



Southern Empire

RESOURCES
CORP.

Audited Annual Consolidated Financial Statements

For the years ended October 31, 2023 & 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Southern Empire Resources Corp.

Opinion

We have audited the accompanying consolidated financial statements of Southern Empire Resources Corp. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2023 and 2022, and the consolidated 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 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 October 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a loss of \$3,971,538 during the year ended October 31, 2023 and, as of that date, the Company had a working capital deficiency of \$477,735. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. 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.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

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 \$11,798,580 as of October 31, 2023. As more fully described in Note 2 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 Assets.

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 and expenditure budgets for future periods.
- Assessing compliance with agreements and expenditure requirements including reviewing option agreements and vouching cash payments and share issuances.
- Assessing the Company's rights to explore E&E Assets including sending confirmation requests to optionors to ensure good standing of agreements.
- Obtaining, on a test basis through government websites, 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 Dylan Connelly.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

February 27, 2024

Southern Empire Resources Corp.
Consolidated Statements of Financial Position

As at October 31

(expressed in Canadian dollars)

	2023	2022
ASSETS		
Current assets		
Cash	\$ 48,551	\$ 43,605
Marketable securities (Note 3)	195,655	2,933,421
Accounts receivable	85,820	55,548
Prepays and advances	42,272	37,536
	372,298	3,070,110
Non-current assets		
Reclamation bonds (Note 5)	87,459	87,459
Equipment (Note 4)	10,064	14,378
Exploration and evaluation assets (Note 5)	11,798,580	12,445,998
Total assets	\$ 12,268,401	\$ 15,617,945
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 850,033	\$ 520,653
Total liabilities	\$ 850,033	\$ 520,653
EQUITY		
Common shares (Note 7)	16,470,202	16,295,202
Contributed surplus (Note 7)	1,291,754	1,174,140
Deficit	(6,343,588)	(2,372,050)
Total equity	11,418,368	15,097,292
Total liabilities and equity	\$ 12,268,401	\$ 15,617,945

Nature of operations (Note 1)

Approved on behalf of the Board on February 27, 2024:

“Alex Heath”
Director

“Dale Wallster”
Director

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

Southern Empire Resources Corp.
Consolidated Statements of Loss and Comprehensive Loss
Years Ended October 31
(expressed in Canadian Dollars)

	2023	2022
Expenses		
Amortization (Note 4)	\$ 4,314	\$ 6,161
Management and consulting fees (Note 6)	505,500	504,000
Business and investor relations	56,175	67,614
General and administration	99,749	87,935
Professional fees	106,931	77,883
Property research	11,362	107,739
Share-based payments (Notes 6 and 7)	117,614	70,878
Transfer agent and listing fees	25,834	35,362
Shareholder communications	16,487	14,893
	943,966	972,465
Other items		
Unrealized loss on marketable securities (Note 3)	(1,578,692)	(439,937)
Realized gain on sale of marketable securities (Note 3)	650,598	703,096
Impairment of exploration and evaluation assets (Note 5)	(2,099,478)	-
Loss and comprehensive loss	\$ (3,971,538)	\$ (709,306)
Basic and diluted loss per share (Note 7)	\$ (0.06)	\$ (0.01)
Weighted average number of common shares outstanding (Note 7):		
Basic	66,557,732	61,547,622
Diluted	66,557,732	61,547,622

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

Southern Empire Resources Corp.
Consolidated Statements of Changes in Equity
(expressed in Canadian Dollars)

	Attributable to the common shareholders				
	Number of shares	Amount	Contributed Surplus	Deficit	Total Equity
Balance, October 31, 2021	50,906,800	\$ 14,850,332	\$ 1,117,442	\$ (1,662,744)	\$ 14,305,030
Shares issued	10,000,000	1,000,000	-	-	1,000,000
Cash issue costs	-	(15,345)	-	-	(15,345)
Warrants exercised	1,566,000	234,535	-	-	234,535
Stock options exercised	200,000	36,180	(14,180)	-	22,000
Share-based payments	-	-	70,878	-	70,878
Shares issued for property acquisition	2,600,000	189,500	-	-	189,500
Loss	-	-	-	(709,306)	(709,306)
Balance, October 31, 2022	65,272,800	\$ 16,295,202	\$ 1,174,140	\$ (2,372,050)	\$ 15,097,292
	Number of shares	Amount	Contributed Surplus	Deficit	Total Equity
Balance, October 31, 2022	65,272,800	\$ 16,295,202	\$ 1,174,140	\$ (2,372,050)	\$ 15,097,292
Shares issued for property acquisition	1,750,000	175,000	-	-	175,000
Share-based payments	-	-	117,614	-	117,614
Loss	-	-	-	(3,971,538)	(3,971,538)
Balance, October 31, 2023	67,022,800	\$ 16,470,202	\$ 1,291,754	\$ (6,343,588)	\$ 11,418,368

