



CHAKANA
C O P P E R

CHAKANA COPPER CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2023 AND 2022**

(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CHAKANA COPPER CORP.

Opinion

We have audited the consolidated financial statements of Chakana Copper Corp. and its subsidiaries (the "Corporation"), which comprise:

- ◆ the consolidated statements of financial position as at May 31, 2023 and 2022;
- ◆ the consolidated statements of loss and comprehensive loss for the years then ended;
- ◆ the consolidated statements of changes in shareholders' equity for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended; and
- ◆ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at May 31, 2023 and 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Corporation 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 audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Corporation incurred a net loss of \$3,482,147 during the year ended May 31, 2023, and as of that date, has a deficit of \$38,449,273. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Corporation'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 for the year ended May 31, 2023. 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.

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 auditors' report.

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Other Information

Management is responsible for the other information. The other information comprises the information included in 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 identified above 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 auditors' 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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:

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- ◆ 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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Corporation 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 Corporation 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.

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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 auditors' 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 auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants
Vancouver, British Columbia

September 25, 2023

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CHAKANA COPPER CORP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(Expressed in Canadian Dollars)

	May 31, 2023	May 31, 2022
ASSETS		
Current Assets		
Cash (Note 12)	\$ 2,251,365	\$ 5,564,165
Prepays and other current assets	153,158	241,182
	2,404,523	5,805,347
Non-current Assets		
Equipment (Note 6)	548,678	616,652
Value-added tax receivable (Note 7)	254,463	566,242
Prepays	87,567	-
Exploration and evaluation assets (Note 5)	5,946,838	3,899,630
Total Assets	\$ 9,242,069	\$ 10,887,871
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 12 and 15)	\$ 383,869	\$ 642,383
Current portion of lease obligation (Note 8)	57,486	50,056
	441,355	692,439
Non-current Liabilities		
Lease obligation (Note 8)	120,664	165,053
Total Liabilities	562,019	857,492
Shareholders' Equity		
Common shares (Note 9)	43,716,860	42,195,337
Subscription receipts (Note 9)	-	60,280
Stock option reserve (Note 9)	2,236,275	2,957,941
Accumulated other comprehensive income	1,176,188	768,252
Deficit	(38,449,273)	(35,951,431)
Total Shareholders' Equity	8,680,050	10,030,379
Total Liabilities and Shareholders' Equity	\$ 9,242,069	\$ 10,887,871

Contingency (Note 16)

Approved on behalf of the Board of Directors

/s/ Tom Wharton
Tom Wharton, Director

/s/ Darren Devine
Darren Devine, Director

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

CHAKANA COPPER CORP
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED
(Expressed in Canadian Dollars)

	May 31, 2023	May 31, 2022
OPERATING EXPENSES		
Consulting fees (Note 15)	\$ 156,246	\$ 220,681
Depreciation (Note 6)	108,713	127,864
Exploration and evaluation expenditures (Notes 5 and 10)	2,270,138	5,002,325
General and administrative	271,260	484,999
Investor relations	77,602	279,957
Legal and professional fees (Note 15)	202,399	192,403
Salaries and wages (Note 15)	226,360	273,136
Stock-based compensation (Notes 9 and 15)	235,995	658,168
Travel and meals	11,436	35,800
Operating Expenses	(3,560,149)	(7,275,333)
Other		
Foreign exchange gain (loss)	27,165	(14,365)
Write-off of leasehold improvements (Note 6)	-	(418,769)
Gain (loss) on disposal of assets (Note 6)	(2,981)	22,326
Interest income	53,818	-
	78,002	(410,808)
Net Loss	(3,482,147)	(7,686,141)
Other Comprehensive Loss		
Item that may be reclassified to profit or loss		
Foreign currency translation	407,936	465,217
Comprehensive Loss	\$ (3,074,211)	\$ (7,220,924)
Basic and diluted loss per share	\$ (0.02)	\$ (0.07)
Weighted average number of common shares outstanding (basic and diluted)	169,191,722	112,931,540

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

CHAKANA COPPER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
(Expressed in Canadian Dollars)

	May 31, 2023	May 31, 2022
Cash Flows Used in Operating Activities		
Net loss	\$ (3,482,147)	\$ (7,686,141)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation	108,713	127,864
Stock-based compensation	235,995	658,168
Unrealized foreign exchange	29,912	227,003
Write-off of leasehold improvements	-	418,769
(Gain) loss on disposal of assets	2,981	(22,326)
Prepays and other current assets	457	(12,203)
Value-added tax receivable	311,779	(7,926)
Accounts payable and accrued liabilities	(258,514)	(604,078)
	(3,050,824)	(6,900,870)
Cash Flows Used in Investing Activities		
Leasehold improvements and purchase of equipment	(2,170)	(178,943)
Proceeds from sale of vehicle	-	27,858
Acquisition of exploration and evaluation assets	(1,264,896)	(911,914)
	(1,267,066)	(1,062,999)
Cash Flows Provided by Financing Activities		
Repayment of lease obligation	(48,160)	(39,360)
Proceeds from private placement, net of share issue costs	1,031,306	4,824,415
Subscription receipts	-	60,280
	983,146	4,845,335
Changes in cash during the year	(3,334,744)	(3,118,534)
Foreign exchange on cash	21,944	6,909
Cash – beginning of the year	5,564,165	8,675,790
Cash – end of the year	\$ 2,251,365	\$ 5,564,165

