SUNPEAK
METALS CORP

# CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended December 31, 2023**

**(Expressed in Canadian dollars)**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sun Peak Metals Corp.

***Opinion***

We have audited the accompanying consolidated financial statements of Sun Peak Metals Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

***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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

***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 current year ended. 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.

*Assessment of Impairment Indicators of Deferred Acquisition Costs ("DAC")*

As described in Note 9 to the consolidated financial statements, the carrying amount of the Company's DAC was $3,510,931 as of December 31, 2023. The underlying assets are located in the Tigray Region of Ethiopia where civil conflict has occurred, resulting in suspension of the Company's activities. As more fully described in Note 2 and 3 to the consolidated financial statements, management assesses DAC for indicators of impairment at each reporting period.

The principal considerations for our determination that the assessment of impairment indicators of DAC is a key audit matter is that there was judgment made by management when assessing whether there were indicators of impairment for these assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue use of, or to advance with these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the DAC.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the DAC through discussion and communication with management.
- Reviewing correspondence with the Ethiopia Ministry of Mines on mineral exploration license extensions related to the properties underlying capitalized DAC.
- Reviewing agreements to determine if the Company is compliant with terms therein, including application of Force Majeure.

***Other Information***

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

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Michael MacLaren.

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

April 25, 2024

**SUN PEAK METALS CORP.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | Note | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current | | | | | |
| Cash | 4 | $ | 6,511,177 | $ | 7,934,905 |
| Receivables | 5 | | 106,959 | | 16,649 |
| Prepaid expenses | 6 | | 46,795 | | 27,812 |
| | | | 6,664,931 | | 7,979,366 |
| Equipment | 7 | | 215,960 | | 284,863 |
| Exploration and evaluation assets | 8 | | 11,465 | | 11,465 |
| Deferred acquisition costs | 9 | | 3,510,931 | | 3,381,737 |
| Equity investment | 10 | | 21,920 | | 36,148 |
| | | $ | 10,425,207 | $ | 11,693,579 |
| **LIABILITIES** | | | | | |
| Current | | | | | |
| Trade and other payables | 11 | $ | 62,178 | $ | 131,129 |
| **EQUITY** | | | | | |
| Share capital | 12 | | 19,044,808 | | 19,044,808 |
| Reserve | 12 | | 1,807,536 | | 1,338,475 |
| Deficit | | | (10,489,315) | | (8,820,833) |
| | | | 10,363,029 | | 11,562,450 |
| | | $ | 10,425,207 | $ | 11,693,579 |
| **Nature of operations** | 1 | | | | |
| **Subsequent event** | 18 | | | | |

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 25, 2024.

**On behalf of the Board:**

/s/ David Awram Director /s/ Greg Davis Director

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

**SUN PEAK METALS CORP.**
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

| | | Year ended December 31, | |
|---|---|---|---|
| | *Note* | **2023** | **2022** |
| **Expenses** | | | |
| Consulting fees | *13* | $ 120,000 | $ 120,000 |
| Depreciation | *7* | 72,509 | 66,730 |
| Exploration and evaluation expenditures | *8* | 174,105 | 106,408 |
| Foreign exchange | | 11,067 | 35,656 |
| Office expenses | | 120,266 | 103,975 |
| Marketing fees | *13* | 12,000 | 12,000 |
| Professional fees | | 49,478 | 83,201 |
| Project investigation costs | | 141,906 | 147,008 |
| Regulatory costs | | 42,416 | 53,250 |
| Salaries and benefits | *13* | 605,872 | 542,175 |
| Share-based compensation | *12 & 13* | 469,061 | - |
| Travel expenses | | 104,274 | 52,063 |
| | | (1,922,954) | (1,322,466) |
| **Interest income** | | 268,700 | 114,287 |
| **Loss on equity investment** | *10* | (14,228) | (18,410) |
| **Loss and comprehensive loss for the year** | | $ (1,668,482) | $ (1,226,589) |
| **Basic and diluted loss per share** | | $ (0.02) | $ (0.01) |
| **Weighted average number of shares outstanding - basic and diluted** | | 87,098,634 | 87,098,634 |

