REGULUS
RESOURCES INC

**(the "Company")**

# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

**(Expressed in Canadian Dollars)**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Regulus Resources Inc.

***Opinion***

We have audited the accompanying consolidated financial statements of Regulus Resources Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2023 and 2022, and the consolidated statements operations and comprehensive (loss) income, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

***Basis for Opinion***

We conducted our 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 period. 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 Exploration and Evaluation Assets ("E&E Assets")*

As described in Note 5 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was $51,723,583 as of September 30, 2023. As more fully described in Notes 2 and 3 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.

The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate 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 E&E Asset.

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 E&E Assets through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Assessing compliance with agreements, including reviewing option agreements.
- Assessing the Company's rights to explore E&E Assets.
- Obtaining, from legal counsel, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

***Other Information***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 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 Stephen Hawkshaw.

Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

January 29, 2024

**Regulus Resources Inc.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Expressed in Canadian Dollars)
As at

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and equivalents | $ 18,423,544 | $ 249,167 |
| Receivables (Note 4) | 154,225 | 106,593 |
| Prepaid expenses and deposits | 90,757 | 415,722 |
| Due from related party (Note 7) | 4,190 | - |
| | 18,672,716 | 771,482 |
| **Long-term investments** (Note 8) | 273,500 | 374,750 |
| **Property and equipment** | 633,106 | 766,406 |
| **Exploration and evaluation assets** (Note 5) | 51,723,583 | 54,719,458 |
| | $ 71,302,905 | $ 56,632,096 |
| **LIABILITIES AND EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Notes 7 and 9) | $ 855,423 | $ 4,705,976 |
| Due to related party (Note 7) | - | 922 |
| Loans payable (Note 7) | - | 678,760 |
| Decommissioning liability (Note 10) | 103,000 | 28,000 |
| | 958,423 | 5,413,658 |
| **Long term portion of decommissioning liability** (Note 10) | 257,000 | 599,000 |
| | 1,215,423 | 6,012,658 |
| **Equity** | | |
| Capital stock (Note 6) | 137,721,097 | 114,707,360 |
| Accumulated other comprehensive loss | (5,612,177) | (4,033,133) |
| Share compensation reserve (Note 6) | 17,873,116 | 16,770,870 |
| Deficit | (79,894,554) | (76,825,659) |
| | 70,087,482 | 50,619,438 |
| | $ 71,302,905 | $ 56,632,096 |

**Nature and continuance of operations** (Note 1)
**Commitments** (Note 14)

**Approved by the Board:**

**Director:**

”*John Black*”

John Black

**Director:**

“*Mark Wayne*”

Mark Wayne

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

**Regulus Resources Inc.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**
(Expressed in Canadian Dollars)
For the Years Ended September 30,

| | 2023 | 2022 |
|---|---|---|
| **EXPENSES** | | |
| Accounting and audit | $ 185,950 | $ 159,371 |
| Amortization | 105,671 | 104,969 |
| Bank charges and interest | 24,886 | 19,463 |
| Insurance | 26,056 | 32,773 |
| Investor relations and shareholder information | 302,418 | 125,087 |
| Legal (Note 7) | 176,906 | 54,333 |
| Management fees (Note 7) | 761,725 | 716,008 |
| Office and administration | 461,265 | 459,067 |
| Share-based compensation (Notes 6, 7) | 1,102,246 | 209,506 |
| Transfer agent and listing fees | 130,455 | 90,857 |
| Travel | 76,964 | 29,202 |
| | (3,354,542) | (2,000,636) |
| **OTHER ITEMS** | | |
| Interest income | 695,266 | 10,600 |
| Gain on debt settlement | - | 26,966 |
| Gain on foreign exchange | (50,302) | 153,818 |
| Gain on sale of mineral property (Note 5) | - | 249,500 |
| Recovery of prior year's provision | 248,306 | - |
| Write-off of receivables (Note 4) | (607,623) | (1,175,172) |
| **LOSS FOR THE YEAR** | (3,068,895) | (2,734,924) |
| **Items that may be reclassified subsequently to profit and loss:** | | |
| Change in fair market value of long-term investment (Note 8) | (101,250) | (250,500) |
| **Items that will not be reclassified subsequently to profit and loss:** | | |
| Translation adjustment | (1,477,794) | 3,669,717 |
| **Comprehensive income (loss) for the year** | $ (4,647,939) | $ 684,293 |
| **Loss per common share – basic and diluted** | $ (0.03) | $ (0.03) |
| **Weighted average number of common shares outstanding – basic and diluted** | 116,935,134 | 101,849,844 |

**Regulus Resources Inc.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
(Expressed in Canadian Dollars)

| | Number of Shares | Capital Stock | Accumulated Other Comprehensive Loss | Share Compensation Reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, September 30, 2021 | 101,849,844 | 114,707,360 | (7,452,350) | 16,561,364 | (74,090,735) | 49,725,639 |
| Share-based compensation | - | - | - | 209,506 | - | 209,506 |
| Fair value adjustment to long-term investment | - | - | (250,500) | - | - | (250,500) |
| Foreign exchange adjustment | - | - | 3,669,717 | - | - | 3,669,717 |
| Loss for the year | - | - | - | - | (2,734,924) | (2,734,924) |
| Balance, September 30, 2022 | 101,849,844 | 114,707,360 | (4,033,133) | 16,770,870 | (76,825,659) | 50,619,438 |
| Shares issued for cash, net of issuance costs | 22,658,974 | 23,013,737 | - | - | - | 23,013,737 |
| Share-based compensation | - | - | - | 1,102,246 | - | 1,102,246 |
| Fair value adjustment to long-term investment | - | - | (101,250) | - | - | (101,250) |
| Foreign exchange adjustment | - | - | (1,477,794) | - | - | (1,477,794) |
| Loss for the year | - | - | - | - | (3,068,895) | (3,068,895) |
| **Balance, September 30, 2023** | **124,508,818** | **$ 137,721,097** | **$ (5,612,177)** | **$ 17,873,116** | **$ (79,894,554)** | **$ 70,087,482** |