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

Southern Empire Resources Corp.
Consolidated Statements of Cash Flows
Years Ended October 31
(expressed in Canadian Dollars)

	2023	2022
Cash flows from Operating Activities		
Loss	\$ (3,971,538)	\$ (709,306)
Items not affecting cash		
Realized gain on sale of marketable securities	(650,598)	(703,096)
Unrealized loss on marketable securities	1,578,692	439,937
Amortization	4,314	6,161
Share based payments	117,614	70,878
Impairment of exploration and evaluation assets (Note 5)	2,099,478	
Net changes in non-cash working capital items		
Accounts receivable, prepaids and advances	(35,008)	2,354
Accounts payable and accrued liabilities	337,222	50,399
	(519,824)	(842,673)
Cash flows from Investing Activities		
Sale of marketable securities	1,809,672	1,351,552
Increase in exploration and evaluation assets	(1,284,902)	(1,735,784)
	524,770	(384,232)
Cash flows from Financing Activities		
Issuance of common shares, net of share issue costs	-	984,655
Proceeds from warrant exercise	-	234,535
Proceeds from option exercise	-	22,000
	-	1,241,190
Net change in cash during the year	4,946	14,285
Cash, beginning of year	43,605	29,320
Cash, end of year	\$ 48,551	\$ 43,605

Supplemental cash flow information (Note 11)

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

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Southern Empire Resources Corp. (“Southern Empire”, the “Company” or the “Corporation”) is focused on the acquisition, exploration and evaluation of metals and minerals resource properties.

Southern Empire’s head office is at Suite 420 – 789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

As of October 31, 2023, Southern Empire’s exploration and development projects included the Oro Cruz Project in California, U.S.A, as well as the Pedro Gold Project, VLM Project, Centauro and La Loma Projects in Mexico.

Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operation. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. The use of these principles may not be appropriate.

To date, the Corporation has not earned significant revenue and is considered to be in the exploration and evaluation stage.

The investment in, and expenditures on, exploration and evaluation assets comprise a significant portion of the Corporation’s assets. Mineral exploration and development is highly speculative and involves inherent risks. Realization of the Corporation’s investment in these assets is dependent upon the renewed legal ownership of the claims and whether an economically viable operation can be established.

In addition, it has not yet been determined whether the Corporation’s properties contain ore reserves that are economically recoverable. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines.

As at October 31, 2023, the Corporation’s current cash resources are insufficient to cover the expected expenditures in fiscal 2024. The Corporation’s ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurances that management will be successful in securing adequate financing.

The Corporation reported losses in fiscal 2023 and 2022 of \$3,971,538 and \$709,306 respectively, has an accumulated deficit of \$6,343,588 (2022 - \$2,372,050) and has working capital deficiency of \$477,735 (2022 – working capital of \$2,549,457). These circumstances and the need for continued financing to further successful exploration may cast significant doubt as to the Corporation’s ability to continue as a going concern.

The significant accounting policies used in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the periods presented.

These financial statements do not include any adjustments to the carrying values of assets and liabilities that might be necessary if the Corporation is unable to continue as a going concern. Such adjustments could be material.

These annual consolidated financial statements are prepared on the basis that Southern Empire will continue as a going concern, which assumes the ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities and commitments in the normal course of operations.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Subsidiaries are entities controlled by the Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of Southern Empire and its wholly owned subsidiary, SMP Gold Corp., a company incorporated in Nevada, USA. All inter-company transactions and balances were eliminated in preparing these financial statements. The accounting policies of subsidiaries are changed if necessary to align them with the policies adopted by Southern Empire.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value and are prepared and presented in Canadian dollars, which is the Corporation's functional currency. In addition, these consolidated financial statements are based on the accrual method of accounting, with the exception of cash flow information.

Exploration and evaluation assets

Pre-license costs

Pre-license costs are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as an exploration expense.

Exploration and evaluation ("E&E") costs

Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs include land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, completing prefeasibility and feasibility studies and directly attributable internal costs. E&E costs are not depleted or amortized and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of a mineral resource is considered to be established when proved and/or probable reserves are determined to exist. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to development and production assets within property, plant and equipment, net of any impairment and amortization.