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

**SUN PEAK METALS CORP.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| | Year ended December 31, 2023 | 2022 |
|---|---|---|
| **Cash flows to operating activities** | | |
| Loss for the year | $ (1,668,482) | $ (1,226,589) |
| Items not involving cash: | | |
| Depreciation | 72,509 | 66,730 |
| Share-based compensation | 469,061 | - |
| Loss on equity investment | 14,228 | 18,410 |
| Change in non-cash working capital items: | | |
| Receivables | (90,310) | 134,732 |
| Prepaid expenses | (18,983) | 1,054 |
| Trade and other payables | (68,951) | 58,831 |
| | (1,290,928) | (946,832) |
| **Cash flows to investing activities** | | |
| Purchase of equipment | (3,606) | (191,314) |
| Deferred acquisition costs | (129,194) | (144,613) |
| | (132,800) | (335,927) |
| **Decrease in cash for the year** | (1,423,728) | (1,282,759) |
| **Cash, beginning of year** | 7,934,905 | 9,217,664 |
| **Cash, end of year** | $ 6,511,177 | $ 7,934,905 |
| **Supplementary information** | | |
| Interest paid | $ - | $ - |
| Income taxes paid | - | - |

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

**SUN PEAK METALS CORP.**
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

| | Number of shares | Share capital | Reserve | Deficit | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2022** | 87,098,634 | $ 19,044,808 | $ 1,338,475 | $ (8,820,833) | $ 11,562,450 |
| Share-based compensation | - | - | 469,061 | - | 469,061 |
| Loss and comprehensive loss for the year | - | - | - | (1,668,482) | (1,668,482) |
| **Balance, December 31, 2023** | 87,098,634 | $ 19,044,808 | $ 1,807,536 | $ (10,489,315) | $ 10,363,029 |

| | Number of shares | Share capital | Reserve | Deficit | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2021** | 87,098,634 | $ 19,044,808 | $ 1,338,475 | $ (7,594,244) | $ 12,789,039 |
| Loss and comprehensive loss for the year | - | - | - | (1,226,589) | (1,226,589) |
| **Balance, December 31, 2022** | 87,098,634 | $ 19,044,808 | $ 1,338,475 | $ (8,820,833) | $ 11,562,450 |

## 1. NATURE OF OPERATIONS

Sun Peak Metals Corp. (the "Company") is a publicly traded company incorporated pursuant to the provisions of the British Columbia Business Corporations Act on June 2, 2016. The Company's common shares are listed for trading on the TSX Venture Exchange under the symbol PEAK and on the OTCQB Venture Market in the United States under the symbol SUNPF. The Company's head office and registered and records office address is Unit 1 – 15782 Marine Drive, White Rock, B.C. Canada V4B 1E6.

The Company's principal business is the acquisition, exploration, and development of resource properties for the mining of precious or base metals in Ethiopia.

In November 2020, armed conflicts broke out in the Tigray Region of northern Ethiopia and a state of emergency was declared in the Tigray Region by the Federal Democratic Republic of Ethiopia government. The Company immediately suspended all work programs and invoked force majeure by notification to Ethiopia's Ministry of Mines and Petroleum. In November 2022, a peace agreement named "Agreement for Lasting Peace through a Permanent Cessation of Hostilities" was announced between the conflicting parties. The Company received notification letters from the Ministry of Mines declaring that force majeure has ended for three of its exploration licenses in 2024 (Note 8 & 9).

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at December 31, 2023, the Company had working capital of $6,602,753. Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned operations through the next twelve months.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. BASIS OF PRESENTATION

**Statement of compliance**

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board.

**Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency as well as being the functional currency for the Company's Ethiopian subsidiary.

**Use of estimates and judgments**

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

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

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

<u>The carrying value and the recoverability of exploration and evaluation assets</u> - Management has determined that exploration and evaluation costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and feasibility studies, accessibility of facilities and existing permits.

