

KAPA GOLD INC. (formerly Kapa Capital Inc.)

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - Expressed in Canadian dollars)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the Three Months Ended March 31, 2023 and 2022

Pursuant to National Instrument 51-102 *Continuous Disclosure Obligations*, part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Kapa Gold Inc. for the interim periods ended March 31, 2023 and 2022, have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board, and are the responsibility of management.

The independent auditors, Davidson & Company LLP, have not performed a review of these unaudited condensed interim consolidated financial statements.

May 30, 2023

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

	Note	March 31, 2023	December 31, 2022
		\$	\$
ASSETS			
Current			
Cash		1,284,901	1,548,615
GST receivable		37,336	36,870
Prepaid expenses		92,874	34,638
		1,415,111	1,620,123
Exploration and evaluation assets	4	1,789,006	1,777,266
Equipment	5	12,800	13,525
Total assets		3,216,917	3,410,914
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6, 10	181,176	191,766
Total liabilities		181,176	191,766
SHAREHOLDERS' EQUITY			
Share capital	9	11,041,518	11,041,518
Reserves		475,088	475,088
Deficit		(8,480,865)	(8,297,458)
Total shareholders' equity		3,035,741	3,219,148
Total liabilities and shareholders' equity		3,216,917	3,410,914

Nature of operations and going concern (Note 1)

Subsequent event (Note 13)

Approved and authorized for issue on behalf of the Board of Directors:

<u>/s/ "David Paxton"</u> Director	<u>/s/ "Alex Tsakumis"</u> Director
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The accompanying notes are an integral part of these condensed interim consolidated financial statements.

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian dollars, except number of shares)

		Three months ended	
	Note	2023	March 31, 2022
		\$	\$
Operating expenses			
Consulting fees		14,979	-
Depreciation expense	5	725	-
Interest expense	10	-	3,651
Insurance expense		8,443	-
Investor relations		31,375	-
Legal and professional fees	10	80,252	7,688
Management fees	10	30,000	4,500
Office expense		13,733	214
Transfer agent and exchange fees		2,643	-
		182,150	16,053
Other income (expenses)			
Foreign exchange gain (loss)		(1,257)	2,486
Loss and comprehensive loss		(183,407)	(13,567)
Loss per share:			
Basic and diluted		(\$0.00)	(\$0.00)
Weighted average number of common shares:			
Basic and diluted		55,760,744	38,153,574

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

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Three months ended March 31,	
	2023	2022
	\$	\$
Operating activities		
Loss and comprehensive loss	(183,407)	(13,567)
Adjustments for non-cash items:		
Depreciation expense	725	-
Interest expense	-	3,651
Unrealized foreign exchange loss (gain)	250	(2,486)
Changes in non-cash working capital items:		
GST receivable	(466)	2,239
Deferred transaction costs	-	(16,318)
Prepaid expenses	(58,236)	-
Accounts payable and accrued liabilities	3,262	29,777
Cash (used in) provided by operating activities	(237,872)	3,296
Investing activities		
Blackhawk Property expenditures	(25,842)	-
Cash used in investing activities	(25,842)	-
Financing activities		
Share subscription payable	-	70,000
Cash provided by financing activities	-	70,000
Change in cash	(263,714)	73,296
Cash, beginning of period	1,548,615	1,365,513
Cash, end of period	1,284,901	1,438,809
Supplemental cash flow information:		
Cash interest paid	-	-
Cash income taxes paid	-	-
Exploration expenditures included in accounts payable and accrued liabilities	2,305	-

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

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited - Expressed in Canadian dollars, except number of shares)

	Common shares	Share capital	Equity component of convertible debentures	Reserves	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$
Balance, December 31, 2021	38,153,574	6,712,012	949	29,870	(5,598,089)	1,144,742
Loss for the period	-	-	-	-	(13,567)	(13,567)
Balance, March 31, 2022	38,153,574	6,712,012	949	29,870	(5,611,656)	1,131,175
Shares issued for the Transaction	5,113,271	1,278,318	-	-	-	1,278,318
Options acquired from the Transaction	-	-	-	82,906	-	82,906
Units issued in private placement	11,245,200	2,811,300	-	-	-	2,811,300
Issuance costs in private placement	-	(21,000)	-	-	-	(21,000)
Issuance of agent warrants	-	(9,645)	-	9,645	-	-
Special warrants exercised	298,699	29,870	-	(29,870)	-	-
Options exercised	200,000	53,163	-	(33,163)	-	20,000
Reclassification of the conversion feature	-	-	(949)	949	-	-
Shares issued for exploration and evaluation asset	750,000	187,500	-	-	-	187,500
Share-based compensation	-	-	-	414,751	-	414,751
Loss for the period	-	-	-	-	(2,685,802)	(2,685,802)
Balance, December 31, 2022	55,760,744	11,041,518	-	475,088	(8,297,458)	3,219,148
Loss for the period	-	-	-	-	(183,407)	(183,407)
Balance, March 31, 2023	55,760,744	11,041,518	-	475,088	(8,480,865)	3,035,741

