

TOTEC RESOURCES LTD.

(A Capital Pool Company)

FINANCIAL STATEMENTS

March 31, 2023

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Totec Resources Ltd.

Opinion

We have audited the accompanying financial statements of Totec Resources Ltd. (the "Company"), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year ended March 31, 2023 and the period from incorporation on January 25, 2022 to March 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2023 and 2022, and its financial performance and its cash flows for the year ended March 31, 2023, and the period from incorporation on January 25, 2022 to March 31, 2022, 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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 financial statements, which indicates that the Company has an accumulated deficit of \$96,371 and will require additional financing to complete its long-term strategic objectives. 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our auditor's report.



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

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

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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

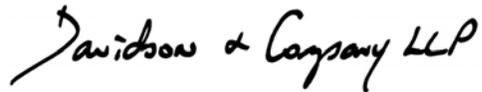
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

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

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

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 period 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 Peter Maloff.

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

July 31, 2023

TOTEC RESOURCES LTD.
Statement of Financial Position
As at March 31, 2023
(Expressed in Canadian dollars)

| | March 31, 2023 | March 31, 2022 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 353,879 | \$ 129,931 |
| Receivables | 5,051 | - |
| | <u>\$ 358,930</u> | <u>\$ 129,931</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 66,006 | \$ 16,774 |
| Shareholders' equity | | |
| Share capital (Note 6) | 351,604 | 130,000 |
| Reserves (Note 6d) | 37,691 | - |
| Deficit | <u>(96,371)</u> | <u>(16,843)</u> |
| | <u>292,924</u> | <u>113,157</u> |
| | <u>\$ 358,930</u> | <u>\$ 129,931</u> |

Nature of business and continuing operations (Note 1)

Approved on Behalf of the Board on July 31, 2023:

Deepak Varshney, Director

James Walker, Director

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

TOTEC RESOURCES LTD.

Statement of Loss and Comprehensive Loss

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

| | Year ended March 31, 2023 | Period from incorporation on January 25, 2022 to March 31, 2022 |
|---|------------------------------|--|
| EXPENSES | | |
| Office and miscellaneous | \$ 1,609 | \$ 74 |
| Professional fees (Notes 5, 8) | 51,174 | 11,028 |
| Consulting fees | 1,897 | - |
| Regulatory and filing fees | 13,087 | 5,741 |
| Share-based payments (Note 6d) | 11,761 | - |
| Loss and comprehensive loss for the period | \$ 79,528 | \$ 16,843 |
| | | |
| Basic and diluted loss per common share | \$ 0.39 | \$ 0.42 |
| | | |
| Weighted average number of common shares outstanding - basic and diluted | 206,499 | 40,000 |

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

TOTEC RESOURCES LTD.

Statement of Changes in Shareholders' Equity

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

| | Share Capital (Note 6) | | Reserves | Deficit | Total Shareholders' Equity |
|---|---------------------------|------------|-----------|-------------|----------------------------------|
| | Shares | Amount | | | |
| Incorporation, January 25, 2022 | - | \$ - | \$ - | \$ - | \$ - |
| Private placement (Note 6b) | 2,600,000 | 130,000 | - | - | 130,000 |
| Loss and comprehensive loss for the period | - | - | - | (16,843) | (16,843) |
| Balance, March 31, 2022 | 2,600,000 | \$ 130,000 | \$ - | \$ (16,843) | \$ 113,157 |
| Private Placement (Note 6b) | 100,000 | 5,000 | - | - | 5,000 |
| Share-based payments (Note 6d) | - | - | 11,761 | - | 11,761 |
| Initial Public Offering, net of issuance cost (Note 6b) | 3,426,000 | 216,604 | 25,930 | - | 242,534 |
| Loss and comprehensive loss for the year | - | - | - | (79,528) | (79,528) |
| Balance, March 31, 2023 | 6,126,000 | \$ 351,604 | \$ 37,691 | \$ (96,371) | \$ 292,924 |

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

TOTEC RESOURCES LTD.