## 2. BASIS OF PRESENTATION (continued)

**Use of estimates and judgments (continued)**

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency - In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the parent Company as well as the Company's Ethiopian subsidiary is the Canadian dollar.

Capitalization of deferred acquisition costs - The Company has entered into an agreement to acquire a company holding mineral projects. The expenditures incurred on the mineral projects are being accounted for as advances toward the purchase of a company interest in accordance with IFRS 10 and capitalized to the statement of financial position. Upon attaining control of the company, the Company will consolidate it as a subsidiary. On a quarterly basis, the Company assesses the deferred acquisition costs to determine if any impairment indicators are present.

Equity investment - The Company has a 25% interest in the shares of Kandaka Mining Corp. ("Kandaka") and a director of the Company is the sole director of Kandaka. The Company has determined that it has significant influence in Kandaka, therefore the Company accounts for this investment using equity accounting.

## 3. MATERIAL ACCOUNTING POLICIES

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned Ethiopian subsidiary, Sun Peak Ethiopia Mining PLC. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

**Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions in the financial statements of each entity in the Company.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the reporting date exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognized in operations on a straight-line basis over the estimated useful lives of each part of an item of equipment.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

### Exploration and evaluation assets

Upon acquiring the legal right to explore a mineral property, all direct costs related to the acquisition of exploration and evaluation assets will be capitalized as exploration and evaluation assets. Exploration and evaluation expenditures incurred prior to the acquisition of a mineral project or determination of the feasibility of mining operations and a decision to proceed with development are charged to profit or loss as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, will be capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company will assess exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

### Restoration, rehabilitation, and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive, or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant, and equipment, when those obligations result from the acquisition, construction, development, or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

### Impairment

At each statement of financial position reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Impairment (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

### Deferred acquisition costs

Deferred acquisition costs represent cumulative costs incurred directly attributable to the uncompleted acquisition of a target company and its related net assets. Once complete, the Company will consolidate the entity, or in the event of non-completion, such costs will be written-off. The Company assesses the deferred acquisition costs for impairment indicators each reporting period, including assessment of the target company's underlying net assets.

### Financial instruments

*Financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVTOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss.

*Impairment*

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial liabilities*

Financial liabilities are designated as either: (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Trade and other payables are classified and measured at amortized cost. For the years presented, the Company does not have any derivative financial liabilities.

### Equity investment

The Company accounts for its investment in an affiliated company, over which it has significant influence, using the equity method of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses and reduced by dividends received.

The Company assesses its equity investments for impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events have an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

- significant financial difficulty of the associated companies;
- becoming probable that the associated companies will enter bankruptcy or other financial reorganization; and
- national or local economic conditions that correlate with defaults of the associated companies.

### Loss per share

The Company presents basic loss per share 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. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

### Share capital

Common shares are classified as share capital. Incremental costs, net of tax effects, directly attributable to the issue of common shares are recognized as a deduction from equity.

### Warrants

The Company accounts for warrants issued in unit offerings comprising a common share and warrant (or portion thereof) using the relative fair value method. Under this method, the fair value of common shares and warrants are measured at the issuance date and the proceeds raised are allocated to the common shares and warrants proportionately. The fair value of common shares is measured based on the quoted market price of the Company's stock and the warrant issued is measured at the issue date using the Black-Scholes option pricing model. The warrant is recorded as share capital if and when the warrants are exercised.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Income taxes

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 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. 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.

### New accounting policy

The following amendments to existing standards have been adopted by the Company commencing January 1, 2023:

*IAS 1, Presentation of Financial Statements*

The amendments changed the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policies’. Accounting policies are material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The adoption of these amendments did not materially impact these consolidated financial statements of the Company.

(Expressed in Canadian dollars)

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2023 and have not been applied in preparing these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to IAS 1 Presentation of Financial Statements clarify how to classify debt and other liabilities as current or non-current. The amendments help to 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 noncurrent. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.