**Regulus Resources Inc.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in Canadian Dollars)
For the Years Ended September 30,

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Loss for the year | $ (3,068,895) | $ (2,734,924) |
| Items not affecting cash: | | |
| Amortization | 105,671 | 104,969 |
| Share-based compensation | 1,102,246 | 209,506 |
| Interest expense | - | 26,258 |
| Write-off of receivables | 607,623 | 1,175,172 |
| Recovery of prior year's provision | (248,306) | - |
| Gain on sale of mineral property | - | (249,500) |
| Gain on debt settlement | - | (26,966) |
| Changes in non-cash working capital items: | | |
| Receivables | (654,467) | (1,167,864) |
| Prepaid expenses and deposits | 325,129 | (360,976) |
| Accounts payable and accrued liabilities | (224,141) | 100,543 |
| Due from related party | (5,112) | 21,620 |
| Net cash and equivalents used in operating activities | (2,060,252) | (2,902,162) |
| **Cash Flows from Investing Activities** | | |
| Acquisition of property and equipment | (482) | (20,475) |
| Lease payments | (160,529) | (110,077) |
| Exploration and evaluation assets | (8,554,093) | (6,289,578) |
| Sale of mineral property interest (note 5) | 6,903,000 | 250,000 |
| Decommissioning liability payments | (20,780) | (533,612) |
| Net cash and equivalents used in investing activities | (1,832,884) | (6,703,742) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from private placement | 23,013,737 | - |
| Proceeds (repayment of) from loans payable (note 7) | (678,760) | 674,560 |
| Net cash and equivalents provided by financing activities | 22,334,977 | 674,560 |
| **Effect of foreign exchange on cash and equivalents** | (267,464) | (320,726) |
| **Change in cash and equivalents for the year** | 18,174,377 | (9,252,070) |
| **Cash and equivalents, beginning** | 249,167 | 9,501,237 |
| **Cash and equivalents, end** | $ 18,423,544 | $ 249,167 |
| **Cash and cash equivalents consisted of:** | | |
| **Cash** | 278,933 | 249,167 |
| **Redeemable guaranteed investment certificates ("GIC")** | 18,144,611 | - |
| **Total cash and cash equivalents** | $ 18,423,544 | $ 249,167 |

Supplemental disclosures with respect to cash flows (Note 11)

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Regulus Resources Inc. ("Regulus" or the "Company") is a mineral exploration company formed on December 16, 2010.

The Company is domiciled and incorporated in Canada, and its registered and records office is located at 15th Floor, Bankers Court, 850 - 2nd St SW Calgary, Alberta T2P 0R8.

The Company owns interests in multiple mineral titles and claims in Peru. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements and to complete the development of properties, and upon future profitable production or proceeds from the disposition thereof. At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation assets. To date, the Company has not earned revenues and is considered to be in the exploration stage. On January 30, 2023 the Company closed a private placement raising $23,112,153 (Note 6). Management believes that the Company has sufficient working capital to maintain its operations and activities for the next fiscal year.

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, relations between NATO and the Russian Federation regarding the situation in Ukraine, the ongoing conflict in the Middle East and potential economic global challenges, such as the risk of higher inflation and interest rates, may create further uncertainty and risk with respect to the prospects of the Company's business.

These consolidated financial statements were authorized by the audit committee and approved by the board of directors of the Company on January 29, 2024.

## 2. BASIS OF PREPARATION

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

<u>Judgments</u>

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Functional currencies*

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, the Effects of Changes in Foreign Exchange Rates. The functional currency of each entity is disclosed below under "Foreign Exchange".

## 2. BASIS OF PREPARATION (continued)

*Impairment of exploration and evaluation assets*

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations. Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, and consideration of whether the period for which the Company has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a 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.

Estimates

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

*Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or disposition of the mineral properties. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could affect management's assessment of the overall viability of its properties or to the likelihood of generating future cash flows necessary to recover the carrying value of the Company's exploration and evaluation assets.

To the extent that any of management's assumptions change there could be a significant effect on the Company's future financial position, operating results and cash flows.

*Fair value of stock options and warrants*

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant effect on the Company's future operating results or on other components of shareholders' equity.

*Income taxes*

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development or commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets and deferred income tax provisions or recoveries could be affected.

*Decommissioning costs*

Upon retirement of the Company's exploration and evaluation assets, decommissioning costs will be incurred by the Company. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The liability, the related asset and the corresponding expense are affected by estimates with respect to the costs and timing of decommissioning.

## 2. BASIS OF PREPARATION (continued)

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (Note 7). 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 intercompany transactions and balances have been eliminated.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and is determined for each entity within the Company. The functional currency for the entities within the Company are: the Canadian dollar (the Company) and the United States dollar ("U.S.$") Southern Legacy Minerals Inc., Regulus Resources Peru S.A.C., KoriAnta S.A.C., Anta Norte S.A.C., SMRL El Sinchao de Cajamara and Centaurus Holding S.A.C.