Impairment of non-financial assets

The carrying amounts of the Corporation's non-current assets are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future exploitation or sale. Such circumstances include the existence of specific rights to explore in a specific area, actual and planned expenditures, results of exploration, and whether an economically-viable operation can be established. An impairment loss is recognized for the amount by which any exploration and evaluation asset exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation asset's fair value less costs to sell and value in use. Management's judgment is applied in determining the lowest levels of exploration and evaluation assets grouping, for which there are separately identifiable cash flows (cash generating units), generally on the basis of areas of geological interest. Estimates and assumptions made may change if new information becomes available. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Corporation has determined that geological areas within each claim group of a property are the CGUs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset (or CGU). A reversal of an impairment loss is recognized immediately in the statement of loss and comprehensive loss.

Income Taxes

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income 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 income 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 income 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 income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority for the same taxable entity. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

Share capital

Southern Empire records proceeds from share issuances, net of issue costs. Common shares issued for consideration other than cash are recorded based on their market value at the date the shares are issued.

Proceeds received on the issuance of units, consisting of common shares and warrants are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Share-based payments

Options and warrants granted to employees and others providing similar services are accounted for using the fair value method. Under this method, the fair value of stock options and warrants granted are measured at estimated fair value at the grant date and recognized over the vesting period on a graded basis. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

Options and warrants granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. The Corporation uses the Black-Scholes option pricing model to determine the fair value of these incentives taking into consideration terms and conditions upon which the options were granted. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest, if applicable.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

Options and warrants granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Loss per share

The Corporation presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Corporation. In years where a loss is reported, diluted loss per share is the same as basic loss per share because the effects of potentially dilutive common shares would be anti-dilutive.

Financial instruments

Financial assets

Southern Empire recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial assets, is to hold the assets to collect contractual cash flows.
- 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 amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary. Southern Empire's cash and reclamation bonds are classified as amortized cost.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

Financial assets measured at fair value through profit or loss (“FVTPL”)

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company’s marketable securities are classified as FVTPL.

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Warrants are classified as derivative financial assets and are recorded at FVTPL. Warrants without an active market are initially recorded at their fair value determined using the Black-Scholes model. Subsequent value is determined at the measurement date using the Black-Scholes option pricing model, or when the valuation technique input variables are not reliable, using the intrinsic value, which is equal to the higher of the market value of the underlying security, less the exercise price of the warrant, or zero.

Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable. The Company’s financial liabilities include accounts payable and accrued liabilities, which are classified as financial liabilities subsequently measured at amortized cost.

Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

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

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

Southern Empire’s financial instruments classified as Level 1 in the fair value hierarchy are marketable securities.

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

Impairment of financial assets

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Provision for environmental rehabilitation

The Corporation recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Corporation'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 the related assets with a corresponding entry to the rehabilitation provision.

As at October 31, 2023 and 2022, the Corporation does not have any known rehabilitation obligations.

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the statement of financial position date, which 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:

Critical accounting estimates

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

- Share-based payments

The Black-Scholes fair value option pricing model requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and requires judgment in making these estimates. Annualized volatility is based on volatility measures of the Company's and comparable peer companies, historical prices.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

- Non-cash transactions

The valuation of shares issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

Critical accounting judgments

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

- Going concern

The preparation of these consolidated financial statements requires the Company to make judgments regarding the going concern of the Company as discussed in Note 1.

- Exploration and evaluation interests

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral property interests. Management uses several criteria in its assessments of potential impairment indicators including the probability of future economic benefit, including geological, engineering and metallurgical information, economics assessment/studies, accessible facilities, existing permits, and ability to continue development. Management determined that there are no indicators of impairment on its exploration and evaluation interests, other than the impairment recorded on the Eastgate property (Note 5).

New Standards and Interpretations Adopted

Certain new accounting standards and interpretations have been issued but were not effective for the year ended October 31, 2023. The Company has not early adopted any new standards. The Company is currently assessing the new and amended standards' impact on its consolidated financial statements; however, they are not expected to have a material impact on the Company's current or future reporting periods.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statements of financial position and not the amount or timing of recognition of any asset, liability, income, or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

2. Significant accounting policies (continued)

Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies

The amendments change 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 policy information’. Accounting policy information is 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 general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB’s amendments also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

3. MARKETABLE SECURITIES

As at October 31, 2023 and October 31, 2022, Southern Empire’s investments consisted of equity interests in companies involved with gold exploration and development:

	October 31, 2023		October 31, 2022	
	Cost	FMV	Cost	FMV
Shares - Augusta Gold Corp.	\$ 179,476	\$ 192,205	\$1,327,443	\$ 2,924,221
Shares - Lincoln Gold Corp.	\$ 25,300	\$ 3,450	\$ 25,300	\$ 9,200
	\$ 204,776	\$ 195,655	\$1,352,743	\$ 2,933,421