The Company has not early adopted this revised standard and its adoption is not expected to have a material impact on the Company's consolidated financial statements.

## 4. CASH

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Canadian dollar denominated deposits held in Canada | $ | 6,439,200 | $ | 7,644,003 |
| US dollar denominated deposits held in Canada | | 27,121 | | 216,319 |
| Birr denominated deposits held in Ethiopia | | 44,856 | | 74,583 |
| Total | $ | 6,511,177 | $ | 7,934,905 |

## 5. RECEIVABLES

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Amounts due from the Government of Canada pursuant to goods and services input tax credits | $ | - | $ | 4,424 |
| Interest receivable | | 75,178 | | - |
| Other | | 31,781 | | 12,225 |
| Total | $ | 106,959 | $ | 16,649 |

(Expressed in Canadian dollars)

## 6. PREPAID EXPENSES

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Prepaid insurance | $ 18,397 | $ 19,047 |
| Prepaid rent | 11,129 | 1,852 |
| Other | 17,269 | 6,913 |
| Total | $ 46,795 | $ 27,812 |

## 7. EQUIPMENT

| | Office furniture and equipment | Field equipment | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At December 31, 2021 | $ 78,371 | $ 75,908 | $ 113,310 | $ 267,589 |
| Additions | - | 191,314 | - | 191,314 |
| At December 31, 2022 | 78,371 | 267,222 | 113,310 | 458,903 |
| Additions | 1,728 | 1,878 | - | 3,606 |
| At December 31, 2023 | $ 80,099 | $ 269,100 | $ 113,310 | $ 462,509 |
| **Accumulated depreciation** | | | | |
| At December 31, 2021 | $ 25,242 | $ 41,973 | $ 40,095 | $ 107,310 |
| Depreciation | 14,346 | 38,371 | 14,013 | 66,730 |
| At December 31, 2022 | 39,588 | 80,344 | 54,108 | 174,040 |
| Depreciation | 16,564 | 42,613 | 13,332 | 72,509 |
| At December 31, 2023 | $ 56,152 | $ 122,957 | $ 67,440 | $ 246,549 |
| **Carrying amounts** | | | | |
| At December 31, 2022 | $ 38,783 | $ 186,878 | $ 59,202 | $ 284,863 |
| At December 31, 2023 | $ 23,947 | $ 146,143 | $ 45,870 | $ 215,960 |

(Expressed in Canadian dollars)

## 8. EXPLORATION AND EVALUATION ASSETS

| | Ethiopia | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Nefasit | | Adi Dairo | | Adi Mendi | | Workemba | | Total |
| December 31, 2021 | $ | 5,257 | $ | 2,797 | $ | 899 | $ | 2,512 | $ | 11,465 |
| Additions | | - | | - | | - | | - | | - |
| December 31, 2022 | | 5,257 | | 2,797 | | 899 | | 2,512 | | 11,465 |
| Additions | | - | | - | | - | | - | | - |
| December 31, 2023 | $ | 5,257 | $ | 2,797 | $ | 899 | $ | 2,512 | $ | 11,465 |

**Nefasit**

On January 1, 2018, the Company was issued an exploration license to explore for minerals in Ethiopia for an initial period of three years expiring on December 31, 2020. Pursuant to the license agreement, the Company was obligated to spend Birr 37,175,925 (approximately $1.7 million) by December 31, 2020. The exploration license was originally extended indefinitely due to force majeure. The project is no longer in force majeure and now expires December 31, 2025. The Company paid $5,257 in license issuing fees to acquire the license in 2018. The project is subject to a 2% net smelter return (“NSR”) royalty.

**Adi Da-iro**

On April 16, 2019, the Company was issued an exploration license to explore for minerals in Ethiopia for an initial period of three years expiring on April 15, 2022. Pursuant to the license agreement, the Company was obligated to spend Birr 41,127,665 (approximately $1.9 million) by April 15, 2022. The exploration license was originally extended indefinitely due to force majeure. The Company wrote to the Ministry of Mines in October 2023 requesting an extension of force majeure until June 30, 2024 and is awaiting a written response. The Company paid $2,797 in license issuing fees to acquire the license in 2018. The project is subject to a 2% NSR royalty.