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the entities' functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of an entity that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations and comprehensive (loss) income.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Financial instruments**

*Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive (loss) income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition.

A financial asset is measured at amortized cost if both of the following conditions are met:

a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTOCI if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company may make an irrevocable election at initial recognition to carry at FVOCI particular investments in equity instruments that would otherwise be measured at FVTPL.

A financial asset is required to be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

The following table shows the classification under IFRS 9:

| Financial assets/ liabilities | IFRS 9 |
|---|---|
| Cash and equivalents | Amortized cost |
| Receivables | Amortized cost |
| Investments | FVTOCI |
| Due to/from related parties | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Loans payable | Amortized cost |

*Measurement*

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

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

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of operations and comprehensive (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of operations and comprehensive (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive (loss) income.

*Impairment of financial assets at amortized cost*

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

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

Financial assets

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

Financial liabilities

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

### Exploration and evaluation assets

Costs related to pre-exploration are expensed as incurred while costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Each of the Company's exploration and evaluation assets is considered to be a cash generating unit. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, the property is abandoned or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments or royalties received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

### Cash and equivalents

Cash equivalents are comprised of cash deposits and short-term highly liquid investments that are readily convertible into known amounts of cash, and that are subject to an insignificant risk of changes in value.

### Impairment

At the end of each reporting period the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such an indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. 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 an impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not to an amount that would exceed the original carrying amount in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Provision for decommissioning liability

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment when those obligations result from the acquisition, construction, development or normal operation of assets. The net present value of future rehabilitation costs is capitalized to exploration and evaluation assets along with a corresponding increase in the rehabilitation provision in the period incurred.

Pre-tax discount rates that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as exploration and evaluation assets.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provision for decommissioning liability (continued)

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

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the consolidated statement of operations and comprehensive (loss) income for the period.

### Property and equipment

Property and equipment is stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with such costs will flow to the Company and cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to operations and comprehensive (loss) income during the period in which they are incurred.

The major categories of equipment are amortized as follows:

Vehicles – 30% declining balance basis
Office furnishings – 20% declining balance basis
Equipment – 30% declining balance basis

The Company allocates the amount initially recognized in respect of an item of equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive (loss) income.

### Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital stock. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

### Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded 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 which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries 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 amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

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.

(Expressed in Canadian Dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Earnings (loss) per share**

For both continuing and discontinued operations, the Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic (loss) EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted (loss) EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

**Leases**

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset (an "ROU asset"), the Company assesses whether:

- the contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the earlier of the end of the useful life or the lease term using either the straight-line or units-of-production method, depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded to the consolidated statement of profit or loss if the carrying amount of the ROU asset has been reduced to zero.

## 4. RECEIVABLES

The Company's receivables arise from various tax credits receivable from the Canadian and Peruvian government taxation authorities and advances. These are broken down as follows:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| Tax credits and advances receivable | $ 154,225 | $ 106,593 |

During the year ended September 30, 2023, the Company wrote-off $607,623 (2022 - $1,175,172) of receivables to profit and loss. These receivables primarily related to Value Added Taxes ("VAT") in Peru for which recoverability is uncertain.

## 5. EXPLORATION AND EVALUATION ASSETS

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

(Expressed in Canadian Dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

The exploration and evaluation assets in which the Company has an interest are located in Peru and Canada and the Company is therefore relying on title opinions by legal counsel who are basing such opinions on the laws of Peru and Canada.

| | | AntaKori, Peru |
|---|---|---|
| Balance, September 30, 2021 | $ | 40,910,648 |
| Additions: | | |
| Administrative services | | 877 |
| Change in estimates related to decommissioning liability (Note 10) | | 155,843 |
| Field operations | | 8,459,888 |
| Labour | | 699,672 |
| Third party services | | 325,301 |
| | | 9,641,581 |
| Foreign exchange movement | | 4,167,229 |
| Balance, September 30, 2022 | $ | 54,719,458 |
| Additions: | | |
| Sale of royalty interest | | (6,903,000) |
| Change in estimates related to decommissioning liability (Note 10) | | (217,955) |
| Field operations | | 4,424,103 |
| Labour | | 657,608 |
| Third party services | | 157,942 |
| | | (1,881,302) |
| Foreign exchange movement | | (1,114,573) |
| Balance, September 30, 2023 | $ | 51,723,583 |

**AntaKori Project, Peru**

The Company has acquired an option to earn an interest in the AntaKori project through the following option agreements executed by its Peruvian subsidiary, Regulus Resources Peru S.A.C. (formerly Southern Legacy Peru S.A.C.) ("Regulus Peru"):

(a) An option agreement was executed in December 2011 with certain members of the Santolalla family, providing a right to acquire 86.8% of the capital stock of Minas del Sinchao S.A., which owns 50% of the capital stock of SMRL Rita Margot de Cajamarca. SMRL Rita Margot de Cajamarca owns three mining rights and has a 50% interest in SMRL Maria Eugenia 2 Mina Volare de Cajamarca which owns an additional mining right that comprises a portion of the AntaKori project. The agreement also provides for a 1% net smelter return royalty for the Santolalla family which is subject to a US$4.5 million buy-out option. Payments made to date are US$3,038,000 with no payments remaining;

(b) A second option agreement dated November 2013 provides the right to acquire an additional 7.7% interest in Minas del Sinchao S.A, which increases the Company's right to acquire an interest in Minas del Sinchao S.A. up to 94.5% of its capital stock. Payments made to date are US$233,926 with no payments remaining;