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Kapa Gold Inc. (the "Company" or "Kapa") (formerly Kapa Capital Inc.) was incorporated under the laws of British Columbia, Canada on January 29, 2018. On May 19, 2022, the Company formerly approved a name change from Kapa Capital Inc. to Kapa Gold Inc. The Company's head office and principal address is Suite 1400 - 1199 West Hastings Street, Vancouver, BC, V6E 3T5. The Company is listed on the TSX Venture Exchange ("Exchange") under the symbol "KAPA.V".

a) Reverse takeover

On September 22, 2020, Kapa Capital Inc. ("KCI") entered into binding acquisition and arrangement agreements (collectively, the "Transaction") with Quantus Resources Corp. ("Quantus"), whereby KCI would acquire all of Quantus' issued and outstanding common shares via a one-to-one share exchange. Quantus is a mineral exploration company whose principal business activity is in the acquisition and exploration of mineral property interests in the United States. Quantus was incorporated on June 16, 2010, under the laws of British Columbia, Canada.

On May 19, 2022, KCI completed the Transaction with Quantus pursuant to which KCI acquired all of the outstanding shares of Quantus by way of issuing one common share of KCI for each common share of Quantus held by the existing Quantus shareholders (the "Quantus Shareholders"). The Quantus Shareholders became shareholders of the combined entity, concurrently, and in conjunction with the Transaction, renamed Kapa Gold Inc. Upon completion of the Transaction, Kapa Gold Inc. continues to carry on the business of Quantus. The Transaction is an arm's length transaction and constitutes a reverse takeover ("RTO") of KCI by Quantus, pursuant to policies of the Exchange.

Prior to the closing of the Transaction, KCI had 5,113,271 common shares outstanding, and Quantus had 50,447,473 common shares outstanding. As a result of the Transaction, KCI issued 50,447,473 common shares to Quantus Shareholders, and the combined entity subsequently had 55,560,744 common shares outstanding, of which 5,613,187 common shares were held in escrow. After the Transaction, the Company had the following securities outstanding: 5,622,600 share purchase warrants, 84,000 agent warrants, and 2,700,000 incentive stock options.

Management determined that the Transaction constituted a reverse acquisition for accounting purposes, whereby Quantus acquired KCI. In these consolidated financial statements, Quantus is treated as the accounting acquirer (legal subsidiary), and KCI is treated as the accounting acquiree (legal parent). As Quantus was deemed to be the acquirer for accounting purposes, these consolidated financial statements are presented as the continuation of the financial statements of Quantus. The comparative figures are those of Quantus prior to the RTO (Note 3).

b) Going concern

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2023 and 2022 ("financial statements") have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months.

As at March 31, 2023, the Company had working capital surplus of \$1,233,935 (December 31, 2022 - \$1,428,357), had not yet achieved profitable operations, and had an accumulated deficit of \$8,480,865 (December 31, 2022 - \$8,297,458). The Company continues to be dependent upon its ability to finance its operations and exploration programs through financing activities that may include issuance of debt or equity securities. The recoverability of the carrying value of exploration projects, and ultimately, the Company's ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to finance the development of the properties, and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

While the Company has been successful in obtaining financing in the past, there is no assurance that such financing will be available or be available on favorable terms in the future. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These financial statements do not include adjustments to balances and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements were approved by the Board of Directors and authorized for issue on May 30, 2023.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee applicable to the preparation of interim financial statements including International Accounting Standard 34 *Interim Financial Reporting*. These financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited financial statements for the years ended December 31, 2022 and 2021 (the "Annual Financial Statements").