**Adi Mendi**

On September 30, 2021, the Company was issued an exploration license to explore for minerals in Ethiopia for an initial period of three years expiring on September 29, 2024. Pursuant to the license agreement, the Company was obligated to spend Birr 43,691,350 (approximately $1.0 million) by September 29, 2024. This exploration license was applied for in 2020 prior to the armed conflicts breaking out in the Tigray Region of northern Ethiopia and was immediately placed into force majeure upon receipt. The Company paid $899 in license issuing fees to acquire the license in 2021. The project is subject to a 2% NSR royalty.

**Workemba**

On September 30, 2021, the Company was issued an exploration license to explore for minerals in Ethiopia for an initial period of three years expiring on September 29, 2024. Pursuant to the license agreement, the Company was obligated to spend Birr 34,628,250 (approximately $900,000) by September 29, 2024. This exploration license was applied for in 2020 prior to the armed conflicts breaking out in the Tigray Region of northern Ethiopia and was immediately placed into force majeure upon receipt. The Company paid $2,512 in license issuing fees to acquire the license in 2021.

(Expressed in Canadian dollars)

## 8. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration and evaluation expenditures included in the loss for the years ended December 31, 2023 and 2022 are as follows:

| | Year ended December 31, 2023 | 2022 |
|---|---|---|
| Nefasit | | |
| Project administration | $ 31,752 | $ 13,385 |
| Salaries and benefits | 38,954 | 31,344 |
| Travel expenses | 16,346 | 8,475 |
| | 87,052 | 53,204 |
| Adi Da-iro | | |
| Project administration | $ 31,753 | 13,385 |
| Salaries and benefits | 38,954 | 31,344 |
| Travel expenses | 16,346 | 8,475 |
| | 87,053 | 53,204 |
| Total | $ 174,105 | $ 106,408 |

## 9. DEFERRED ACQUISITION COSTS

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Opening balance | $ 3,381,737 | $ 3,237,124 |
| Advances to Axum | 129,194 | 144,613 |
| Closing balance | $ 3,510,931 | $ 3,381,737 |

**Axum agreement**

On November 11, 2017, the Company entered into an option and joint venture shareholders' agreement (the "JV Agreement"), as amended, with Ezana Mining Development plc ("Ezana") that became effective on December 12, 2017, when the conditions precedent were met. Pursuant to the JV Agreement, the Company has an option to earn up to 70% in Axum Metals Share Company ("Axum"), which holds the Terer and Meli exploration licenses. The Company may earn a 51% interest in Axum upon completion of US$5 million in expenditures by December 3, 2022 (originally extended indefinitely due to force majeure – the Terer and Meli projects are no longer in force majeure and the Company is working with Ezana to establish a new date for completion of the US$5 million expenditures).

The Company is the operator of the program and is sole funding Axum.

After earning a 51% interest, the Company may then elect to continue to solely fund Axum through completion of a definitive feasibility study to earn an additional 16.5% interest in Axum. Within 60 days of Axum being granted a mining license, the Company will have an option to purchase an additional 2.5% interest in Axum from Ezana for a payment of US$6 million.

(Expressed in Canadian dollars)

## 9. DEFERRED ACQUISITION COSTS (continued)

### Terer

On June 12, 2019, the Terer exploration license was transferred by Ezana to Axum with a remaining term that expired March 29, 2020. The Terer exploration license was subsequently renewed for one-year terms in March 2020 and again in March 2021. Thereafter, the exploration license was extended indefinitely due to force majeure. The project is no longer in force majeure and Axum has until March 29, 2025 to complete Birr 19,684,489 (approximately $400,000) of expenditures. The project is subject to a 2% NSR royalty.