(c) Two option and usufruct agreements dated March 2012 were executed whereby two owners of a combined 12.5% ownership of SMRL Rita Margot De Cajamarca granted in favor of Regulus Peru a usufruct right over their 12.5% ownership of the entity. With the usufruct over the vendors' shares, Regulus Peru has an option to acquire 62.5% of the SMRL Rita Margot De Cajamarca capital stock. Each of these option and usufruct agreements provide the owners a net smelter royalty ("NSR") of 0.1875%. Payments made to date are US$877,000 with no payments remaining;

(Expressed in Canadian Dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### AntaKori Project, Peru (continued)

(d) Six option and usufruct agreements were executed in December 2012, whereby 30 owners of a combined 62.5% ownership of SMRL El Sinchao De Cajamarca ("El Sinchao") granted in favour of SLM Peru a usufruct right over their 62.5% ownership of the entity with the payment terms set out in the table below. El Sinchao owns 100% of three mining concessions that compose a portion of the AntaKori project. With the usufruct over the vendors' shares, Regulus Peru has an option to acquire 62.5% of El Sinchao capital stock. No smelter royalties or back-in rights exist as part of this option agreement. Payments made to date are US$1,173,558 with no payments remaining;

(e) Two option and usufruct agreements were executed in March 2013, whereby four owners of a combined 20.63% ownership of El Sinchao granted in favour of Regulus Peru a usufruct right over their 20.63% ownership of the entity. With the usufruct over the vendors' shares, Regulus Peru increased to 83.13% the total of El Sinchao's capital stock it has options to acquire. These option agreements do not contain smelter royalties or back-in rights clauses. Payments made to date are US$386,381 with no payments remaining;

(f) An option and usufruct agreement were executed in September 2014, whereby Regulus Peru purchased 25% of the outstanding shares of Rita Margot de Cajamarca for a total of US$1,750,000. Payments made to date are US$1,750,000 with no payments remaining.

A summary of the payments made under the option agreements described above is outlined below:

| Payment Due Date | | Amount (US$) |
|---|---|---|
| Paid during the year ended September 30, 2012 | $ | 580,000 |
| Paid during the year ended September 30, 2013 | | 1,159,170 |
| Paid during the year ended September 30, 2014 | | 1,923,769 |
| Paid during the year ended September 30, 2015 | | 1,850,000 |
| Paid during the year ended September 30, 2016 | | 1,909,123 |
| Paid during the year ended September 30, 2017 | | 38,000 |
| Total | $ | 7,460,062 |

During the year ended September 30, 2017, the Company's wholly owned Peruvian subsidiary, Regulus Peru, finalized the execution of definitive agreements with Compañía Minera Coimolache S.A. ("Coimolache") and Compañía Minera Colquirrumi S.A. ("Colquirrumi"), companies that hold mineral concessions immediately adjacent to, and inter-fingering with the Company's AntaKori project. These agreements allow for mutual access, mutual rights of expansion and collaborative exploration of the project area, providing benefit to all three parties.

The Coimolache agreement had a term of five years, renewable with consent from both parties. The agreement is primarily designed to allow the parties to collaboratively explore the project area. In addition, Comolaiche has the right to expand its current Tantahuatay oxide pit by laying back onto certain concessions owned by Regulus (the "Regulus Concessions") but assigned to Coimolache for the specific purpose of exploiting oxide gold mineralization. Coimolache will pay a 5% NSR (the "Coimolache NSR Payments") to Regulus for any precious metals produced from oxide material mined on Regulus Concessions. The layback rights are restricted to oxide mineralization only and are further limited by a floor of 3,800 m above sea level. Some of the Regulus Concessions are subject to underlying NSR royalties (the "Underlying NSR Royalties") as indicated in the agreement section above. These Underlying NSR Royalties vary from 0-3% with buy out clauses for some of the royalties as indicated. In the event that the Company receives a Coimolache NSR Payment from a Regulus Concession with an Underlying NSR Royalty(ies), the Company must pay the Underlying NSR Royalty payment from proceeds received from the Coimolache NSR Payment. The Company must pay an Underlying NSR Royalty of 1.5% for the portion of the production from the Napoleon concession and of 3.0% for the portion of the production from the Mina Volare concession. The Coimalache agreement expired under its own terms on January 19, 2022.

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### AntaKori Project, Peru (continued)

The Colquirrumi agreement allows Regulus to earn-in to a 70% interest in ground held by Colquirrumi by completing 7,500 m of drilling within 3 years from obtaining necessary permits to drill. Regulus received the drilling permits in Q4-2019. The agreement assigns certain mining concessions to the Company's 99.9% owned Peruvian subsidiary, Anta Norte S.A.C. ("Anta Norte") to allow for exploration work to be performed on those claims by Anta Norte during the term of the agreement. Upon notification that Regulus has completed 7,500 m of drilling and elected to obtain a 70% interest in the property, Colquirrumi will have a one time option to claw-back to a 70% interest in the property (leaving 30% to Regulus) by paying Regulus the sum of US$9 million. During the year ended September 30, 2023, the Company notified Buenaventura that it had completed 7,500 m of drilling under the Colquirrumi agreement. Buenaventura opted to give the Company a 70% interest in the Colquirrumi claims rather than give the Company a 30% interest in the claims and a cash payment of US$9,000,000.

The Company is also subject to pay NSR's ranging from 1.5% - 3% to the underlying holders of these same claims. As at September 30, 2023, accounts payable includes $nil (September 30, 2022 - $67,341) relating to these royalties.

