable on February 28, 2021, while the remaining holders all waived the interest payable and their initial investment was returned. The Company recognized an accretion expense of $2,192 and reversed the equity portion of the convertible debentures of $57,324. As a result, an extinguish gain of $52,450 has been recognized during the year ended December 31, 2021.

## 10. SHARE-BASED PAYMENTS

### Options

The Company has a stock option plan (the "Plan") approved by the Company's shareholders that allows it to grant share purchase options, subject to regulatory terms and approval, to its officers, directors, employees and service providers for a maximum term of ten years. The Plan is based on the maximum number of eligible shares equalling a rolling percentage of 10% of the Company's outstanding common shares, calculated from time to time. If outstanding share purchase options are exercised or expire, and/or the number of issued and outstanding common shares of the Company increases, then the share purchase options available to grant under the Plan increase proportionately. Options granted to employees vest fully on grant. Options issued to investor relations consultants vest in stages over twelve months with one-quarter of the options vesting in any three-month period.

The following is a summary of movements in the number of share options outstanding and their related weighted average exercise prices under the Company's Plan for the years ended December 31, 2022 and 2021:

| | **December 31, 2022** | | **December 31, 2021** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Balance, beginning of year | 53,000 | 2.50 | 53,000 | 2.50 |
| Expired | (53,000) | 2.50 | - | - |
| Balance, end of year | - | - | 53,000 | 2.50 |

During the year ended December 31, 2022, the Company transferred $424,250 from reserves to deficit upon the expiry of 53,000 stock options granted to consultants.

Expressed in Canadian Dollars

## 11. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the consolidated statements of operations and comprehensive loss for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| **Short-term compensation** | | |
| Accounting fees | $ 43,000 | $ 48,000 |
| Consulting fees | 37,500 | - |
| | $ 80,500 | $ 48,000 |

During the year ended December 31, 2022, the Company incurred $16,000 (2021 - $nil) in rent to a company with a common officer.

During the year ended December 31, 2021, a director received an aggregate 326,320 shares under a debt settlement agreement with a price of $0.125 per share (see Note 9b).

As at December 31, 2022, the Company has outstanding amounts payable to an officer of the Company of $3,150 (2021 - $nil), and outstanding amounts payable to a company with a common officer of $4,200 (2021 - $nil).

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts due are unsecured, non-interest-bearing and have no specific terms of repayment.

## 12. SEGMENTED INFORMATION

The Company operates in one business segment being the exploration and development of resource properties. All assets of the Company are located in Canada.

## 13. FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument-related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counter party limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

a) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash balance. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

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**13. FINANCIAL RISK MANAGEMENT** – continued

b) Liquidity risk – continued

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has a cash balance and is not exposed to any significant interest rate risk.

d) Capital management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. As at December 31, 2022, the Company's shareholders' equity was $881,972 (2021 - $124,465). The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. 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 to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception, therefore, the Company is dependent on external financing to fund its business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. 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. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

e) Fair value

The fair values of the Company's financial assets and liabilities approximate the carrying amounts.

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 level in the fair value hierarchy within which the financial asset is categorized in its entirety is based on the lowest level of input that is significant to the fair value measurement.

Cash is grouped into Level 1 as at December 31, 2022 and 2021.

Financial instruments that are not measured at fair value on the consolidated statement of financial position are represented by accounts payable and accrued liabilities and loans payable. The fair value of these financial instruments approximates their carrying value due to their short-term nature.

Expressed in Canadian Dollars

## 14. DEFERRED TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2022 and 2021:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Loss before income tax | $ | (351,993) | $ | (319,439) |
| Statutory tax rate | | 27% | | 27% |
| Expected income tax (recovery) | | (95,039) | | (86,249) |
| Non-deductible and other items | | - | | 51,293 |
| Change in deferred tax asset not recognized | | 95,039 | | 34,956 |
| Total income tax expense (recovery) | $ | - | $ | - |

The unrecognized deductible temporary differences as at December 31, 2022 and 2021 are comprised of the following:

| | | 2022 | Expiry date | | 2021 | Expiry date |
|---|---|---|---|---|---|---|
| Exploration and evaluation assets | $ | 1,457,000 | None | $ | 1,457,000 | None |
| Marketable securities | | 108,000 | None | | 108,000 | None |
| Financing costs | | 20,000 | 2023-2026 | | 40,000 | 2023-2025 |
| Capital losses | | 219,000 | None | | 219,000 | None |
| Non-capital losses | | 7,976,000 | 2026 -2042 | | 7,608,000 | 2026 -2041 |
| Unrecognized deductible temporary differences | $ | 9,780,000 | | $ | 9,432,000 | |

As of December 31, 2022, the Company has unrecognized deferred tax liability of $98,000 (2021 - $Nil) due to temporary differences arising on the initial recognition of the acquisition of all of the issued and outstanding shares of LRE.