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

CHAKANA COPPER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	<u>Common Shares</u>		Subscription Receipts	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount					
Balance – May 31, 2021	111,410,363	\$ 37,482,558	\$ -	\$ 2,518,080	\$ 303,035	\$ (28,595,233)	\$ 11,708,440
Units issued on private placement	46,269,134	5,089,605	-	-	-	-	5,089,605
Share issue costs	-	(376,826)	-	111,636	-	-	(265,190)
Subscriptions received	-	-	60,280	-	-	-	60,280
Fair value of forfeited and expired options and warrants	-	-	-	(329,943)	-	329,943	-
Other comprehensive income for the year	-	-	-	-	465,217	-	465,217
Stock-based compensation	-	-	-	658,168	-	-	658,168
Net loss for the year	-	-	-	-	-	(7,686,141)	(7,686,141)
Balance – May 31, 2022	157,679,497	42,195,337	60,280	2,957,941	768,252	(35,951,431)	10,030,379
Units issued on private placement	10,470,451	1,151,750	(60,280)	-	-	-	1,091,470
Share issue costs	-	(86,808)	-	26,644	-	-	(60,164)
Shares issued for property	4,863,431	456,581	-	-	-	-	456,581
Fair value of forfeited and expired options and warrants	-	-	-	(984,305)	-	984,305	-
Other comprehensive income for the year	-	-	-	-	407,936	-	407,936
Stock-based compensation	-	-	-	235,995	-	-	235,995
Net loss for the year	-	-	-	-	-	(3,482,147)	(3,482,147)
Balance – May 31, 2023	173,013,379	\$ 43,716,860	\$ -	\$ 2,236,275	\$ 1,176,188	\$ (38,449,273)	\$ 8,680,050

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

1. Nature of Operations and Going Concern

Chakana Copper Corp. (the "Corporation" or "Chakana") was incorporated on May 2, 2011 under the laws of the province of British Columbia, Canada. The Corporation is listed on the TSX Venture Exchange under the symbol "PERU". The Corporation is currently engaged in exploration of mineral properties, with its principal focus at this stage on the exploration of the Soledad copper-gold-silver project located in central Peru (the "Soledad Project").

The head office and principal address is Suite 1012 – 1030 West Georgia St., Vancouver, British Columbia, V6E 2Y3, Canada. The records office of the Corporation is located at 1055 West Pender Street, Suite 1500, Vancouver, British Columbia, V6E 4V7, Canada.

The Corporation is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, successful permitting, the ability of the Corporation to obtain necessary financing to complete exploration and development, and upon future profitable production or proceeds from the disposition of each mineral property. Furthermore, the acquisition of title to mineral properties is a complicated and uncertain process, and while the Corporation has taken steps in accordance with normal industry standards to verify its title to the mineral properties in which it has an interest, there can be no assurance that such title will ultimately be secured. The carrying amounts of mineral properties are based on costs incurred to date, and do not necessarily represent present or future values.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Corporation will be able to continue in operation for the foreseeable future and meet its obligations in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

The Corporation has incurred ongoing losses and will continue to incur further losses in the course of exploring its mineral properties. During the year ended May 31, 2023, the Corporation incurred a net loss of \$3,482,147 (2022 - \$7,686,141) and as of that date has a deficit of \$38,449,273 (2022 - \$35,951,431). The Corporation has historically relied on the issuance of share capital to fund its operations. Although the Corporation has been successful in raising equity financing in the past, there is no assurance that such financing will continue to be available with acceptable terms. These uncertainties may cast significant doubt about the Corporation's ability to continue as a going concern.

2. Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on September 25, 2023.

The Corporation's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information and are presented in Canadian dollars except where otherwise indicated.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

(a) Basis of Consolidation

The Corporation's consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries are entities controlled by the Corporation, where control is achieved by the Corporation being exposed to, or having rights to, variable returns from its involvement with the entity and having the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are deconsolidated from the date that control ceases. The Corporation currently has one wholly owned subsidiary: Chakana Resources S.A.C., a Peruvian company.

All inter-company transactions, balances, income, and expenses are eliminated on consolidation.

(b) Exploration and Evaluation Assets

Exploration and evaluation assets are comprised of interests in mineral properties owned by the Corporation and are initially measured at the fair value of the consideration paid for the mineral interests acquired. The amounts shown for mineral interests represent the cost of acquisition and do not reflect present or future values. These costs will be amortized against future production or written off if the assets are abandoned or sold.

Exploration and evaluation costs, except for the cost of acquisition, are expensed as incurred until management has determined that there is sufficient evidence to show the technical feasibility and commercial viability of the extraction of the mineral resources from the mineral interest owned. Once technical feasibility and commercial viability are demonstrated in the mineral interests owned, exploration and evaluation expenditures are capitalized as developing assets.

At each reporting date, exploration and evaluation assets are tested for indications of impairment.

(c) Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment comprises of its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

The cost of equipment, less residual value (if any), is depreciated over the estimated useful life of the asset on a straight-line basis as follows:

Equipment	3-10 years
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Where components of an item of equipment have different useful lives or for which different depreciation rates would be appropriate, they are accounted for as separate items of equipment.

An item of equipment is derecognized upon disposal or replacement. Any gains or loss arising on recognition of the asset (calculated as the difference between the net proceeds of disposition and the carrying amount of the asset) are included on the Consolidated Statements of Loss and Comprehensive Loss when the asset is derecognized.