### Osisko Partnership

During the year ended September 30, 2021, the Company closed a previously announced strategic partnership whereby it agreed to grant certain rights to Osisko Gold Royalties Ltd. ("Osisko") in exchange for an upfront cash payment (the "Upfront Payment") of US$12,500,000 ($16,198,751). These rights include the following: (i) in the event Regulus acquires any existing royalties within the current AntaKori project area or within a 1 km area of interest surrounding the project on claims owned 100% by Regulus, Osisko has the option to acquire 50% of the acquired royalty by paying 75% of Regulus' purchase price for the royalty; (ii) Osisko will have a right of first refusal on all future royalty or stream transactions in relation to claims on the AntaKori project where Regulus has 100% ownership, or on any additional claims Regulus might acquire with 100% ownership within the area of interest described above; and (iii) should Regulus receive a royalty or stream as consideration for the sale of AntaKori, Osisko will have a right of first refusal should Regulus later choose to sell that royalty or stream. Under the Osisko agreement, Osisko elected to acquire 50% of a royalty on the Mina Volare claim of the AntaKori project, which represents a 1.5% or 3% NSR, depending on location royalty, for 75% of Regulus' purchase price for the royalty, with Osisko's acquisition cost for the royalty included in the Upfront Payment. Regulus has retired the remaining 50% of the royalty. As such, the Royalty on the Mina Volare claim is now reduced to a 0.75% or 1.5%, depending on location, in favour of Osisko. In addition, the Company issued Osisko 5,500,000 warrants having a term of three years and an exercise price equal to $2.25 per share. The Company recorded a fair value of $1,177,236 for the 5,500,000 warrants to share compensation reserve, and the residual value of the remaining consideration to $15,021,515 to exploration and evaluation assets. The warrants were valued using the Black-Scholes pricing model with the following assumptions: term of 3 years; expected volatility of 62.33%; risk-free rate of 0.30%; and expected dividends of Nil.

During the year ended September 30, 2023, the Company and Osisko amended the agreement for additional royalties whereby the Company received $6,903,000 (US$ 5,000,000) from Osisko Gold Royalties in exchange for a net smelter return (NSR) ranging from 0.125% to 1.5% on certain claims of the Company's AntaKori project as well as a right (currently held by Regulus) to buy back a 1% NSR from a third party on certain claims of AntaKori.

The parties agreed that the obligations of Regulus would be secured by the following:

- a pledge of all the shares in the capital of Regulus Resources Peru S.A.C.;
- an assignment by Regulus and Southern Legacy Minerals, Inc. of all intercompany loans and other amounts owing by Regulus Peru; and
- a fiduciary trust in respect of the royalty and any surface rights or other rights relating thereto. The trust is expected to be created during fiscal 2024, at which time the share pledge referred to above will terminate.

### Gold Fields Option Agreement

During the year ended September 30, 2021, the Company entered into an option agreement whereby the Company can earn up to a 60% interest in certain claims from Gold Fields La Cima S.A., a subsidiary company of Gold Fields Ltd (the "GF Claims").

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

**Gold Fields Option Agreement (continued)**

The terms of the option agreement are summarized as follows:

- The Company can earn a 60% interest in the GF Claims by incurring US$3,500,000 in exploration expenditures over a 3-year term, including completing at least 2,500 m of diamond drilling and producing a 43-101 resource estimate incorporating the GF Claims. The 3-year term commences on the earlier of the date on which the Company receives all necessary drill program permits or within 2 years of the date of assignment of the concessions. Upon completion, the Company and Gold Fields will form a joint venture with the Company having a 60% interest and Gold Fields a 40% interest.

- Upon formation of the joint venture, Gold Fields will have a 60-day window to decide if they wish to acquire an additional 20% interest in the joint venture ("Claw Back Right"), bringing their total interest to 60% and the Company's position to 40%, in exchange for:
  - A cash payment of US$7,500,000 to be paid to the Company.
  - Sole funding US$5,000,000 in exploration commitments over a 5-year period.
- Upon finalizing the ownership structure of the joint venture, both parties will be required to fund their respective portions towards future exploration activities, and standard dilution policies will apply.
  - Any party that dilutes below a 10% interest in the joint venture will effectively relinquish their pro rata ownership and will maintain a 1.5% Net Smelter Return Royalty ("NSR") interest, 0.5% of which can be bought back by the other party for US$2,500,000 within 60 days of the announcement of commercial production on the property.
- If Gold Fields exercises its Claw Back Right, the Company will maintain a right to expand a mining operation from its existing claims onto the GF Claims ("Development Right") subject to the general principle that it does not interfere with current or planned mining activities of the joint venture at the time.
  - Upon exercising the Development Right, the Company would pay the joint venture a 5% NSR (effectively a 3% NSR payable to Gold Fields, and a 2% NSR payable to the Company) for any minerals processed from the GF Claims.
  - In addition, the Company would be responsible for all development costs, all operating costs, and all environmental and closure costs (closure costs and environmental costs for any stand-alone mining operation on the GF claims, would be paid by the joint venture).

The Development Right will also be available to the Company if Gold Fields does not exercise its Claw-Back Right, with a 5% NSR payable by the Company to the joint venture (effectively 2% NSR payable to Gold Fields and 3% NSR payable to the Company) on any minerals processed from the GF Claims, and the Company will be responsible for all development costs, all operating costs and all environmental and closure costs.