b) Basis of measurement

These financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income, and expense as set out in the accounting policies below. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

c) Functional and presentation currency

The financial statements are presented in Canadian dollars ("\$" or "CAD") which is the functional currency of the Company and its subsidiaries. References to "US\$" are to United States dollars.

d) Basis of consolidation

These financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

A summary of the Company and all subsidiaries included in these financial statements as at March 31, 2023, is as follows:

Name of entities	Country of incorporation	Percentage ownership	Functional currency	Principal activity
Quantus Resources Corp.	Canada	100%	CAD	Mineral exploration
Kapa Gold Inc.	Canada	100%	CAD	Mineral exploration
Kapa Gold Limited USA Inc.	United States	100%	CAD	Holding company

e) Significant accounting policies

These financial statements were prepared using accounting policies consistent with those in Note 3 to the Annual Financial Statements.

f) Significant estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and judgments, in applying accounting policies. Management continually evaluates these estimates and judgments based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments which may cause a material adjustment to the carrying amounts of assets and liabilities. The Company's interim results are not necessarily indicative of its results for a full year. The significant estimates and judgments applied in the preparation of these financial statements are consistent with those applied and disclosed in Note 3 to the Annual Financial Statements.

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

3. REVERSE TAKEOVER

As a result of the Transaction, Quantus obtained control of KCI and is considered to have acquired KCI. KCI did not qualify as a business according to the definition in IFRS 3 *Business Combinations* as the significant inputs, processes, and outputs, that together constitute a business, did not exist in KCI at the time of acquisition. Rather, the Transaction was accounted for in accordance with the guidance provided in IFRS 2 *Share-based Payment*, where Quantus was deemed to have issued common shares for the net assets of KCI and its public listing. Accordingly, no goodwill or intangible assets were recorded with respect to the Transaction.

For accounting purposes, Quantus is treated as the accounting parent (legal subsidiary) and KCI as the accounting subsidiary (legal parent). The fair value of the consideration paid by Quantus, less the fair value of net assets of KCI acquired by Quantus constitutes the listing expense and has been recorded in the statements of loss and comprehensive loss for the year ended December 31, 2022.

As at December 31, 2022, the Company had incurred \$16,318 in deferred transaction costs, which were capitalized until the completion of the RTO, at which time they were reclassified to listing expense. During the year December 31, 2022, the Company incurred \$63,321 in transaction costs.

A summary of the fair values of assets acquired and liabilities assumed as well as the consideration paid as at the May 19, 2022 RTO date, is as follows:

	\$
Consideration paid:	
Fair value of common shares issued to former Kapa Capital Inc. shareholders (5,113,271 shares at \$0.25 per share) (Note 9c)	1,278,318
Fair value of stock options acquired (Note 9e)	82,906
Transaction costs	209,553
	1,570,777
Fair value of net assets (liabilities) acquired:	
Cash	54,050
GST receivable	4,107
Accounts payable and accrued liabilities	(79,918)
	(21,761)
Listing expense	1,592,538

4. EXPLORATION AND EVALUATION ASSETS

A summary of the Company's exploration and evaluation assets are as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	1,777,266	1,393,949
Option payments (Note 9c)	-	187,500
Exploration expenditures:		
Field costs	5,700	15,900
Legal and insurance	-	15,262
Mapping and reports	6,040	82,306
Mining claims	-	48,305
Property maintenance costs	-	13,532
Road rehabilitation deposit	-	20,512
Balance, end of period	1,789,006	1,777,266

4. EXPLORATION AND EVALUATION ASSETS (continued)

a) Blackhawk Property

On November 6, 2017, the Company entered into an option agreement to acquire a 100% interest in certain claims, patents and leases which comprise the Blackhawk Property located near the Lucerne Valley in San Bernardino County, California, a natural resource exploration project targeting gold and other metals and minerals.