3. Significant Accounting Policies (continued)

(d) Impairment of Long-Lived Assets

Impairment tests for non-current assets or cash-generating unit (“CGU”) are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-current asset or CGU’s recoverable amount is calculated. The recoverable amount is determined at the higher of fair value less costs of disposal and value in use. If the carrying value of a non-current asset or CGU exceeds its recoverable amount, the asset or CGU is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-current asset to its recoverable amount. Management has assessed its exploration and evaluation assets as one CGU, being the Soledad Project, which comprises of the Condor Option, Aija Project and Barrick Option (Note 5).

(e) Value-Added Tax Receivable

Expenditures incurred by the Corporation in Peru are subject to Peruvian Value Added Tax (“VAT”). Under Peruvian law, VAT paid can be used in the future to offset amounts resulting from VAT charged on sales. Under certain circumstances and subject to approval from tax authorities, a corporation can also apply for early refund of VAT prior to generating sales. The Corporation has entered into an agreement with the Ministry of Energy and Mines to apply for early refund of VAT. VAT refundable under the agreement is recorded as a receivable to the extent management believes the amount will be refunded.

(f) Decommissioning Liabilities

The Corporation recognizes a provision for statutory, contractual, constructive, or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or evaluation of exploration and evaluation assets and equipment. Provisions for site closure and decommissioning are recognized in the period in which the obligation is incurred or acquired and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in exploration and evaluation assets and equipment. These costs are depreciated using either the unit of production or straight-line method depending on the asset to which the obligation relates.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in profit or loss.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Corporation of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and decommissioning costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and as new information concerning the Corporation’s closure and decommissioning liabilities becomes available.

3. Significant Accounting Policies (continued)

(g) Current and Deferred Income Taxes

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to a business combination or to items recognized directly in equity or in other comprehensive income.

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

Deferred income taxes are recognized using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, deferred income taxes are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income taxes are determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are presented as non-current in the consolidated financial statements.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right of offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

(h) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Corporation. Financial instruments issued by the Corporation are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Corporation's common shares, share options, and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new share options are shown in equity as a deduction, net of tax, from the proceeds.

(i) Equity Unit

The proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the residual value method. Under the residual value method, proceeds are allocated first to share capital up to the fair value of the common share, determined by reference to the quoted market price of the common shares on the issuance date, with the residual amount of proceeds, if any, allocated to the reserve for warrants.

3. Significant Accounting Policies (continued)

(j) Share-based Payment Transactions

The Corporation has a stock option plan that provides for the granting of options to officers, directors, consultants, and related company employees to acquire shares of the Corporation. The fair value of the options is measured on grant date and is recognized as an expense with a corresponding increase in reserves as the options vest. Options granted to employees and others providing similar services are measured on grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted, including exercise price, expected life, expected volatility, current market price of underlying shares, risk-free interest rate, dividend yield, and forfeiture rate. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options 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. On vesting, stock-based compensation is recorded as an operating expense and as reserves. When options are exercised, the consideration received is recorded as common shares. In addition, the related stock-based compensation originally recorded as reserves is transferred to common shares. When an option is cancelled, or expires, the initial recorded value is reversed and charged to deficit.

(k) Foreign Currencies

The consolidated financial statements are presented in Canadian dollars ("CDN"). The functional currency of the Corporation and its subsidiary is measured using the principal currency of the primary economic environment in which each entity operates. The functional currency of the Corporation is the Canadian dollar, and the functional currency of Chakana Resources S.A.C. is the Peruvian Sol ("Sol").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are retranslated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Foreign exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Under IFRS, the results and financial position of all the Corporation's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction); and
- All resulting exchange differences are recognized as a separate component of shareholders' equity.

3. Significant Accounting Policies (continued)

(l) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

Diluted earnings (loss) per share is calculated using the treasury share method whereby all “in the money” options, warrants, and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Where dilutive potential ordinary shares have an anti-dilutive impact, they are excluded from the calculation of diluted earnings (loss) per share.

(m) Leases

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Corporation assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract, and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The Corporation has elected not to recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

(n) Financial Instruments

Financial Assets

The Corporation recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Corporation 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 Corporation’s business model for the such financial assets, is to hold the assets in order 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.

3. Significant Accounting Policies (continued)

(n) Financial Instruments (continued)

Financial Assets (continued)

Financial assets measured at amortized cost (continued):

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. The Corporation does not have any financial assets classified at 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 in other comprehensive income. The Corporation does not have any financial assets classified at FVTOCI.

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. Cash are classified as financial assets at FVTPL.

The Corporation derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Corporation 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 Corporation 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).

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial Liabilities

Financial liabilities are classified as amortized cost, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemptions, as well as any interest or coupon payable while the liability is outstanding. Accounts payable represent liabilities for goods and services provided to the Corporation prior to the end of the period which are unpaid. Accounts payable and accrued liabilities and lease obligation are classified as financial liabilities as amortized costs.

4. Significant Accounting Judgments and Estimates

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ significantly from these estimates.

Significant judgments and estimates that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows.

Critical accounting judgments:

Judgments that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows:

- *Impairment of Exploration and Evaluation Asset*

The net carrying value of an exploration asset is reviewed regularly for conditions that suggest potential indications of impairment. This review requires significant judgment. Factors considered in the assessment of asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental, or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development, or cost of holding; and whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future.

- *Going Concern*

The assessment of the Corporation's ability to continue as a going concern involves critical judgment based on historical experience and expectations of the Corporation's ability to generate adequate financing. Significant judgment is used in the Corporation's assessment of its ability to continue as a going concern.