**Fireweed**

During the year ended September 30, 2022, the Company sold its 100% undivided interest in the Fireweed project located in central British Columbia, Canada for a cash payment of $250,000 and a 0.5% NSR on the property. The royalty will increase to 1.5% upon the pay out of an underlying 2% NSR to a third party, which is capped at $5,000,000. This disposal resulted in a gain on sale of mineral property of $249,500 through the statement of profit or loss during the year ended September 30, 2022.

## 6. CAPITAL STOCK AND SHARE COMPENSATION RESERVE

**Authorized**: unlimited common shares without par value. All issued shares are fully paid.

**Treasury shares**: recorded at cost.

**Private placement**

During the year ended September 30, 2023, the Company closed a financing of 22,658,974 common shares at $1.02 per share for total gross proceeds of $23,112,153. The Company paid share issuance costs of $98,416 in relation to the financing.

The Company had no share issuances during the year ended September 30, 2022.

(Expressed in Canadian Dollars)

## 6. CAPITAL STOCK AND SHARE COMPENSATION RESERVE (continued)

### Stock options

The Company has a stock option plan ("the Plan") for directors, officers, employees and consultants of the Company and its subsidiaries. The number of common shares subject to the stock options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Company. The Plan provides for a maximum term of five years for stock options. Vesting terms, exercise price, and option life are set by the Board of Directors.

The following table summarized movements in stock options outstanding for the year ended September 30, 2023:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, September 30, 2021 | 7,925,000 | $ 1.41 |
| Options granted | 100,000 | 0.76 |
| Options expired/forfeited | (250,000) | 1.29 |
| Balance, September 30, 2022 | 7,775,000 | 1.41 |
| Options granted | 3,950,000 | 1.02 |
| Options expired/forfeited | (350,000) | (1.08) |
| Balance, September 30, 2023 | 11,375,000 | 1.28 |
| Number of options currently exercisable | 8,362,500 | $ 1.38 |

### Share-based compensation

The Company recognizes compensation expense for all stock options and warrants granted and vested using the fair value based method of accounting. During the year ended September 30, 2023, the Company recognized $1,102,246 (September 30, 2022 - $209,506) in share-based compensation expense with respect to options granted and vested during the year.

The following table summarizes information about stock options outstanding at September 30, 2023:

| Exercise Price | Number Outstanding | Number Exercisable | Expiry Date |
|---|---|---|---|
| $ 1.60 | 5,225,000 | 5,225,000 | February 4, 2024 |
| 1.78 | 200,000 | 200,000 | March 1, 2024 |
| 0.86 | 1,500,000 | 1,500,000 | June 29, 2025 |
| 1.49 | 200,000 | 200,000 | October 19, 2025 |
| 0.89 | 200,000 | 200,000 | April 13, 2026 |
| 0.76 | 100,000 | 50,000 | July 22, 2027 |
| 1.02 | 3,950,000 | 987,500 | February 6, 2028 |
| | 11,375,000 | 8,362,500 | |

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

| | Year ended September 30, 2023 | Year ended September 30, 2022 |
|---|---|---|
| Risk-free interest rate | 3.17% | 2.86% |
| Expected life of grant | 5 years | 5 years |
| Volatility | 67.82% | 70.38% |
| Dividend | 0.00% | 0.00% |
| Weighted average fair value per option | $0.45 | $0.50 |

(Expressed in Canadian Dollars)

## 6. CAPITAL STOCK AND SHARE COMPENSATION RESERVE (continued)

### Warrants

The following table summarizes movements in warrants outstanding.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, September 30, 2021 and 2022 | 10,920,124 | $ 1.98 |
| Warrants expired/forfeited | (5,420,125) | 1.70 |
| Balance, September 30, 2023 | 5,500,000 | $ 2.25 |

The following table summarizes information about warrants outstanding at September 30, 2023:

| Exercise Price | Number Outstanding | Expiry Date |
|---|---|---|
| $ 2.25 | 5,500,000 | December 1, 2023[1] |
| | 5,500,000 | |

(1) Subsequent to September 30, 2023 these warrants expired unexercised

## 7. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Proportion of Ownership Interest | Principal Activity |
|---|---|---|---|
| Southern Legacy Minerals Inc. | USA | 100% | Holding company |
| Southern Legacy Peru S.A.C. | Peru | 100% | Mineral exploration |
| KoriAnta S.A.C. | Peru | 100% | Holding company |
| SMRL El Sinchao de Cajamara | Peru | 83.13% | Holding company |
| Anta Norte S.A.C. | Peru | 99.90% | Mineral exploration |
| Centaurus Holding S.A.C. | Peru | 100% | Holding company |

During the year ended September 30, 2023, the Company entered into the following transactions with key management personnel and related parties.

a) Double Black Diamond Resources LLC. ("DBD Resources") is a private company controlled by Mr. John Black, CEO and a director of the Company. For the year ended September 30, 2023, DBD Resources was paid $236,047 (2022 - $224,353). Amounts paid to DBD Resources are classified as management fees expense in the consolidated statements of profit and loss.

   At September 30, 2023, the Company owed $nil (September 30, 2022 – $60,108) to DBD Resources, included in accounts payable and accrued liabilities. During the year ended September 30, 2022, Mr. John Black loaned the Company $549,560 ($400,000 USD). The loan accrued simple interest at 10% per annum, was unsecured and was due on December 31, 2022. The loan and interest were repaid in full during the year ended September 30, 2023.