The Company obtained this option to acquire a 100% interest in the Blackhawk Property from Blackcali Ventures Ltd ("Blackcali"), a related party, via assignment of Blackcali's rights and obligations under a pre-existing agreement that Blackcali had with the vendor of the Blackhawk Property (the "Letter of Intent"). Consideration payable by the Company to Blackcali for the assignment of such rights and obligations includes:

- Pay US\$1,500 and allot and issue 25,000 common shares to certain creditors of Blackcali;
- Allot and issue 150,000 common shares in the capital stock of the Company to settle pre-existing special warrants previously granted by Blackcali when Blackcali held the option to acquire a 100% interest in the Blackhawk Property;
- Pay the amount of all expenses incurred by Blackcali under the Letter of Intent to Blackcali;
- Extraction of 10,000 tons of bulk sample for metallurgical work, with royalty applicable to sales on sample, and no commercial activities allowed until all payments and issuances are settled;
- Pay a royalty to Blackcali equal to 2% of net smelter returns in regard of any sales of minerals other than gravel, sand or rock derived from any mineral claims in the area of influence of three miles immediately surrounding the perimeter of the Blackhawk Property; and
- Pay a royalty to Blackcali equal to 1% in regard of any sales of gravel, sand or rock derived from any mineral claims in the area of influence of three miles immediately surrounding the perimeter of the Blackhawk Property.

On November 9, 2017, in connection with the consideration payable by the Company as outlined above, the Company issued 25,000 common shares, valued at \$10,000, to certain creditors of Blackcali, 150,000 common shares, valued at \$60,000, to settle pre-existing special warrants previously granted by Blackcali, and 162,500 common shares, valued at \$65,000 issued to Blackcali.

As part of the arrangement, the Company agreed to pay the vendors of the Blackhawk Property an aggregate of US\$660,000 over several installments between the date of the option exercise and October 15, 2019. The payments made to the vendor of the Blackhawk Property were:

- \$304,357 (US\$185,000) paid during the year ended December 31, 2017;
- \$264,652 (US\$175,000) paid during the year ended December 31, 2018;
- \$280,652 (US\$212,000) paid during the year ended December 31, 2019; and
- \$232,342 (US\$175,000) paid during the year ended December 31, 2020 as the final cash option payment.

The Blackhawk Mineral Property Option Agreement was amended and restated during the year December 31, 2020, to include the issuance of 750,000 common shares when the Company enters a Statutory Plan of Arrangement.

During the year ended December 31, 2021, the Company entered into an amending agreement with Blackcali, originally dated February 21, 2020, which extended the date of the 750,000 shares to be issued on or before December 31, 2021 (previously September 30, 2021). On December 15, 2021, the Company entered into an amendment agreement to further extend the date of the 750,000 shares to be issued on or before February 28, 2022.

On February 25, 2022, the Company entered into an amendment agreement to further extend the date to issue the 750,000 share options from February 28, 2022 to April 30, 2022. On May 19, 2022, concurrent with the Transaction, the Company issued 750,000 common shares at \$0.25 per share to Blackcali for a fair value of \$187,500 (Note 9c).

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristics of many mineral property interests. The Company has investigated title to its mineral property interests and, to the best of its knowledge, title to the mineral property interests remains in good standing.

4. EXPLORATION AND EVALUATION ASSETS (continued)

b) Mastodon Nickel Project

On February 13, 2023, the Company entered into an option agreement with Mr. Guy Delorme (the "Optionor") to acquire 100% interest in mineral claims located in British Columbia, Canada (the "Mastodon Nickel Project"). The option agreement requires a series of cash payments, exploration expenditures and share consideration as follows:

- An initial deposit of \$25,000 (paid on April 13, 2023, see Note 13).
- 10% of exploration expenditures, capped at \$975,000, payable within ninety days of the completion of the exploration activities.
- Incurring a minimum of \$150,000 of exploration expenditure within twelve months the effective date of the option agreement.
- Preparation and delivery of the technical report to the Optionor within twelve months the effective date of the option agreement.
- Issuance of 1,200,000 common shares of the Company issued as follows: 50,000 common shares (issued on April 13, 2023, see Note 13), 150,000 common shares to be issued on the first anniversary of the option agreement, and 200,000 common shares to be issued on each anniversary of the option agreement for five years thereafter.

The claims are subject to a 1.5% net smelter royalty ("NSR") to the Optionor and 1.5% to Carlium Developments Inc. ("Carlium"). The NSR is subject to a buyback right whereby the Company is entitled to purchase 0.5% of the NSR for a cash payment of \$1,000,000 to each or either of the Optionor or Carlium. There is a further buyback right available within twelve months of the commencement of commercial production whereby the Company is entitled to purchase an additional 0.5% of the NSR for \$1,500,000 to each or either of the Optionor or Carlium. An advance royalty of \$25,000 each per year shall be payable to the Optionor and Carlium on the seventh anniversary of the effective date of this option agreement.