### Meli

On December 4, 2019, Axum was issued an exploration license pursuant to explore for minerals in Ethiopia for an initial period of three years expiring on December 3, 2022. Pursuant to the license agreement, Axum was obligated to spend Birr 63,426,750 (approximately $3.0 million) by December 3, 2022. The exploration license was originally extended indefinitely due to force majeure. The project is no longer in force majeure and Axum now has until December 3, 2026 to complete the expenditures. The project is subject to a 2% NSR royalty.

## 10. EQUITY INVESTMENT

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Opening balance | $ 36,148 | $ 54,558 |
| Loss | (14,228) | (18,410) |
| Closing balance | $ 21,920 | $ 36,148 |

The Company has a 25% interest in the shares of Kandaka, a Canadian private mineral exploration company. In addition to the Company's 25% interest in Kandaka, directors and officers of the Company hold an additional 20% of Kandaka. A director of the Company is the sole director of Kandaka.

As at December 31, 2023 and 2022, the net assets of Kandaka were as follows:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Assets | $ 87,677 | $ 147,306 |
| Liabilities | - | (2,716) |
| Net assets | 87,677 | 144,590 |
| Ownership | 25% | 25% |
| Closing balance | $ 21,920 | $ 36,148 |

(Expressed in Canadian dollars)

## 11. TRADE AND OTHER PAYABLES

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Trade and other payables in Canada | $ | 47,353 | $ | 60,693 |
| Trade and other payables in Ethiopia | | 2,042 | | 36,466 |
| Amounts due to the Government of Canada pursuant to goods and services input tax credits | | 3,326 | | - |
| Amounts due to related parties (Note 13) | | 9,457 | | 33,970 |
| Total | $ | 62,178 | $ | 131,129 |

## 12. SHARE CAPITAL

### a) Authorized share capital

The authorized share capital is comprised of an unlimited number of common shares without par value.

### b) Issued share capital

There were no common shares issued during the years ended December 31, 2023 and 2022.

### c) Share-based compensation

In June 2022, the Company's shareholders approved a new replacement stock option plan (the "New Option Plan"). The New Option Plan is a 10% "rolling" stock option plan which governs the granting of stock options to directors, officers, employees and consultants of the Company or a subsidiary of the Company for the purchase of up to 10% of the issued and outstanding common shares of the Company from time to time which supersedes the current stock option plan (the "Superseded Option Plan"). Any stock options currently outstanding under the Superseded Option Plan will remain outstanding, however new stock option grants will be subject to the New Option Plan. The maximum term of stock options is ten years from the grant date. The exercise price and vesting terms are at the discretion of the directors.

In addition, the shareholders approved a new equity incentive plan (the "Equity Plan") which governs the granting of any restricted share unit (RSU), performance share unit (PSU) or deferred share unit (DSU) granted under the Equity Plan, to directors, officers, employees and consultants of the Company or a subsidiary of the Company. The Company has reserved for issuance up to 8,709,863 common shares, being 10% of the issued and outstanding common shares of the Company, pursuant to the Equity Plan.

(Expressed in Canadian dollars)

## 12. SHARE CAPITAL (continued)

### c) Share-based compensation (continued)

The continuity of stock options for the year ended December 31, 2023 is as follows:

| Expiry date | *Exercise price* | Balance, December 31, 2022 | Issued | Exercised | Cancelled/ Expired | Balance, December 31, 2023 |
|---|---|---|---|---|---|---|
| August 17, 2025 | *$ 0.35* | 4,100,000 | - | - | - | 4,100,000 |
| July 20, 2026 | *$ 0.35* | 225,000 | - | - | - | 225,000 |
| January 18, 2028 | *$ 0.235* | - | 250,000 | - | - | 250,000 |
| February 22, 2028 | *$ 0.26* | - | 2,150,000 | - | - | 2,150,000 |
| | | 4,325,000 | 2,400,000 | - | - | 6,725,000 |
| Weighted average exercise price | | $ 0.35 | $ 0.26 | $ - | $ - | $ 0.32 |

As at December 31, 2023, all stock options were exercisable with a weighted average remaining life of 2.56 years.