(Expressed in Canadian Dollars)

## 7. RELATED PARTY TRANSACTIONS (continued)

b) For the year ended September 30, 2023, Mr. Fernando Pickmann, President, COO and a director of the Company, was paid or accrued $236,047 in consulting fees (2022 – $224,353). Amounts paid to Mr. Pickmann are classified as management fees in the consolidated statements of profit and loss. A law firm at which Mr. Pickmann was a partner was also paid or accrued $104,969 (2022 - $68,552) for legal services. Legal fees paid to Mr. Pickmann's law firm are classified as legal expenses in consolidated statements of profit and loss.

At September 30, 2023, the Company owed $nil (September 30, 2022 – $40,072) to Mr. Pickmann and owed $nil (September 30, 2022 – $38,521) to the law firm at which Mr. Pickmann was a partner which is included in accounts payable and accrued liabilities.

c) Unicus Funds Ltd. ("Unicus") is a private company controlled by Mr. Mark Wayne, CFO and a director of the Company. For the year ended September 30, 2023, Unicus was paid $75,000 (2022 – $75,000). Amounts paid to Unicus are classified as management fees expense in the consolidated statements of profit and loss. During the year ended September 30, 2022, Mr. Mark Wayne loaned the Company $125,000. The loan accrued simple interest at 10% per annum, was unsecured and was due on December 31, 2022. The loan and interest were repaid in full during the year ended September 30, 2023.

At September 30, 2023, the Company owed $nil (September 30, 2022 – $19,688) to Unicus, included in accounts payable and accrued liabilities.

d) K.B. Heather & Socios Limitada (The Rock Doctor Limitada) ("K.B. Heather") is a private company controlled by Dr. Kevin B. Heather, Chief Geological Officer of the Company. For the year ended September 30, 2023, K.B. Heather was paid $202,326 (2022 – $192,303). Amounts paid to K.B. Heather are classified as management fees in the consolidated statements of profit and loss.

At September 30, 2023, the Company owed $nil (September 30, 2022 – $51,521) to K.B. Heather, included in accounts payable and accrued liabilities.

e) At September 30, 2023, the Company was owed $4,190 from Aldebaran (September 30, 2022 – owed to Aldebaran $922), a company with common directors and management.

f) At September 30, 2023, the Company held 2,000,000 common shares (September 30, 2022 – 2,000,000 common shares) of Highway 50 Gold Corp., a company with a director in common, included within long term investments.

Key Management Personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors.

The remuneration of directors and other members of key management personnel during the years ended September 30, 2023 and 2022 are as follows:

| | Fees and Bonus | Share-based Benefits | Total |
|---|---|---|---|
| Year ended September 30, 2023 | | | |
| Chief Executive Officer | $ 236,047 | $ 175,121 | $ 411,168 |
| Chief Geological Officer | 202,326 | 161,650 | 363,976 |
| Chief Financial Officer | 75,000 | 161,650 | 236,650 |
| Chief Operating Officer | 236,047 | 161,650 | 397,697 |
| Non-executive directors | - | 107,767 | 107,767 |
| | $ 749,420 | $ 767,838 | $ 1,517,258 |

(Expressed in Canadian Dollars)

## 7. RELATED PARTY TRANSACTIONS (continued)

| | Fees and Bonus | Share-based Benefits | Total |
|---|---|---|---|
| Year ended September 30, 2022 | | | |
| Chief Executive Officer | $ 224,353 | $ 13,743 | $ 238,096 |
| Chief Geological Officer | 192,303 | 13,743 | 206,046 |
| Chief Financial Officer | 75,000 | 13,743 | 88,743 |
| Chief Operating Officer | 224,353 | 13,743 | 238,096 |
| Non-executive directors | - | 92,366 | 92,366 |
| | $ 716,009 | $ 147,338 | $ 863,347 |

## 8. LONG-TERM INVESTMENT

Long-term investment is comprised of holdings in publicly traded securities as follows:

| | Fair Value | Cost |
|---|---|---|
| Balance as at September 30, 2021 | $ 625,250 | $ 740,000 |
| Fair market value adjustments | (250,500) | - |
| Balance as at September 30, 2022 | 374,750 | 740,000 |
| Fair market value adjustments | (101,250) | - |
| Balance as at September 30, 2023 | $ 273,500 | $ 740,000 |

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are as follows:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| Trade payables | $ 847,047 | $ 4,541,663 |
| Lease liability | 8,376 | 164,313 |
| | $ 855,423 | $ 4,705,976 |

All accounts payables and accrued liabilities for the Company fall due within the next 12 months.

(Expressed in Canadian Dollars)

## 10. DECOMMISSIONING LIABILITY

Although the ultimate amount of the decommissioning liability is uncertain, the best estimate of these obligations is based on information currently available. Significant closure activities include land rehabilitation, demolition of buildings and other costs. The following table presents the aggregate carrying amount of the obligation associated with the retirement of the mineral property interests.

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| Asset retirement obligation – beginning of year | $ 627,000 | $ 979,000 |
| Change in estimates (Note 5) | (217,955) | 155,843 |
| Incurred | (20,780) | (533,612) |
| Foreign exchange movement | (28,265) | 25,769 |
| Asset retirement obligation – end of year | 360,000 | 627,000 |
| Long-term portion | (257,000) | (599,000) |
| Short-term portion | $ 103,000 | $ 28,000 |

The total amount of estimated undiscounted cash flows required to settled the Company's estimated obligation is $383,398 as at September 30, 2023 (2022 - $698,783), which has been discounted using a credit adjusted rate of 3.70% (2022 – 3.77%) and an inflation rate of 3.94% (2022 – 6.84%). The present value of the decommissioning liabilities may be subject to change based on management's estimates, changes in remediation technology or changes to applicable laws and regulations. The decommissioning liability relates to the Company's Peru properties. The decommissioning liability is expected to be settled at various dates which are currently expected to extend up to 2025 (2022 – 2025).