5. EQUIPMENT

A summary of the Company's equipment is as follows:

	Vehicles
	\$
Cost	
Balance, December 31, 2021	-
Additions	14,500
Balance, March 31, 2023 and December 31, 2022	14,500
Accumulated depreciation	
Balance, December 31, 2021	-
Depreciation	725
Balance, December 31, 2022	725
Depreciation	975
Balance, March 31, 2023	1,700
Carrying amount	
Balance, December 31, 2022	13,525
Balance, March 31, 2023	12,800

KAPA GOLD INC. (formerly Kapa Capital Inc.)
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of the Company's accounts payable and accrued liabilities is as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Trade payables	172,644	159,057
Accrued liabilities	8,532	32,709
	181,176	191,766

7. LOANS PAYABLE

A summary of the Company's loans payable is as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	-	96,068
Additions	-	10,000
Repayment	-	(106,782)
Foreign exchange loss	-	714
Balance, end of period	-	-

On July 19, 2021, the Company received loans from officers and directors of the Company for a total of \$76,452 (US\$60,000) at the interest rate of 6% per annum, and payable upon demand. During the three months ended March 31, 2022, the Company incurred interest expense of \$1,124 (US\$888), relating to these loans payable. On May 26, 2022, the Company repaid the outstanding loan principal and interest payable.

On December 6, 2021, the Company received a loan from a director of the Company for a total of \$20,000 with an interest rate of 6% per annum, payable on demand. During the three months ended March 31, 2022, the Company incurred interest expense of \$377, relating to this loan payable. On May 26, 2022, the Company repaid the outstanding loan principal and interest payable.

On April 11, 2022, the Company received a loan from a director of the Company for a total of \$10,000, bearing interest rate of 6% per annum and being payable on demand. During the three months ended March 31, 2022, the Company incurred interest expense of \$nil, relating to this loan payable. On May 26, 2022, the Company repaid the outstanding loan principal and interest payable.

8. CONVERTIBLE DEBENTURES

A summary of the Company's convertible debentures is as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	-	68,390
Repayment	-	(69,674)
Foreign exchange loss	-	1,284
Balance, end of period	-	-

8. CONVERTIBLE DEBENTURES (continued)

On May 16, 2019, the Company raised \$5,000 through the issue of a convertible debenture to a director of the Company, that matures upon the earlier of: (i) five business days following the Company's initial public offering ("IPO") onto a Canadian stock exchange or next financing; (ii) June 1, 2020; or (iii) at the election of the lenders in the event of default by the Company. The holder may at any time convert a portion of the remaining principal into common shares of the Company at \$0.10 per share. The equity component at the grant date was determined to be \$949 using the residual value method. The debt component was calculated using a discount rate of 20%. Separate from the conversion feature, the convertible debenture is subject to 10% annual interest rate, compounded semi-annually. On March 24, 2022, the Company and the holder agreed to amend the agreements to remove the conversion feature whereby the holder may at any time convert a portion of the remaining principal into common shares of the Company at \$0.10 per common share. Included in the amendment was that the debentures would be settled within five business days of the completion of the Transaction. During the three months ended March 31, 2022, the Company incurred interest expense of \$157 related to this convertible debenture. On June 24, 2022, the Company repaid the convertible debt principal and interest payable. Upon the repayment of convertible debenture, \$949 was reclassified from equity component of convertible debentures to reserves.

On June 1, 2019, the Company raised \$67,350 (US\$50,000) through the issue of a convertible debenture, that matures upon the earlier of: (i) five business days following the Company's IPO onto a Canadian stock exchange or next financing; (ii) June 1, 2020; or (iii) at the election of the lenders in the event of default by the Company. The holder may at any time convert a portion of the remaining principal into common shares of the Company at \$0.10 per common share. The Company did not recognize the derivative liability from conversion feature due to the short term of the loan and the derivative liability was deemed immaterial. The value of convertible debenture at inception was calculated using a discount rate of 20%. Separate from the conversion feature liability, the convertible debenture is subject to 10% annual interest rate, compounded semi-annually. On March 24, 2022, the Company and the holder agreed to amend the agreements to remove the conversion feature whereby the holder may at any time convert a portion of the remaining principal into common shares of the Company at \$0.10 per common share. Included in the amendment is that the debentures will be settled within five business days of the completion of the Transaction. During the three months ended March 31, 2022, the Company incurred interest expense of \$1,993 (US\$1,574) related to this convertible debenture. On May 20, 2022, the Company repaid the convertible debt principal and interest payable.