- *Functional Currency*

The functional currency for the Corporation's subsidiary, Chakana Resources S.A.C., is the Peruvian Sol – the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

4. Significant Accounting Judgments and Estimates (continued)

Critical accounting judgments (continued):

- *Value Added Tax (“VAT”)*

Management’s assumptions regarding the recoverability of Value Added Tax (“VAT”) receivable at the end of each reporting period is made using all relevant facts available, including past collectability, the development of VAT policies, and the general economic environment of the country to determine if a write-down of the VAT is required. Collection of the amount receivable depends on processing and payment of the claims by the local government, which historically has been very slow. While the Corporation is still pursuing collection, with the delay in processing and collection, the Corporation has been receiving its VAT from prior years and as such, management has determined as at May 31, 2023 and 2022 that it is appropriate to record the VAT as a receivable without any allowance for collectability. The timing and amount of the VAT ultimately collectable could be materially different from the amount recorded in the consolidated financial statements.

Critical accounting estimates:

- *Stock-based compensation*

Stock-based compensation is valued using the Black-Scholes option pricing model at the date of grant and expensed in profit or loss over vesting period of each award. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Stock-based compensation expense also utilizes subjective assumption on forfeiture rate. Changes in these input assumptions can significantly affect the fair value estimate.

5. Exploration and Evaluation Assets

		Condor Option	Aija Project	Barrick	Total
Balance – May 31, 2021	\$	1,898,477	\$ 603,544	\$ 288,819	\$ 2,790,840
Acquisition costs		775,933	135,981	-	911,914
Foreign exchange on translation		112,488	64,948	19,440	196,876
Balance – May 31, 2022		2,786,898	804,473	308,259	3,899,630
Acquisition costs		1,199,729	521,748	-	1,721,477
Foreign exchange on translation		225,394	60,403	39,934	325,731
Balance – May 31, 2023	\$	4,212,021	\$ 1,386,624	\$ 348,193	\$ 5,946,838

The Corporation’s wholly owned subsidiary, Chakana Resources S.A.C., holds the following:

- The option to acquire a 100% ownership interest in the Soledad Project (“Condor Option”);
- An option to acquire a 100% ownership interest in the adjacent Aija Project, Peru (“Aija Project”); and
- An option to acquire up to a 100% ownership in other adjacent mineral concessions owned by Minera Barrick Misquichilca S.A. (“Barrick”) (the “Barrick Option”).

All three options are collectively referred to as the “Soledad Project”.

The Corporation is the operator of all related mineral exploration activities on these projects.

5. Exploration and Evaluation Assets (continued)

(a) Condor Option

On April 17, 2017, the Corporation entered into a Mining Assignment and Option Agreement (“Condor Option”) with Minera Vertiente del Sol S.A.C. (“MVS”) (the “Agreement”), a subsidiary of Condor Resources Inc. (“Condor”), pursuant to which the Corporation has the sole and exclusive option to acquire 100% of the rights and interests in the Soledad Copper/Gold Project, Peru (the “Soledad Project”), subject to a 2% net smelter return royalty (“NSR”). The agreement was amended on March 18, 2019 and November 13, 2020, relating to the Soledad Project.

The Condor Option is exercisable by issuing 500,000 common shares by June 23, 2018 (issued), making aggregate cash payments of US\$5,375,000, and completing 12,500 metres of drilling on the Soledad Project. During the year ended May 31, 2018, the Corporation fulfilled the 12,500 metres of exploration drilling requirement on the Soledad Project.

On April 14, 2022, the Corporation reached an agreement with Condor to amend the terms of the Condor Option.

Under the existing agreement, a final payment of US\$4.425 million dollars was due to Condor on April 23, 2022. The parties have agreed to extend and amend the terms of the option to provide that Chakana may complete the exercise of the option by either (1) paying US\$2,800,000 and issuing 9,480,198 common shares prior to June 23, 2022; or (2) making the following cash and share payments over the next three-year period. The Corporation has decided to exercise the option by making the following cash payments:

Date	Cash payment	Shares in CDN\$ equivalent
On or prior to June 23, 2022 (paid)	US\$800,000	\$ 200,000
On or prior to June 23, 2023 (cash paid and shares issued subsequent to year end (Note 15))	US\$1,000,000	\$ 200,000
On or prior to June 23, 2024	US\$1,000,000	\$ 200,000
On or prior to June 23, 2025	US\$1,425,000	\$ 200,000

The amounts of the share payments are subject to adjustment in the event of early or late payment. In addition, Condor has agreed to certain voluntary resale restrictions on the shares of Chakana to be issued to Condor, with periodic releases over an 18-month period.

Pursuant to the amendment agreement and as part of the amount owed to Condor, Chakana also agreed to make a payment of US\$200,000 by April 22, 2022 which was made on April 21, 2022. As at May 31, 2023, the Corporation has made total payments of US\$1,950,000.

Under the agreement, the Corporation may purchase from MVS 50% of the NSR, equal to a 1% NSR, for US\$2,000,000 at any time. On March 18, 2019, the Corporation purchased a 1% NSR on the Soledad Project for \$369,902 (US\$275,000) and 900,000 common shares. As a result of the Corporation purchasing the NSR, the option agreement between the parties was amended to reflect a reduction of the Condor NSR royalty from 2% to 1%, with the Corporation having the right to repurchase 50% of the NSR (or 0.5% NSR) for US\$1,000,000 subsequent to exercising the option. If the Corporation does not exercise the option to acquire Soledad Project, Condor has the right to purchase 50% of the NSR (or 0.5% NSR) for US\$1,000,000. In addition, the pre-royalty payment obligation was eliminated.