The Company acquired no additional marketable securities during the year ended October 31, 2023.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

4. EQUIPMENT

	Computers and equipment	
Cost:		
Balance at October 31, 2022 and 2023		33,534
Accumulated amortization:		
Balance at October 31, 2021	\$	12,995
Amortization expense		6,161
Balance at October 31, 2022		19,156
Amortization expense		4,314
Balance at October 31, 2023		23,470
Total balance at October 31, 2022	\$	14,378
Total balance at October 31, 2023	\$	10,064

5. EXPLORATION AND EVALUATION ASSETS

Southern Empire classifies its exploration and evaluation gold properties into three geographical regions, namely California, Nevada and Mexico. The following is a summary of the properties:

	Oro Cruz California	Eastgate Nevada	Pedro Mexico	VLM Mexico	Centauro Mexico	La Loma Mexico	Total
October 31, 2021	\$ 8,553,477	\$ 2,070,891	\$ 2,372	\$ -	\$ -	\$ -	\$10,626,740
Acquisition and renewal	123,094	-	39,500	80,948	-	-	243,542
Property maintenance	211,444	24,823	24,708	4,474	14,016	19,293	298,758
Geology & geophysics	9,641	-	66,388	2,315	26,525	28,763	133,632
Drilling & assay	1,270	-	386,207	-	-	-	387,477
Camp & fieldwork	126,257	261	29,399	503	-	-	156,420
Environmental & permitting	599,106	-	259	-	-	64	599,429
October 31, 2022	\$ 9,624,289	\$ 2,095,975	\$ 548,833	\$88,240	\$ 40,541	\$48,120	\$12,445,998
Acquisition and renewal	-	-	125,000	96,004	67,607	949	289,560
Property maintenance	182,319	2,755	59,104	12,352	103,031	3,883	363,444
Geology & geophysics	2,527	-	13,430	6,250	102,145	13,822	138,174
Drilling & assay	-	-	-	-	2,137	-	2,137
Camp & fieldwork	5,984	748	4,838	123	61,309	3,572	76,574
Environmental & permitting	576,000	-	-	-	6,171	-	582,171
Impairment	-	(2,099,478)	-	-	-	-	(2,099,478)
October 31, 2023	\$ 10,391,119	\$ -	\$ 751,205	\$202,969	\$382,941	\$70,346	\$11,798,580

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Oro Cruz Project, California, U.S.A.

Lincoln Gold US Corp. Option Agreements

Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Project, located in Imperial County, California. On June 22, 2020, Southern Empire entered into another option agreement to acquire the remaining 25% of the Oro Cruz Project from Ronald K. Netolitzky (“Netolitzky”), a director of Southern Empire, bringing its total potential interest to 100%. The Oro Cruz Project option agreements are summarized as follows:

Southern Empire has an option agreement with Lincoln Gold US Corp. (“Lincoln”) to acquire a total of a 75% interest in the Oro Cruz Project from Lincoln. The pertinent business terms of this option agreement are:

Cash payments to Lincoln:

- US\$ 10,000 initial payment (paid)
- US\$ 25,000 paid on or before February 15, 2020 (paid)
- US\$ 25,000 paid on or before February 15, 2021 (paid)
- US\$ 25,000 paid on or before February 15, 2022 (paid)*
- US\$ 25,000 paid on or before February 15, 2023 (paid)*

* Southern Empire settled the final two payments for a one-time payment of US\$41,000 pursuant to a settlement agreement dated April 7, 2021.

Cash payments to ADGIS, Inc. (“ADGIS”) who granted an underlying option (the “Hercules Claims”) to Lincoln:

- US\$ 50,000 by May 15, 2019 (paid)
- US\$ 50,000 by April 15, 2020 (paid)
- US\$ 100,000 by April 15, 2021 (paid)
- US\$ 100,000 by April 15, 2022 (paid)
- US\$ 100,000 by April 15, 2023 (paid)

Exploration expenditures:

- US\$ 200,000 exploration expenditures acknowledged as incurred to October 1, 2019 (incurred)
- US\$ 400,000 cumulative exploration expenditures to be incurred before October 1, 2020 (incurred)
- US\$ 700,000 cumulative exploration expenditures to be incurred before October 1, 2021 (incurred)
- US\$ 1,000,000 cumulative exploration expenditures to be incurred before October 1, 2022 (incurred)
- US\$ 1,600,000 cumulative exploration expenditures to be incurred before October 1, 2023 (incurred)