9. SHAREHOLDERS' EQUITY

a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

b) Share capital

As at March 31, 2023, there were 55,760,744 issued and fully paid common shares outstanding (December 31, 2022 - 55,760,744).

c) Share capital transactions

During the three months ended March 31, 2023, the Company had no share capital transactions.

During the year ended December 31, 2022, the Company completed the following transactions:

- On May 19, 2022, pursuant to the closing of the Transaction, the Company issued 5,113,271 common shares of the Company to the shareholders of KCI with a fair value of \$0.25 per share for total fair value of \$1,278,318 (Note 3).
- On May 19, 2022, concurrent with the closing of the Transaction, the Company issued 298,699 common shares of the Company in relation to the special warrants exercised for no further consideration and reclassified \$29,870 from reserves to share capital.
- On May 19, 2022, the Company issued 750,000 common shares of the Company to Blackcali at the fair value of \$0.25 per share for consideration of \$187,500 related to the option agreement for the Blackhawk Property (Note 4a).
- On May 19, 2022, concurrent with the closing of the Transaction, the Company issued 11,245,200 private placement units at \$0.25 per unit for gross proceeds of \$2,811,300. Each unit is comprised of one common share and one-half warrant. Each warrant is exercisable into one common share of the Company until May 19, 2024, with an exercise price of \$0.40 per warrant. On initial recognition, the warrants had a fair value of \$nil.
- In connection with the private placement, the Company incurred \$30,645 in issuance costs, of which \$21,000 was in cash, and \$9,645 was the fair value of the 84,000 agent warrants issued.

9. SHAREHOLDERS' EQUITY (continued)

- On July 6, 2022, in connection with the options granted to former directors of KCI and acquired in the RTO, 200,000 stock options were exercised at an exercise price of \$0.10 for cash proceeds of \$20,000, resulting in the issuance of 200,000 common shares. Upon exercise, the \$33,163 fair value attributed to the options exercised was transferred from reserves to share capital.

d) Escrow shares

Prior to the RTO, the Company had 1,900,000 common shares held in escrow. These escrow shares are subject to timed release over 18 months with the first 25% being released on May 20, 2022 and 25% being released every 6 months thereafter.

After the completion of the RTO on May 19, 2022, the Company had additional 5,613,187 common shares held in escrow. These escrowed shares are subject to a timed release in equal tranches over a period of 36 months with 10%, 561,319 common shares being released on May 20, 2022 and the remaining escrowed shares released in equal tranches of 15% every 6 months thereafter.

As at March 31, 2023, there were 5,159,891 common shares held in escrow (December 31, 2022 - 5,159,891).

e) Stock options

The Company established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors, and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares of the Company and are exercisable within a maximum of five years. The Board of Directors has the exclusive power over the granting of stock options, the exercise price, the term, and their vesting and cancellation provisions.

On May 19, 2022, as a result of the Transaction, the Company acquired 500,000 stock options granted to former directors of KCI on May 18, 2018, with an exercise price of \$0.10 per stock option, expiring on May 18, 2023. These options were vested immediately. As a result, no further share-based compensation expense was recognized in relation to these options during the year ended December 31, 2022. The fair value of these options, however, was remeasured at the RTO date and included in the consideration transferred, amounting to \$82,906 (Note 3). The fair value of these options was determined using Black-Scholes option pricing model with the following range of market inputs: average stock price of \$0.25, average risk-free rate of 2.34%, expected life of one year, average volatility of 100%, and dividend yield of 0%.

On May 19, 2022, in relation to the closing of the Transaction, the Company issued 2,200,000 stock options to directors and officers of the Company, with an exercise price of \$0.25 per stock option, which expire on May 19, 2027. The options vested immediately. The fair value at grant date of these options was determined at \$414,751 using Black-Scholes option pricing model with the following range of market inputs: average stock price of \$0.25, average risk-free rate of 2.73%, expected life of five years, average volatility of 100%, and dividend yield of 0%.