## 11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Other than disclosed elsewhere in these consolidated financial statements, the significant non-cash transactions for the years ended September 30, 2023 and 2022 included:

a) $534,547 (2022 - $3,848,766) in accounts payable and accrued liabilities related to exploration and evaluation assets.

b) $217,955 (2022 - $155,843) recorded to decommissioning liability.

c) $101,250 decrease (2022 - $250,500 increase) in fair value of long-term investment.

| For the year ended September 30 | 2023 | 2022 |
|---|---|---|
| Cash paid for income taxes | $ - | $ - |
| Cash paid for interest | $ - | $ - |

## 12. SEGMENTED INFORMATION

The Company operates under one segment, that being the exploration and development of exploration and evaluation assets. Geographical information is as follows:

| | Total Assets | Property and Equipment | Exploration and Evaluation Assets | Other Assets |
|---|---|---|---|---|
| September 30, 2023 | | | | |
| Canada | $ 18,752,193 | $ - | $ - | $ 18,752,193 |
| Peru | 52,550,712 | 633,106 | 51,723,583 | 194,023 |
| | $ 71,302,905 | $ 633,106 | $ 51,723,583 | $ 18,946,216 |

(Expressed in Canadian Dollars)

## 12. SEGMENTED INFORMATION (continued)

| | Total Assets | Property and Equipment | Exploration and Evaluation Assets | Other Assets |
|---|---|---|---|---|
| September 30, 2022 | | | | |
| Canada | $ 607,383 | $ - | $ - | $ 607,383 |
| Peru | 56,024,713 | 766,406 | 54,719,458 | 538,849 |
| | $ 56,632,096 | $ 766,406 | $ 54,719,458 | $ 1,146,232 |

| | 2023 | 2022 |
|---|---|---|
| Loss for the year ended September 30 | | |
| Canada | $ 2,544,368 | $ 1,348,884 |
| Peru | 524,527 | 1,386,040 |
| | $ 3,068,895 | $ 2,734,924 |

## 13. FINANCIAL AND CAPITAL RISK MANAGEMENT

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 fair value of the Company's cash and equivalents, receivables, due to/from related parties, loans payable and accounts payable and accrued liabilities approximate carrying value, which is the amount recorded on the consolidated statements of financial position, due to their short-term nature. The Company's other financial instruments, long-term investments, under the fair value hierarchy, are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions in interest-bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of tax credits and advances receivable. The Company does not believe it is subject to significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2023, the Company had a cash and equivalents balance of $18,423,544 to settle current liabilities of $958,423. Management believes that it has sufficient funds to meet its current liabilities as they become due.

## 13. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

*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 and equity prices.

a) Interest rate risk

The Company has cash balances. The interest earned on the cash balances approximates fair value rates, and the Company is not at significant risk to fluctuating interest rates.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in US$, the Chilean peso ("C-Peso") and the Peruvian nuevo sol ("PEN"). A 10% fluctuation in the US$, C-Peso and PEN against the Canadian dollar would affect accumulated other comprehensive loss for the year by approximately $1,800,000.

c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company currently maintains investments in certain publicly listed companies. There can be no assurance that the Company can exit these positions if required resulting in proceeds, which approximate the carrying amount of these investments. A 10% fluctuation in market prices would not have a significant effect on comprehensive (loss) income.

*Capital management*

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 exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of 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. 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 and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

## 14. COMMITMENTS

The Company has entered into lease agreements for its premises in Peru. The annual lease commitments are as follows:

| | | Peru |
|---|---|---|
| 2023 | $ | 13,040 |

(Expressed in Canadian Dollars)

## 15. INCOME TAXES

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

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Loss for the year | $ | (3,068,895) | $ | (2,734,924) |
| Expected income recovery | $ | (829,000) | $ | (739,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | | 3,000 | | (70,000) |
| Permanent difference | | 450,000 | | 404,000 |
| Impact of dissolutions | | - | | - |
| Adjustment to prior years' provision versus statutory returns | | (57,000) | | - |
| Change in unrecognized deductible temporary differences | | 433,000 | | 405,000 |
| | $ | - | $ | - |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

| | | 2022 | Expiry dates | | 2021 | Expiry dates |
|---|---|---|---|---|---|---|
| Temporary differences | | | | | | |
| Property and equipment | $ | 111,000 | No expiry date | $ | 20,000 | No expiry date |
| Exploration and evaluation assets | | 2,292,000 | No expiry date | | 2,642,000 | No expiry date |
| Share issue costs | | 264,000 | 2042 to 2048 | | 371,000 | 2042 to 2044 |
| Marketable securities | | 467,000 | No expiry date | | 365,000 | No expiry date |
| Decommissioning liability | | - | No expiry date | | 19,000 | No expiry date |
| Lease liabilities | | 22,000 | No expiry date | | 181,000 | No expiry date |
| Allowable capital losses | | 25,834,000 | No expiry date | | 25,834,000 | No expiry date |
| Non-capital losses available for future periods | | 37,199,000 | 2026 to 2043, indefinite | | 35,007,000 | 2026 to 2042, indefinite |
| | $ | 66,189,000 | | $ | 64,439,000 | |