Royalties:

- 2% Net Smelter Return Royalty (“NSR”) from production within the Hercules Claims boundary (the “Hercules Royalty”)
- 1% NSR on production within a 1-mile radius of the Hercules Claims boundary (“Radius Royalty”)
- Southern Empire can reduce the Hercules Royalty by 0.5% and the Radius Royalty by 0.5% collectively with a cash payment of US\$500,000 to ADGIS.
- Southern Empire can reduce the Hercules Royalty by an additional 0.5% with an additional payment of US\$500,000 to ADGIS.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Ronald K. Netolitzky Option Agreement

On June 22, 2020, Southern Empire entered into an option agreement with Netolitzky to acquire, at cost, the remaining 25% of the Oro Cruz Project in exchange for cash payments of \$440,000. On September 15, 2022, Southern Empire exercised its option and acquired the 25% interest from Netolitzky. Option payments paid were as follows:

- \$ 140,000 on TSX Venture Exchange approval (paid)
- \$ 100,000 on or before the first anniversary date, August 4, 2021 (paid)
- \$ 100,000 on or before the second anniversary date, August 4, 2022 (see amendment below)
- \$ 100,000 on or before the third anniversary date, August 4, 2023 (see amendment below)

During the year ended October 31, 2022, Southern Empire entered into an Amendment Agreement with Netolitzky, the chairman and a director of the Company, to amend the terms of June 22, 2020 option agreement that granted Southern Empire the option to acquire 25% of the Oro Cruz property in exchange for cash payments of \$440,000. Option payments totaling \$240,000 had been paid to Netolitzky. The terms of the Amendment Agreement allowed Southern Empire to exercise its option to acquire the 25% interest in Oro Cruz by issuing 2,000,000 common shares to Netolitzky in lieu of the final two option payments otherwise totaling \$200,000. On September 15, 2022, the Amendment Agreement and the transactions contemplated therein were accepted for filing by the Exchange and Southern Empire issued the 2,000,000 common shares (at a value of \$120,000) which were subject to restriction on resale for a period of four months from their date of issuance.

Oro Cruz - American Girl Mine Property

On September 14, 2020, Southern Empire executed a Purchase and Sale Agreement (the "PSA") to acquire, at cost, the American Girl Mine Property from Mackenzie Corporation, a company controlled by the President and CEO of Southern Empire. In accordance with the terms of the PSA, Southern Empire acquired a 100% interest in seven privately owned, patented mining claims and 10 Bureau of Land Management claims covering the former American Girl mine by paying a total of US\$330,000 to Mackenzie Corporation.

Eastgate Gold Project, Nevada, U.S.A.

Southern Empire acquired an 85% interest in the Eastgate Gold Project, located in Churchill County, Nevada. The Eastgate Gold Project is subject to a 3% Net Smelter Royalty payable to Blue Ridge Gold LLC, a privately held company that was the original property vendor. During the year ended October 31, 2023, Southern Empire determined that the value of Eastgate would be adjusted to \$nil as a result of there being no current or planned exploration activities and negative drilling results. This required an impairment expense of \$2,099,478.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Pedro Gold Project, Durango, México

On July 23, 2021, Southern Empire entered into an option agreement with Commander Resources Ltd. (“Commander”) which allows Southern Empire to acquire a 100% beneficial interest in the Pedro Gold Project in northeastern Durango State, Mexico. Pursuant to the terms of the option agreement, to earn its interest Southern Empire must complete the following:

- \$25,000 cash payment and the issuance of 100,000 common shares of Southern Empire on the Execution Date (paid and issued at a value of \$14,500).
- On or before February 3, 2023, pay an additional \$125,000 or issuing such amount of common shares having a value of \$125,000 (paid \$25,000 cash and issued 1,000,000 shares at a value of \$100,000).
- On or before February 3, 2024, pay an additional \$250,000 or issuing such amount of common shares having a value of \$250,000*.
- On or before February 3, 2025, pay an additional \$300,000 or issuing such amount of common shares having a value of \$300,000.
- Incurring exploration expenditures totaling \$1,500,000 as follows:
 - o \$ 400,000 by February 3, 2023 (incurred).
 - o \$ 1,100,000 by February 3, 2025.

Commander will retain a 2% NSR interest on future production from the Pedro Gold Project. The Exchange accepted the Pedro Gold Project option agreement for filing on February 3, 2022 (the “Execution Date”). *

*Southern Empire is currently negotiating an extension to the agreement terms for the payments and share issuances due in 2024 and 2025 on the Pedro Gold Project.