The continuity of stock options for the year ended December 31, 2022 is as follows:

| Expiry date | *Exercise price* | Balance, December 31, 2021 | Issued | Exercised | Cancelled/ Expired | Balance, December 31, 2022 |
|---|---|---|---|---|---|---|
| August 17, 2025 | *$ 0.35* | 4,100,000 | - | - | - | 4,100,000 |
| July 20, 2026 | *$ 0.35* | 225,000 | - | - | - | 225,000 |
| | | 4,325,000 | - | - | - | 4,325,000 |
| Weighted average exercise price | | $ 0.35 | $ - | $ - | $ - | $ 0.35 |

During the year ended December 31, 2023, the Company recorded share-based compensation of $469,061 (2022 - $Nil) for stock options that vested during the year.

On January 18 2023, the Company granted 250,000 stock options to an employee of the Company at a fair value of $44,369 or $0.18 per option, all of which was recorded as share-based compensation for the year ended December 31, 2023. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 2.93%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On February 22, 2023, the Company granted 2,000,000 stock options to directors, officers, and employees of the Company at a fair value of $395,063 or $0.20 per option, all of which was recorded as share-based compensation for the year ended December 31, 2023. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 3.66%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On February 22, 2023, the Company granted 150,000 stock options to a consultant of the Company at a fair value of $29,629 or $0.20 per option, all of which was recorded as share-based compensation for the year ended December 31, 2023. The options vest 25% immediately and 25% every three months thereafter. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 3.66%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

(Expressed in Canadian dollars)

## 13. RELATED PARTY TRANSACTIONS

*Compensation of key management personnel*

Key management includes members of the Board of Directors, the President and Chief Executive Officer, the Vice President Exploration & Geology, the Vice President Project Development, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid, or payable, to key management personnel during the years ended December 31, 2023 and 2022 was as follows:

| | | Year ended December 31, | |
|---|---|---|---|
| | | **2023** | **2022** |
| Consulting fees | | | |
| Golden Oak | (1) | $ 120,000 | $ 120,000 |
| Marketing fees | | | |
| Peak | (2) | 12,000 | 12,000 |
| Salaries and benefits | | | |
| Chief Executive Officer | | 150,000 | 166,667 |
| Vice President Exploration & Geology | | 195,833 | 166,667 |
| Vice President Project Development | | 195,833 | 166,667 |
| | | 541,666 | 500,001 |
| Share-based compensation | | 395,060 | - |
| | | $ 1,068,726 | $ 632,001 |

(1) Golden Oak Corporate Services Ltd. (“Golden Oak”) is a consulting company owned by the Chief Financial Officer and Corporate Secretary of the Company. The Chief Financial Officer and the Corporate Secretary are employees of Golden Oak and are not paid directly by the Company.
(2) Peak Investor Marketing Corp. (“Peak”) is a company of which the spouse of the Chief Executive Officer is a principal.

During the year ended December 31, 2023, the Company recorded salary reimbursements of $141,217 related to time spent by its senior management on SDC Resources Corp. (“SDC”) business. These salary reimbursements were recorded as a credit to salaries and benefits on the statement of loss. SDC is a Canadian private mineral exploration company controlled by a private Abu Dhabi company whose sole director is also a director of the Company.

*Amounts due to related parties*

| | | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| Chief Executive Officer | Expenses | $ 7,126 | $ - |
| Vice President Exploration & Geology | Expenses | - | 10,980 |
| Vice President Project Development | Expenses | 2,104 | 22,374 |
| Golden Oak | Expenses | 227 | 616 |
| | | $ 9,457 | $ 33,970 |

(Expressed in Canadian dollars)

## 14. SEGMENTED INFORMATION

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been defined as the Chief Executive Officer.

The Company operates in a single segment, being mineral exploration and evaluation.