5. Exploration and Evaluation Assets (continued)

(b) Aija Project

On March 20, 2018, the Corporation entered into an Option Agreement (the "Aija Option") with an arms-length third party to acquire 100% of the rights and interest in the Aija Project (the "Aija Project") subject to a 2% NSR. During the year ended May 31, 2021, the Corporation renegotiated the payment schedule.

During December 2022, the Corporation entered into an agreement to amend the payment terms under the Aija Option.

Under the terms of the original agreement, a final payment of US\$1.5 million was due on May 1, 2023. The parties agreed to extend and amend the terms of the agreement as follows:

The option exercise cash payments schedule is as follows:

Installment	Date	Cash Amount (in US\$)	US\$ paid in shares
1	Upon execution of Letter of Intent on October 3, 2017 (paid)	75,000	-
2	Upon close of Definitive Agreement on August 1, 2018 (paid)	75,000	-
3	February 1, 2019 (paid)	50,000	-
4	August 1, 2019 (paid)	50,000	-
5	February 1, 2020 (paid)	75,000	-
6	November 1, 2020 (paid)	75,000	-
7	May 1, 2021 (paid)	100,000	-
8	November 1, 2021 (paid)	100,000	-
9	May 1, 2022 (paid)	100,000	-
10	November 1, 2022 (paid)	100,000	-
11	December 1, 2022 (cash paid, shares issued)	100,000	75,000
12	May 1, 2023 (cash paid subsequent to year end, shares issued)	100,000	125,000
13	November 1, 2023	100,000	150,000
14	May 1, 2024	150,000	75,000
15	November 1, 2024	150,000	75,000
16	May 1, 2025	150,000	-
17	November 1, 2025	150,000	-
18	May 1, 2026	150,000	-
19	November 1, 2026	250,000	-
Total		2,100,000	500,000

The number of shares will be determined based on the greater of (i) the ten-day volume weighted average trading price of the Chakana common shares as of the date of issuance of such Chakana shares; or (ii) the market value at the time the obligation arises, provided that the shares for each payment may not be issued at a price lower than CDN\$0.05 per share. The Agreement is subject to the approval of the TSX Venture Exchange. As at May 31, 2023, the Corporation has paid instalments 1 to 11, totaling US\$1,000,000 and made payment 12 subsequent to May 31, 2023. Under the terms of the Aija Option, the Corporation may purchase all of the 2% NSR at any time for US\$2,000,000. There are no drilling or work expenditure commitments under the Option.

5. Exploration and Evaluation Assets (continued)

(c) Barrick Option

On July 11, 2018, Barrick granted the Corporation an option to acquire a 100% interest in three concessions adjoining the southern extent of the Aija Project (the "Barrick Option"). Under terms of the agreement, the Corporation has five years in total to complete a minimum of 2,000 metres of drilling and produce a Preliminary Economic Assessment report compliant with National Instrument 43-101. In October 2021, the Corporation amended the July 11, 2018 agreement. Under terms of the amended agreement, the Corporation must obtain the Authorization to Imitate Activities ("AIA") for exploration drilling on or before September 27, 2023 (first option). It then has four years from the date of the AIA to complete a minimum of 4,000 metres of drilling and produce a Preliminary Economic Assessment report compliant with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (second option). Upon exercise of the Barrick Option, Barrick will retain a 2% NSR subject to the Corporation's right to purchase 50% of the royalty for US\$2,000,000.

Barrick will have a one-time right to reacquire a 70% interest in the concessions within 120 days of exercising the option by paying the Corporation three times the aggregate amount of exploration expenditures incurred since the execution date and cancelling the 2% NSR. If a production decision is then not made by Barrick within seven years of the Back-in Closing Date, Barrick will make pre-royalty payments of US\$75,000 per year until a production decision is made for a maximum of five years (US\$375,000). If the Corporation does not contribute its share of project costs its interest will be diluted to 10%, upon which its interest will be converted to a 2% NSR with Barrick retaining a right to purchase 50% of the royalty for US\$2,000,000. If Barrick declines, an undivided 100% interest in the concessions will be transferred to the Corporation.

6. Property and Equipment

	Right-of-use Asset	Equipment	Total
Cost			
As at May 31, 2021	\$ 244,998	\$ 950,914	\$ 1,195,912
Additions	-	178,943	178,943
Foreign exchange on translation	20,973	48,439	69,412
Write-off of leasehold improvements and disposals	-	(519,562)	(519,562)
As at May 31, 2022	265,971	658,734	924,705
Additions	-	2,170	2,170
Foreign exchange on translation	21,005	45,324	66,329
Disposals	-	(87,000)	(87,000)
As at May 31, 2023	\$ 286,976	\$ 619,228	\$ 906,204
Accumulated Depreciation			
As at May 31, 2021	\$ (4,083)	\$ (254,084)	\$ (258,167)
Depreciation	(49,967)	(77,897)	(127,864)
Foreign exchange on translation	(1,964)	(20,065)	(22,029)
Write-off of leasehold improvements and disposals	-	100,007	100,007
As at May 31, 2022	(56,014)	(252,039)	(308,053)
Depreciation	(54,072)	(54,641)	(108,713)
Foreign exchange on translation	(9,528)	(15,251)	(24,779)
Disposals	-	84,019	84,019
As at May 31, 2023	\$ (119,614)	\$ (237,912)	\$ (357,526)
Net Book Value			
As at May 31, 2022	\$ 209,957	\$ 406,695	\$ 616,652
As at May 31, 2023	\$ 167,362	\$ 381,316	\$ 548,678