VLM Project, México

On December 24, 2021 (amended on January 11, 2024), Southern Empire entered into an option agreement with Riverside Resources Inc. (“Riverside”) that grants Southern Empire the opportunity to acquire a 100% interest in the VLM Project located in northwestern México.

Southern Empire may exercise its option to acquire a 100% interest in the VLM Project by:

- paying to Riverside a total of \$112,500 as follows:
 - o \$25,000 on signing (paid).
 - o an additional \$37,500 on or before January 12, 2023 (paid).
 - o an additional \$50,000 on or before March 30, 2024.
- issuing a total of 1,625,000 common shares as follows;
 - o 500,000 common shares on or before January 12, 2022 (issued at a value of \$55,000).
 - o An additional 550,000 common shares on or before January 12, 2023 (issued at a value of \$55,000).
 - o an additional 575,000 common shares on or before February 2, 2024 (issued subsequent to year-end).

Riverside will retain a NSR interest on future production from the VLM Project of 2.5% on precious metals and 1.75% on base metals. These royalties may be reduced to 1% on precious metal production and 0.5% on base metal production by payments of an additional \$4,000,000 within 10 years of the Exchange filing acceptance date.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Centauro, Mexico

During the year ended October 31, 2022, Southern Empire acquired the option to earn 100% of the Centauro Gold Project located in Chihuahua, Mexico, from a Mexican vendor by way of an amending agreement with Commander, subject to a 3% NSR payable to the vendor, which can be reduced by 2% in exchange for a cash payment of US\$2,000,000. The terms of the Option Agreement are as follows:

Southern Empire may exercise its option to acquire a 100% interest in the Centauro Gold Project by:

- paying to the Mexican Vendor a total of USD\$750,000 as follows:
 - o US\$35,000 on signing (paid).
 - o an additional US\$40,000 on the one-year anniversary of signing*.
 - o an additional US\$80,000 on the two-year anniversary of signing.
 - o an additional US\$295,000 on the three-year anniversary of signing.
 - o an additional US\$300,000 on the four-year anniversary of signing.
- incurring US\$800,000 of exploration expenditures as follows:
 - o \$100,000 in year-one of the option (incurred).
 - o an additional US\$200,000 in year-two of the option.
 - o an additional US\$250,000 in year-three of the option.
 - o an additional US\$250,000 in year-four of the option.
- issuing 1,500,000 common shares of Southern Empire to Commander as follows:
 - o 200,000 on signing (issued at a value of \$20,000).
 - o an additional 200,000 on the one-year anniversary of signing*.
 - o an additional 200,000 on the two-year anniversary of signing.
 - o an additional 400,000 on the three-year anniversary of signing.
 - o an additional 500,000 on the four-year anniversary of signing.

*Southern Empire is currently negotiating an extension to the agreement terms for the payments and share issuances due in 2024 and 2025 on the Centauro Gold Project.

La Loma, Mexico

During the year ended October 31, 2022, Southern Empire acquired the La Loma Gold Project in Chihuahua, Mexico by staking.

Reclamation bonds

Southern Empire holds a \$79,755 (2022 - \$79,755) reclamation bond with the Bureau of Land Management with respect to its California properties and a \$7,704 (2022 - \$7,704) reclamation bond with the Bureau of Land Management with respect to its Nevada properties.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

6. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of Southern Empire. Key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of key management personnel are as follows:

For the years ended October 31,	2023	2022
Management fees to officers	\$ 396,000	\$ 396,000
Share-based payments	91,886	49,618
Total	\$ 487,886	\$ 445,618

As at October 31, 2023, \$321,240 (October 31, 2022 - \$192,253) was included in accounts payable owing to directors, officers, and companies controlled or affiliated with directors and officers of Southern Empire in relation to fees and reimbursement of expenses.

7. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.
Unlimited preferred shares issuable in series.
- b) Issued and outstanding: 67,022,800 common shares as at October 31, 2023
- c) Transactions:

On November 29, 2021, Southern Empire issued 10,000,000 units at a price of \$0.10 per unit, with each unit comprising one common share and one common share purchase warrant, for gross proceeds of \$1,000,000. Each warrant is exercisable for a period of three years from issuance at a price of \$0.15 per warrant. The Company incurred \$15,345 of share issue costs in connection with the financing.

On January 12, 2022, Southern Empire issued 500,000 common shares (at a value of \$55,000) to Riverside, in accordance with the option agreement on the VLM Project (Note 5).