With the exception of the cash disclosed in Note 4, all of the Company's significant assets are located in Ethiopia.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Financial Instruments**

Financial instruments are classified into one of the following categories: fair value through profit or loss; fair value through other comprehensive income; or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

| | | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| Cash | Amortized cost | $ 6,511,177 | $ 7,934,905 |
| Receivables | Amortized cost | 106,959 | 16,649 |
| Trade and other payables | Amortized cost | 62,178 | 131,129 |

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying values of cash, receivables and trade and other payables approximate their fair values due to their short-term nature. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized as follows:

*Credit Risk*

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and receivables. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next sixty days. The Company has a working capital balance of $6,602,753 as at December 31, 2023.

*Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity, political risk, and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign Exchange Risk: The Company expects to continue to raise equity predominately in Canadian dollars and keeps the majority of its treasury in Canadian dollars. The Company is primarily conducting business in Ethiopia. As such, it is subject to risk due to fluctuations in the exchange rate between the Canadian dollar, the US dollar, and the Ethiopian Birr. Management believes the foreign exchange risk related to currency conversions is minimal and therefore, does not hedge its foreign exchange risk. The effect of a ten percent change in the foreign exchange rate on the cash held in Ethiopian Birr at December 31, 2023 would be insignificant.

(c) Commodity Price Risk: While the value of the Company's exploration and evaluation assets will be related to the price of gold, copper, zinc and other metals, and the outlook for these minerals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect to its operational activities.

Historically, the price of gold, copper, zinc and other metals has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to gold, copper, zinc and other metals.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Risk management (continued)

*Market Risk (continued)*

(d) Political Uncertainty Risk: In conducting operations in Ethiopia, the Company is subject to considerations and risks not typically associated with companies operating in Canada (Note 1). These include risks such as the political, economic, and legal environments as well as the risk of military conflict. Among other things, the Company's results may be adversely affected by changes in the political and social conditions, including unrest in Ethiopia, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

## 16. MANAGEMENT OF CAPITAL

The Company manages its common shares, options, and warrants as capital. The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the acquisition of exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company is not subject to externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure forecasts that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In order to maximize ongoing exploration efforts, the Company does not pay out dividends.

The Company’s investment policy is to keep its cash treasury on demand deposit in an interest bearing Canadian chartered bank account. The Company expects that its current capital resources will be sufficient to carry out its currently planned exploration and operations through the next twelve months (Note 1).

There have been no changes to the Company’s approach to capital management for the years presented.

(Expressed in Canadian dollars)

## 17. INCOME TAXES

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

| | Year ended December 31, 2023 | 2022 |
|---|---|---|
| Loss for the year | $ (1,668,482) | $ (1,226,589) |
| Expected income tax recovery | $ (450,000) | $ (331,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | (76,000) | (35,000) |
| Permanent differences | 121,000 | 51,000 |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | 17,000 | (15,000) |
| Change in unrecognized deductible temporary differences | 388,000 | 330,000 |
| Total | $ - | $ - |

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

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Exploration and evaluation asset | $ 332,000 | $ 183,000 |
| Equipment | 2,000 | 31,000 |
| Share issuance costs | 4,000 | 17,000 |
| Non-capital losses available for future periods | 1,561,000 | 1,280,000 |
| Total unrecognized deferred tax assets | $ 1,899,000 | $ 1,511,000 |

Deferred tax assets have not been recognized in these financial statements as it is not probable that they will be realized.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

| | December 31, 2023 | Expiry date range |
|---|---|---|
| **Temporary differences** | | |
| Exploration and evaluation asset | $ 1,120,000 | No expiry date |
| Share issuance costs | 16,000 | 2024 |
| Non-capital losses available for future periods | 5,748,000 | See below |
| Non-capital losses by country: | | |
| Canada | 5,441,000 | 2036 to 2043 |
| Ethiopia | 307,000 | No expiry date |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

## 18. SUBSEQUENT EVENT

On March 8, 2024, the Company granted 1,475,000 stock options exercisable at a price of $0.50 until March 8, 2029.