Statement of Cash Flows

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

| | Year ended March 31, 2023 | Period from incorporation on January 25, 2022 to March 31, 2022 |
|---|------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss and comprehensive loss for the period | \$ (79,528) | \$ (16,843) |
| Adjustment for item not involving cash: | | |
| Share-based payments | 11,761 | - |
| Changes in non-cash working capital items: | | |
| (Increase) decrease in accounts receivable | (5,051) | - |
| Increase in accounts payable and accruals | 49,232 | 16,774 |
| Net cash used in operating activities | <u>(23,586)</u> | <u>(69)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the issuance of share capital | <u>247,534</u> | <u>130,000</u> |
| Increase in cash for the period | 223,948 | 129,931 |
| Cash, beginning of the period | <u>129,931</u> | - |
| Cash, end of the period | \$ 353,879 | \$ 129,931 |
| Cash paid during the period for interest | \$ - | \$ - |
| Cash paid during the period for income taxes | \$ - | \$ - |

Supplemental information:

Significant non-cash transactions for the year ended March 31, 2023 included the agents options valued at \$25,930 recorded as shares issue costs.

There were no significant non-cash transactions during the period ended March 31, 2022.

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

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

1. NATURE OF BUSINESS AND CONTINUING OPERATIONS

TOTEC RESOURCES LTD. (the "Company") was incorporated on January 25, 2022 under the laws of British Columbia. The Company was classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange ("Exchange") Policy 2.4 on March 10, 2023. The head office and registered records office is located at Bentall 5, 550 Burrard Street, Suite 1008, Vancouver, BC, V6C 2B5.

On March 10, 2023, the Company completed its initial public offering (the "Offering") and issued 3,426,000 common shares for gross proceeds of \$342,600 pursuant to the Offering. The common shares commenced trading on the Exchange on March 14, 2023 under the trading symbol "TOTC.P".

Since incorporation on January 25, 2022, the Company has had no active business operations. As a CPC, the Company's business objective will be to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction ("QT"), as defined in Exchange Policy 2.4 subject, in certain cases, to shareholder approval and acceptance by the Exchange.

As a CPC, the proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Company. These restrictions will apply until completion of a QT by the Company as defined under the policies of the Exchange.

The Company has an accumulated deficit of \$96,371 as at March 31, 2023. The Company's ability to continue its operations is dependent upon obtaining additional financing sufficient to cover its operating costs and finance any business acquisition. The Company will require additional financing to accomplish its long-term strategic objectives. All the preceding indicates the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic from March 2020, and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and its effect on the Company's business or ability to raise funds. So far, the Company has had minimal or no impact due to these issues.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Commented [PM1]: Audit fee accrual pending for Mar 31

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PRESENTATION

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. The financial statements are presented in Canadian dollars, which is also the Company's functional currency. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

4. SIGNIFICANT ACCOUNTING POLICIES**(a) Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

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

Deferred tax is 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. 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 end of the reporting period applicable to the period of expected realization or settlement.

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

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

(b) Share capital

Common shares are classified as share capital. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. The proceeds from the issue of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to share capital based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

(c) Basic and diluted loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Contingently issuable shares are not considered outstanding common shares and consequently are not included in basic and diluted loss per share.

(d) Financial instrument measurement and valuation

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 assets or liability either directly or indirectly; and |
| Level 3 | Inputs that are not based on observable market data. |

The measurement of the Company's financial instruments is disclosed in Note 11 to these financial statements. Any financial instrument that is valued using level 2 or 3 inputs will involve estimation uncertainty.

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

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.

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statement of profit or loss in the period.

Financial assets at FVTOCI: 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 arising from changes in fair value recognized in other comprehensive income (loss) in which they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost: 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 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.

Financial liabilities and equity: Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) – This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Amortized cost – This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable and accrued liabilities are included in this category. The

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

Company derecognizes financial liability when its contractual obligations are discharged, cancelled or expire.

(e) Share-based payments

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

(f) Foreign Currency

Transactions and balances in currencies other than the Canadian dollar, the currency of the primary economic environment in which the Company operates ("the functional currency"), are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange prevailing on the statement of financial position date are recognized in the statement of comprehensive loss.