On February 3, 2022, Southern Empire issued 100,000 common shares (at a value of \$14,500) to Commander Resources Ltd., in accordance with the option agreement on the Pedro Project (Note 5).

On February 15, 2022, 1,170,000 share purchase warrants were exercised at a price of \$0.15 per share.

On February 15, 2022, 100,000 stock options were exercised at a price of \$0.11 per share. Southern Empire transferred \$7,090 of contributed surplus to share capital pursuant to the option exercise.

On March 24, 2022, 100,000 stock options were exercised at a price of \$0.11 per share. The Company transferred \$7,090 of contributed surplus to share capital pursuant to the option exercise.

On March 30, 2022, 396,000 share purchase warrants were exercised at a price of \$0.15 per share.

On September 15, 2022, Southern Empire issued 2,000,000 common shares (at a value of \$120,000) to Netolitzky, in accordance with the amendment agreement regarding the Oro Cruz property (Note 5).

On January 11, 2023, Southern Empire issued 550,000 common shares (at a value of \$55,000) to Riverside, in accordance with the option agreement on the VLM Project (Note 5).

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

On February 16, 2023, Southern Empire issued 200,000 common shares (at a value of \$20,000) to Jesus Pascoe, in accordance with the option agreement on the Centauro Property (Note 5).

On February 22, 2023, Southern Empire issued 1,000,000 common shares (at a value of \$100,000) to Commander Resources Ltd., in accordance with the option agreement on the Pedro Project (Note 5).

d) Escrowed shares:

As at October 31, 2023, there were nil (2022 - 4,447,031) common shares held in escrow.

e) Stock options:

The Directors of Southern Empire adopted a stock option plan on March 13, 2020, as amended on July 26, 2022 (the "Option Plan"). The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of Southern Empires' common shares issued and outstanding at the time such options are granted. Options to purchase common shares of the Company ("Options") may be granted under the Option Plan to such directors, officers, employees, management or consultants of Southern Empire and its affiliates, if any, as the Board of Directors may from time to time designate. The Option Plan provides that the number of common shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued common shares, if the individual is a director, officer or employee 2% of the issued common shares, if the individual is a consultant or is engaged in providing investor relations services, in a twelve month basis, unless disinterested shareholder approval is obtained. All options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause; or (iii) one year from the date of death or disability.

During the year ended October 31, 2022, Southern Empire granted 1,000,000 Options exercisable at a price of \$0.11 per option for a term of five years from the date of issuance to director, officers and consultants of Southern Empire. These options vested immediately and during the year the Company recorded \$70,878 of share-based payments. During the year ended October 31, 2022, 200,000 of these options were exercised for cash proceeds of \$22,000.

During the year ended October 31, 2023, Southern Empire granted 1,740,000 Options exercisable at a price of \$0.07, 400,000 Options exercisable at a price of \$0.30 and 100,000 Options exercisable at a price of \$0.11. These options have a term of five years and vested immediately upon grant. The Company recorded \$117,614 of share-based payments in respect of these options.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

The following weighted average assumptions were used for the valuation of stock options:

	October 31, 2023	October 31, 2022
Risk-free interest rate	4.02%	1.69%
Expected life of options	5 years	5 years
Annualized volatility	106%	80%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%
Weighted average fair value per option	\$0.05	\$0.07

The changes in the stock options for the year ended October 31, 2023 are as follows:

	Number	Weighted Average Exercise Price
Balance, October 31, 2021	5,100,000	\$ 0.30
Granted	1,000,000	\$ 0.11
Cancelled	(400,000)	\$ 0.30
Exercised	(200,000)	\$ 0.11
Balance, October 31, 2022	5,500,000	\$ 0.27
Granted	2,240,000	\$ 0.11
Balance, October 31, 2023	7,740,000	\$ 0.23

The balance of options outstanding as at October 31, 2023 is as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Life - Years
March 18, 2025	3,470,000	3,470,000	\$0.30	1.38
February 16, 2026	730,000	730,000	\$0.30	2.30
March 11, 2026	100,000	100,000	\$0.30	2.36
June 10, 2026	400,000	400,000	\$0.30	2.61
January 18, 2027	700,000	700,000	\$0.11	3.22
February 2, 2027	100,000	100,000	\$0.11	3.26
August 28, 2028	1,740,000	1,740,000	\$0.07	4.83
August 28, 2028	400,000	400,000	\$0.30	4.83
August 28, 2028	100,000	100,000	\$0.11	4.83

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

f) Warrants

A summary of the outstanding and exercisable common share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, October 31, 2021 & 2022	-	\$ -
Issued	10,000,000	0.15
Exercised	(1,566,000)	0.15
Balance, October 31, 2022 & October 31, 2023	8,434,000	\$ 0.15