7. VAT Receivable

	May 31, 2023	May 31, 2022
VAT receivable	\$ 254,463	\$ 566,242

As at May 31, 2023, the Corporation has \$254,463 (2022 - \$566,242) in VAT receivable refundable from Peruvian tax authorities, net of VAT that is available to the Corporation which is not refundable but can be offset against future VAT payable. During the year ended May 31, 2023, the Corporation received VAT in the amount of 1,407,816 soles (\$483,866) (2022 - 1,773,317 soles (\$607,890)). Management has determined to classify VAT receivable as long-term due to uncertainty of timing when it will be received.

8. Lease Obligation

Balance – May 31, 2021	\$	236,769
Interest expense		13,770
Lease payments		(53,130)
Currency translation adjustment		17,700
Balance – May 31, 2022		215,109
Interest expense		11,841
Lease payments		(62,730)
Currency translation adjustment		13,930
Balance – May 31, 2023	\$	178,150
Which consists of:		
Current portion of lease obligation	\$	57,486
Non-current portion of lease obligation		120,664
	\$	178,150

On May 1, 2021, the Corporation entered into a lease agreement for its Peruvian warehouse for a five-year term, expiring April 30, 2026. Pursuant to this lease, the Corporation is obligated to pay basic rent of 15,000 soles (approximately \$4,737) on a monthly basis. The right-of-use asset and lease obligation were measured at the present value of the lease payments and discounted using an incremental borrowing rate of 6.4%.

9. Share Capital

(a) Authorized Share Capital

The Corporation is authorized to issue an unlimited number of common shares without par value.

(b) Issued Capital

During the year ended May 31, 2023, the Corporation issued common shares (“Shares”) as follows:

- On June 21, 2022, the Corporation completed the second and final tranche of a private placement of 10,470,451 units of the Corporation at a price of \$0.11 per Unit for gross proceeds of \$1,151,750. During the year ended May 31, 2022, \$60,280 has been received and recorded as subscriptions received. Each Unit consists of one common share in the capital of the Corporation and one-half of one common share purchase warrant. Each Warrant entitles the holder to purchase one additional Share at a price of \$0.20 per Share for a period of two years from closing of the private placement. The Corporation may accelerate the expiry of the Warrants in the event that for any ten consecutive trading days the closing price of the Shares is greater than \$0.30. The Corporation paid aggregate finder’s fees of \$60,164 and issued 513,736 finder’s warrants (“Finder’s Warrants”) in connection with the second tranche of the private placement. Each Finder’s Warrant is exercisable to purchase one additional Share at a price of \$0.20 per Share for a period of two years from closing of the private placement. The Finder’s Warrants were valued at \$26,644 using the Black-Sholes option pricing model. Combined with the first tranche that closed in May, the financing resulted in total gross proceeds of \$6,241,355.

9. Share Capital (continued)

(b) Issued Capital (continued)

- During the year ended May 31, 2023, the Corporation issued 3,484,121 shares in relation to the Aija Option valued at \$256,581. Of these shares, 1,250,000 were issued in relation to the amendments to the option agreement and 2,234,121 issued as part of its option payments.
- During June 2022, the Corporation issued 1,379,310 shares valued at \$200,000 issued as part of the Condor Option payments.

During the year ended May 31, 2022, the Corporation issued common shares (“Shares”) as follows:

- On May 24, 2022, the Corporation completed the first tranche of a non-brokered private placement of 46,269,134 units at a price of \$0.11 per unit for gross proceeds of \$5,089,605. Each unit consists of one common share in the capital of the Corporation and one-half of one common share purchase warrant (“Unit”). Each warrant entitles the holder to purchase one additional Share at a price of \$0.20 per Share for a period of two years from closing of the private placement (“Warrant”). The Corporation may accelerate the expiry of the Warrants in the event that for any ten consecutive trading days the closing price of the Shares is greater than \$0.30. The Corporation paid aggregate finder's fees of \$265,190 and issued 2,410,823 finder's warrants in connection with the first tranche of the private placement. Each Finder's Warrant is exercisable to purchase one Share at a price of \$0.20 per Share for a period of two years from closing of the private placement. The Finder's Warrants were valued at \$111,636 using the Black-Sholes option pricing model.

(c) Stock Options

The Corporation adopted a stock option plan (the “Plan”) whereby it can grant stock options to directors, officers, employees, and consultants of the Corporation. The maximum number of common shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Corporation at any time.

The changes in incentive stock options outstanding are summarized as follows:

	Weighted Average Exercise Price	Number of Shares Issued or Issuable on Exercise
Balance – May 31, 2021	\$0.41	10,010,000
Forfeited	\$0.46	(1,025,000)
Balance – May 31, 2022	\$0.41	8,985,000
Granted	\$0.075	4,200,000
Forfeited/Cancelled	\$0.37	(3,160,000)
Balance – May 31, 2023	\$0.28	10,025,000

During the year ended May 31, 2023, the Corporation granted 4,200,000 incentive stock options to employees and consultants exercisable for a period of five years from the date of grant. 25% of the options will vest immediately on the grant date, 25% of the options will vest every six months thereafter and are exercisable at a price of \$0.075 per common.