(g) Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, and expenses. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors including other sources that are believed to be reasonable under the circumstances but are not necessarily readily apparent or recognizable at the time such estimate or assumption is made. Actual results may differ from these estimates.

Estimates and underlying assumptions used in determining asset and liability values are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

Judgments**Going Concern**

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 1.

Estimates**Deferred tax assets and liabilities**

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 the deferred income tax assets will not 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, and 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 future income tax provisions or recoveries could be affected.

5. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

During the year ended March 31, 2023, \$3,263 (2022- \$11,774) was due to related parties included in accounts payable and accrued liabilities as follows:

| Name of the Key management personnel | Company's Name | Nature of Transaction | Year ended March 31, 2023 | Period from incorporation on January 25, 2022 to March 31, 2022 |
|--|----------------------|--------------------------|------------------------------|--|
| Deepak Varshney, CEO | Deepak Varshney | Reimbursements | \$ 5 | \$ 10,274 |
| Khalid Naeem, CFO | Aterna Advisors Inc. | Accounting fees | 3,258 | 1,500 |

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has identified its directors and officers as its key management personnel and the compensation costs for key management personnel and companies related to them are recorded at their exchange amounts as agreed upon by transacting parties.

During the year ended March 31, 2023, the Company recorded Professional fees of \$8,000 (March 31, 2022, \$1,500) for a company controlled by the CFO.

6. SHARE CAPITAL**(a) Authorized**

Unlimited number of common and preferred shares without par value.

(b) Issued and outstanding

As at March 31, 2023, the issued share capital was comprised of 6,126,000 common shares. During the year ended March 31, 2023, the Company issued 100,000 common shares to a director of the Company at a price of \$0.05 per common share for total proceeds of \$5,000. The Company also issued 3,426,000 common shares at \$0.10 per share as a result of its initial public offering for proceeds of \$342,600.

The Company paid issuance costs of \$100,066 and also granted 342,600 agents' options, valued at \$25,929 using the Black-Scholes option pricing model assuming a life expectancy of 5 years, a risk-free interest rate of 3.19%, a forfeiture rate of nil, and volatility of 100.00%. These stock options were granted on March 10, 2023 as a part of agent's compensation for the initial public offering, and expire on March 10, 2028.

During the period ended March 31, 2022 the Company issued 2,600,000 common shares at a price of \$0.05 per share for total proceeds of \$130,000.

(c) Escrowed shares

As at March 31, 2023, 2,700,000 common shares issued at \$0.05 per share are held in escrow pursuant to the requirements of the Exchange. Twenty five percent of the escrowed common shares will be released from escrow on the issuance of the Final Exchange Bulletin (as defined in the policies of the Exchange) (the "Initial Release") and an additional twenty five percent will be released on each of the dates which are six, twelve and eighteen months following the Initial Release.

All common shares acquired on exercise of stock options granted to directors and officers of the Company prior to completion of the QT, must also be deposited in escrow until the Final Exchange Bulletin is issued.

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

All common shares acquired in the secondary market prior to completion of a QT by a Control Person (as defined in the policies of the Exchange), are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Company held by principals of the resulting issuer will also be subject to escrow.

(d) Stock options

The Company maintains a Stock Option Plan (the "Plan") under which it is authorized to grant stock options to directors, officers, employees, technical consultants of the Company and Eligible Charitable Organizations. The Stock Option Plan remains subject to the approval of the Exchange. The maximum numbers of shares that may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued common shares of the Company at any time. The vesting period for all options is at the discretion of the Board of Directors. The exercise price will be set by the Board of Directors at the time of grant and cannot be less than the discounted market price of the Company's common shares.

The Stock Option Plan provides that the number of common shares that may be reserved for the issuance to any one individual upon exercise of all stock options held by such an individual may not exceed 5% of the issued common shares, if the individual is a director or officer, or 2% of the issued common shares, if the individual is a consultant or engaged in providing investor relations services, on a yearly basis or 1% of the issued common shares, if the individual or entity is an eligible charitable organization. The term of the stock options will expire not later than 12 months after the optionee ceases to be a director, officer or technical consultant of the Company, subject to any earlier expiry date of such stock option. All common shares acquired on exercise of stock options granted to directors and officers prior to the completion of a QT must be deposited in escrow until the final exchange bulletin relating to a QT is issued.