A summary of the Company's stock options activity is as follows:

	Number of options outstanding	Weighted average exercise price
	#	\$
Balance, December 31, 2021	-	-
Issued	2,200,000	0.25
Acquired from the Transaction	500,000	0.10
Exercised	(200,000)	(0.10)
Balance, March 31, 2023 and December 31, 2022	2,500,000	0.23

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9. SHAREHOLDERS' EQUITY (continued)

A summary of the Company's outstanding and exercisable stock options as at March 31, 2023 is as follows:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining life
	#	#	\$	Years
May 18, 2023	300,000	300,000	0.10	0.13
May 19, 2027	2,200,000	2,200,000	0.25	4.13
	2,500,000	2,500,000	0.23	3.66

f) Warrants

On September 18, 2020, the Company issued 298,699 special warrants to settle \$29,870 in amounts owing to vendors. These special warrants automatically converted into common shares of the Company upon the completion of the Transaction for no additional consideration. On May 19, 2022, the Company converted 298,699 special warrants to 298,699 common shares. As a result, \$29,870 was reclassified from reserves to share capital.

On May 19, 2022, in relation to the private placement of units, the Company issued 5,622,600 warrants. Each warrant is exercisable for one common share of the Company until May 19, 2024, with an exercise price of \$0.40 per warrant. In connection with the private placement of units, the Company issued 84,000 agent warrants, each of which is exercisable into one common share with exercise price of \$0.40 and expires on May 19, 2024.

The fair value of agent warrants issued during the year ended December 31, 2022 was determined using Black-Scholes option pricing model with the following range of market inputs: average stock price of \$0.25, average risk-free rate of 2.70%, expected life of two years, average volatility of 110%, and dividend yield of 0%.

A summary of the Company's warrants activity is as follows:

	Number of warrants outstanding	Weighted average exercise price
	#	\$
Balance, December 31, 2021	298,699	0.10
Exercised	(298,699)	0.10
Issued	5,706,600	0.40
Balance, March 31, 2023 and December 31, 2022	5,706,600	0.40

A summary of the Company's warrants outstanding as at March 31, 2023 is as follows:

Expiry date	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining life
	#	\$	Years
May 19, 2024	5,706,600	0.40	1.14

10. RELATED PARTY TRANSACTIONS

Key management personnel comprise the Chief Executive Officer, Chief Financial Officer, and directors of the Company.

A summary of the Company's transactions with key management personnel is as follows:

	Three months ended March 31,	
	2023	2022
	\$	\$
Interest expense	-	3,651
Legal and professional fees	40,600	7,688
Management fees	30,000	4,500
	70,600	15,839

Included in accounts payable and accrued liabilities as at March 31, 2023 is \$23,811 (December 31, 2022 - \$12,691) due to officers, directors, and companies controlled by directors of the Company. The amount due to the related parties is payable on demand and is unsecured and non-interest bearing.

11. CAPITAL MANAGEMENT

The Company defines the capital that it manages as shareholders' equity. The Company manages its capital structure based on the funds available to the Company in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business. The Company may invest its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns on unused capital. The Company does not pay dividends and is not subject to any externally imposed capital restrictions.

The property in which the Company currently has an interest is in the exploration stage. As such, the Company has historically relied on the equity capital market to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it concludes there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Although the Company has previously been successful in financing its activities, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be in terms advantageous to the Company.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value information

The fair values of cash and accounts payable and accrued liabilities, approximate their carrying values due to their short-term nature.

b) Financial risk factors

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet an obligation under contract.

The Company's cash is exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high creditworthiness.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

As the Company's operations do not generate cash, financial liabilities are discharged using funding through the issuance of common shares or debt as required. As at March 31, 2023, the Company had sufficient cash on hand to discharge its financial liabilities as they become due.

Foreign currency risk

Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that it has monetary assets and liabilities denominated in foreign currencies (US\$).

A summary of the Company's financial liabilities that are denominated in US dollars is as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Accounts payable and accrued liabilities	6,452	21,774

The Company has not entered any foreign currency contracts to mitigate this risk. A 10% change in exchange rates would result in a foreign exchange gain or loss of approximately \$645.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at March 31, 2023.

13. SUBSEQUENT EVENT

On April 13, 2023, the Company made the initial option payment of \$25,000 and issued 50,000 shares to the Optionor following the Exchange acceptance of the option agreement for the Mastodon Nickel Project (Note 4b).