9. Share Capital (continued)

(c) Stock Options (continued)

The fair value of options vested has been estimated using the Black-Scholes option pricing model, assuming an average risk-free interest rate ranging of 3.34% (2022 - a range from 0.75% to 2.77%) per annum, an expected life of options of 5 (2022 - 4) years, an expected average volatility of 94.21% (2022 - ranging from 91.20% to 106.60%) based on historical data, and no expected dividends. The Corporation has estimated the dividend and forfeiture rate to be 0.00% based on historical dividend payments and historical forfeiture rates. Expected volatility was determined based on the historical movements in the closing price of the Corporation's common shares for a length of time equivalent to the expected life of each option.

Incentive stock options outstanding and exercisable at May 31, 2023 and 2022 are summarized as follows:

Expiry Date	Exercise Price	May 31, 2023	May 31, 2022
September 14, 2022	\$0.40	-	1,885,000
February 5, 2023	\$0.20	-	700,000
March 29, 2023	\$0.94	-	100,000
December 12, 2024	\$0.20	900,000	1,050,000
July 10, 2025	\$0.40	1,650,000	1,800,000
April 22, 2026	\$0.50	3,275,000	3,450,000
September 29, 2027	\$0.075	4,200,000	-
Weighted average life remaining		3.25	2.54
Total outstanding options	\$0.28	10,025,000	8,985,000
Total exercisable options	\$0.33	7,950,000	8,760,000

(d) Warrants

The changes in warrants outstanding are summarized as follows:

	Weighted Average Exercise Price	Number of Shares Issued or Issuable on Exercise
Balance – May 31, 2021	N/A	-
Issued	\$0.20	25,545,390
Balance – May 31, 2022	\$0.20	25,545,390
Issued	\$0.20	5,748,962
Balance – May 31, 2023	\$0.20	31,294,352

During the year ended May 31, 2023, the Corporation issued 5,235,226 investor warrants and 513,736 Finder's Warrants as part of the second tranche of the private placement, which closed June 21, 2022 (Note 9(b)).

During the year ended May 31, 2022, the Corporation issued 23,134,567 investor warrants and 2,410,823 Finder's Warrants as part of the first tranche of the private placement, which closed May 24, 2022 (Note 9(b)).

9. Share Capital (continued)

(d) Warrants (continued)

The fair value of Finder's Warrants uses the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.35% per annum, an expected life of 2 years, an expected volatility of 84.38% based on historical data, and no expected dividends. The Corporation has estimated the dividend and forfeiture rate to be 0.00% based on historical dividend payments and historical forfeiture rates. Expected volatility was determined based on the historical movements in the closing price of the Corporation's common shares for a length of time equivalent to the expected life of each warrant.

Warrants outstanding at May 31, 2023 and 2022 are summarized as follows:

Expiry Date	Exercise Price	May 31, 2023	May 31, 2022
May 24, 2024	\$0.20	25,545,390 ⁽¹⁾	25,545,390 ⁽¹⁾
June 21, 2024	\$0.20	5,748,962	-
Total outstanding warrants	\$0.20	31,294,352	25,545,390

⁽¹⁾ The Corporation may accelerate the expiry of the Warrants in the event that for any ten consecutive trading days the closing price of the shares is greater than \$0.30 per unit.

10. Exploration and Evaluation Expenditures

The Corporation incurred exploration and evaluation expenditures as follows:

	Year ended May 31, 2023	Year ended May 31, 2022
Drilling	\$ 404,656	\$ 1,584,144
Exploration support and administration	1,139,918	1,262,941
Field operations and consumables	318,999	487,206
Geological consultants	94,209	834,798
Permitting and environmental consulting	116,369	176,543
Sampling and geological costs	35,945	472,329
Transportation	160,042	184,364
	\$ 2,270,138	\$ 5,002,325

11. Income Tax

Income Tax Reconciliation

A reconciliation of income taxes at statutory rates to income taxes expense for the year is as follows:

	Year ended May 31, 2023	Year ended May 31, 2022
Loss before income taxes	\$ (3,482,147)	\$ (7,686,141)
Statutory tax rate	27%	27%
Recovery at statutory rate	(940,180)	(2,075,258)
Effect of different foreign statutory rates	(73,912)	(170,726)
Origination and reversal of temporary differences	(35,796)	-
Permanent differences	(183,595)	177,705
Foreign exchange on timing differences	(640,695)	(293,183)
Net change in benefits of tax attributes not recognized	1,874,178	2,361,462
	\$ -	\$ -

Tax Attributes Not Recognized

	May 31, 2023	May 31, 2022
Non-capital losses	\$ 41,741,647	\$ 35,132,493
Share issuance costs	\$ 504,273	\$ 577,170

As at May 31, 2023, the Corporation has non-capital losses of approximately \$10,909,000 (2022 - \$9,723,000) carried for Canadian income tax purposes. These non-capital losses expire beginning August 31, 2038.

The Corporation also has non-capital losses of approximately \$30,833,000 (2022 - \$25,409,000) carried forward for Peruvian income tax purposes which are available for application against future taxable income. These non-capital losses can be used indefinitely.

Future income tax benefits which may arise as a result of these losses have not been recognized in the financial statements as their realization is not probable.

12. Financial Instruments

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's primary exposure to credit risk is on its cash, which is being held in bank accounts. The cash is deposited in bank accounts held with one major bank in Canada; therefore, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies.

Foreign Currency Risk

The Corporation incurs expenditures in Canada and Peru. Foreign currency risk arises as the amount of the Peruvian sol and US dollar cash, intercompany balances, and payables will vary in Canadian dollar terms due to changes in exchange rates.