During the year ended March 31, 2023, the Company granted 260,000 incentive stock options to directors valued at \$11,761 using the Black-Scholes option pricing model assuming a life expectancy of ten years, a risk-free interest rate of 3.51%, a forfeiture rate of nil, and volatility of 100.00%. These incentive stock options were granted on June 13, 2022, and expire on June 12, 2032.

| | Number | Weighted Average Exercise Price |
|--|---------|---------------------------------------|
| Outstanding, January 25, 2022 and March 31, 2022 | - | - |
| Granted | 602,600 | \$ 0.08 |
| Outstanding, March 31, 2023 | 602,600 | \$ 0.08 |

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

The following stock options were outstanding as at March 31, 2023:

| | Number of options outstanding | Exercise Price | Expiry Date | Remaining contractual life (years) |
|--------------------------|-------------------------------------|-------------------|----------------|--|
| Director's Stock Options | 260,000 | \$0.05 | June 13, 2032 | 9.21 |
| Agents' Stock Options | 342,600 | \$0.10 | March 10, 2028 | 4.95 |

7. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended March 31, 2023 was based on the loss attributable to common shareholders of \$79,528 (2022 - \$16,843) and the weighted average number of common shares outstanding of 206,499 (2022 - 40,000).

The 2,700,000 common shares held in escrow became contingently returnable on completion of the Offering and consequently are not considered to be outstanding for the loss per share calculations for the year end March 31, 2023.

8. PROFESSIONAL FEES

During the year ended March 31, 2023, the Company incurred \$51,174 (2022 - \$11,028) in professional fees during the period, which consists of \$24,640 in accounting and audit fees, and \$26,533 in legal fees.

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

| | 2023 | 2022 |
|---|-----------|-----------|
| Loss before income taxes | \$ 79,528 | \$ 16,843 |
| Expected income tax recovery at statutory rates | \$ 21,000 | \$ 5,000 |
| Permanent differences | (3,000) | - |
| Share issue cost | 26,000 | - |
| Change in unrecognized deductible temporary differences | (44,000) | (5,000) |
| Total income tax expense (recovery) | \$ - | \$ - |

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

Significant components of the Company's deferred income tax assets (liabilities) not recognized are shown below:

| | 2023 | 2022 |
|------------------------------------|-------------|-------------|
| Share issue costs | \$ 80,000 | \$ - |
| Non-capital losses carried forward | 105,000 | 16,843 |

10. MANAGEMENT OF CAPITAL

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used for reasonable general and administrative expenses of the Company. These restrictions apply until completion of a QT by the Company as defined under the policies of the Exchange.

11. FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Market Risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk and are disclosed as follows:

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no financial instruments that are denominated in a currency other than Canadian dollars. As at March 31, 2023, the Company is not exposed to currency risk.

TOTEC RESOURCES LTD.

Notes to the Financial Statements

For the year ended March 31, 2023 and for the period from incorporation on January 25, 2022 to March 31, 2022

(Expressed in Canadian dollars)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates relative to its cash balances is currently immaterial. The Company also has no long-term debt with variable interest rates, so it has no negative exposure to changes in the market interest rate.

(iii) Price rate risk

The Company has no exposure to price risk with respect to equity prices as the Company is not listed. 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.

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 credit risk is primarily attributable to its liquid financial assets including cash. The Company limits the exposure to credit risk by only investing its cash with high-credit quality financial institutions. Management believes that the credit risk related to its cash is negligible.

Liquidity Risk

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company intends to settle these with funds from its positive working capital position. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. The risk to the going concern assumption is outlined in Note 1.

Fair Value Measurements

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.

As at March 31, 2023 the Company's financial instruments consist of cash, accounts payable and accrued liabilities which are classified at amortized cost. The fair value approximates at the carrying value because of the short-term nature of the instruments.