The balance of warrants outstanding as at October 31, 2023 is as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Life - Years
November 29, 2024	8,434,000	8,434,000	\$0.15	1.08

g) Per share amounts

For the year ended October 31,	2023	2022
Loss attributable to common shareholders	\$ (3,971,538)	(\$709,306)
Weighted average number of common shares - basic	66,557,732	61,547,622
Weighted average number of common shares - diluted	66,557,732	61,547,622
Loss per common share - basic	\$ (0.06)	(\$0.01)
Loss per common share - diluted	\$ (0.06)	(\$0.01)

All stock options and warrants were excluded from the diluted weighted average number of shares calculation for the years ended October 31, 2023 and 2022, as their effect would have been anti-dilutive.

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

8. INCOME TAXES

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory tax rate to the amounts recognized in the statements of profit or loss for the years ended October 31, 2023 and 2022:

	2023	2022
Statutory tax rate	27.00%	27.00%
Loss for the year before income taxes	\$(3,971,538)	\$(709,306)
Expected income tax expense (recovery)	(1,072,000)	(192,000)
Change in statutory, foreign tax, foreign exchange rates and other	(3,000)	4,000
Permanent differences	239,000	(21,000)
Share issue costs	-	(4,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(25,000)	-
Change in unrecognized deductible temporary differences	861,000	213,000
Total income tax expense (recovery)	\$ -	\$ -

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

	2023 \$	Expiry Date Range	2022 \$	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	2,099,000	No expiry date	-	No expiry date
Equipment	48,000	No expiry date	19,000	No expiry date
Share issue costs	114,000	2042 to 2045	207,000	2041 to 2044
Marketable securities	33,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	3,713,000	2037 to 2043	2,133,000	2037 to 2042
Canada	3,713,000	2037 to 2043	2,133,000	2037 to 2042

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

9. CAPITAL MANAGEMENT

Southern Empire includes equity in the definition of capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of Southern Empire's management to sustain future development of business.

Southern Empires properties are in the exploration stage. As such, the Company is dependent upon external financings to fund activities. In order to perform planned exploration and pay for administrative costs, Southern Empire will spend its working capital and raise additional funds as needed. Southern Empire will continue to assess new project opportunities and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes to the Company's approach to capital management during the years ended October 31, 2023 and 2022. Southern Empire is not subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosure purposes, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as in prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table are financial assets measured at fair value by level within the fair value hierarchy:

October 31, 2023	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities	\$ 195,655	\$ -	\$ -	\$ 195,655

October 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities	\$ 2,933,421	\$ -	\$ -	\$ 2,933,421

Southern Empire holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to concentration risk, credit risk, currency risk, price risk, commodity price risk and liquidity risk. Southern Empire manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- a) Concentration risk – as at October 31, 2023, all of Southern Empire's cash is held at one Canadian

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2023 and 2022
(expressed in Canadian dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

national financial institution. As a result, the Company was exposed to all of the risks associated with those institutions. Concentration risk also exists in marketable securities because Southern Empire's investment portfolio primarily consists of the securities of one issuer.

- b) Credit risk – Southern Empire is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in financial loss to the Company. The Company manages exposure to credit risk by adopting credit risk guidelines that limit transactions according to counterparty credit worthiness. The maximum exposure associated with accounts receivable is the carrying value.
- c) Currency risk – Relates to Southern Empire's operations in the United States and is subject to fluctuations in exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. A 10% change in the USD/CAD exchange rate would result in a \$16,500 change to profit or loss.
- d) Price risk – Southern Empire's marketable securities designated as FVTPL are publicly traded. A 10% change in the quoted share price would increase or decrease the fair value of the marketable securities by approximately \$19,500. Changes are recorded through profit or loss.
- e) Commodity price risk – The value of Southern Empire's exploration and evaluation assets is related to the price of commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.
- f) Liquidity risk – Currently, Southern Empire's capital is insufficient to meet business requirements in the next 12 months when taking into account cash flows from operations and the Company's holdings of cash and marketable securities (Note 1). Future operations or exploration programs may require additional financing primarily through equity markets, or through joint venture partnerships.

11. SUPPLEMENTAL CASH FLOW INFORMATION

<u>Non-cash transactions for the years ended October 31,</u>	<u>2023</u>	<u>2022</u>
Properties acquired for common shares	\$ 175,000	\$ 189,500
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 297,100	\$ 304,942

Southern Empire paid no cash for interest or income taxes in all years presented.