As at May 31, 2023 and 2022, the Corporation has not hedged its exposure to currency fluctuations.

12. Financial Instruments (continued)

Foreign Currency Risk (continued)

As at May 31, 2023 and 2022, the Corporation is exposed to currency risk through the following assets and liabilities denominated in Peruvian soles and US dollars:

	May 31, 2023		May 31, 2022	
	Sol	US\$	Sol	US\$
Cash	15,998	251,212	38,589	184,635
Accounts payable and accrued liabilities	(432,912)	(9,210)	(740,213)	(202,986)
Net	(416,914)	242,002	(701,624)	(18,351)
Canadian dollar equivalent	(154,258)	(329,195)	(240,517)	(23,209)

Based on the above net exposures as at May 31, 2023, a 5% (2022 - 5%) change in the CDN dollar/Peruvian sol and Canadian/US dollars exchange rate would impact the Corporation's income (loss) and comprehensive income (loss) by approximately \$8,000 and \$16,000 (2022 - \$12,000 and \$1,000), respectively.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risk relates to its ability to earn interest income on cash at variable rates. The risk is minimal.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in satisfying financial obligations as they become due. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At May 31, 2023, the Corporation has cash of \$2,251,365 (2022 - \$5,564,165), current liabilities of \$441,355 (2022 - \$692,439), and non-current liabilities of \$120,664 (2022 - \$165,053).

The amounts listed below are the remaining contractual maturities for financial liabilities held by the Corporation:

As at	May 31, 2023		May 31, 2022	
Due Date				
0 – 90 days	\$	400,528	\$	657,809
91 – 365 days		49,950		46,278
More than 1 year		127,650		179,970
	\$	578,128	\$	884,057

Determination of Fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Management considers that due to their short-term nature the carrying amounts of financial assets and financial liabilities, which include cash, and accounts payables and accrued liabilities are assumed to approximate their fair values.

12. Financial Instruments (continued)

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Unadjusted quoted prices 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).

13. Management of Capital

The Corporation's primary objectives in capital management are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of the Soledad and Aija Projects. Capital is comprised of the Corporation's shareholders' equity. The Corporation manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. To maintain or adjust its capital structure, the Corporation may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash. The Corporation is not subject to any externally imposed capital requirements. The Corporation did not change its approach to capital management during the year ended May 31, 2023.

14. Segmented Information

The Corporation operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Corporation's primary exploration and evaluation assets are located in Peru and its corporate assets, comprising mainly cash, are located in Canada. The Corporation is in the exploration stage and has no reportable segment revenues or operating results.

The Corporation's total assets are segmented geographically as follows:

	Canada	Peru	Total
As at May 31, 2023			
Current assets	\$ 1,971,652	\$ 432,871	\$ 2,404,523
Prepays	-	87,567	87,567
Property and equipment	1,921	546,757	548,678
Value-added tax receivable	-	254,463	254,463
Exploration and evaluation assets	-	5,946,838	5,946,838
	\$ 1,973,573	\$ 7,268,496	\$ 9,242,069
As at May 31, 2022			
Current assets	\$ 5,487,835	\$ 317,512	\$ 5,805,347
Exploration and evaluation assets	-	3,899,630	3,899,630
Property and equipment	-	616,652	616,652
Value-added tax receivable	-	566,242	566,242
	\$ 5,487,835	\$ 5,400,036	\$ 10,887,871

15. Related Party Disclosures

The Corporation's related parties include key management personnel and companies related by way of directors or shareholders in common.

(a) Key Management Personnel Compensation

Related party transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. During the years ended May 31, 2023 and 2022, the Corporation paid and/or accrued the following compensation for salaries, fees, and stock-based compensation to key management personnel:

	May 31, 2023	May 31, 2022
Fees		
Management fees included in salaries and wages	\$ 202,903	\$ 257,428
Accounting fees included in legal and professional fees	102,000	102,000
Director fees included in consulting fees	143,471	167,663
Stock-based compensation	176,459	414,456
	\$ 624,833	\$ 941,547

(b) Due to Related Parties

The Corporation has the following amounts due to related parties included in accounts payable and accrued liabilities. The amounts owing are non-interest-bearing, unsecured and due on demand.

	May 31, 2023	May 31, 2022
Directors	\$ 115,605	\$ 67,648
	\$ 115,605	\$ 67,648

16. Contingency

During the year ended May 31, 2022, a former employee who had the role of community relations manager for the Corporation's subsidiary filed a claim against the Corporation alleging he suffered an injury while working with the Corporation and is seeking compensation for damages of up to US\$390,000. The former employee was employed during 2019 and has provided no evidence such injury occurred while employed by the Corporation nor if such injury was a direct result of his employment. The Corporation believes the claim is without merit and intends to vigorously defend its position. On June 28, 2023, the court submitted the sentence, in which the Judge ruled in favor of the Corporation, declaring the former employee is not entitled to the requested severance. The Judge concluded that the former employee was not able to prove that he suffered the alleged labor accident, and therefore, there can not be any severance in his favor. The former employee has filed an appeal against the first instance ruling, and this must be resolved before the Superior Court of Lima. This review process will take approximately one year, but the Corporation is confident that the outcome will be the same.

17. Subsequent Event

On June 22, 2023, the Corporation issued 1,379,310 common shares as per the updated agreement with Condor and paid US\$1,000,000 (Note 5).