



# **ELEMENT 29**

RESOURCES

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**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian dollars)**

**Years Ended December 31, 2022 and 2021**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Element 29 Resources Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of Element 29 Resources Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that as at December 31, 2022, the Company has accumulated net losses of \$11,443,229 since inception and has working capital of \$868,931. The operations of the Company have primarily been funded by the issuance of common shares and has not generated revenues. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### *Assessment of Impairment Indicators of Exploration and Evaluation Assets ("E&E Assets")*

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was \$13,121,714 as of December 31, 2022. As more fully described in Notes 3 and 4 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.



The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Obtaining an understanding of the key controls associated with evaluating the E&E Assets for indicators of impairment.
- Evaluating management's assessment of impairment indicators
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Reviewing the Company's recent expenditure activity and expenditure budgets for future periods.
- Assessing compliance with agreements and expenditure requirements
- Evaluating, on a test basis, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

#### ***Other Information***

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

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

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

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

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

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

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

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

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

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

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

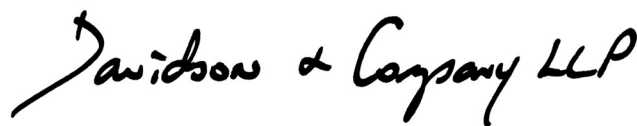
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael MacLaren.

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

Vancouver, Canada

Chartered Professional Accountants

April 28, 2023

**Element 29 Resources Inc.**  
**Consolidated Statements of Financial Position**

As at December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

	Note	2022	2021
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 1,079,849	\$ 7,832,949
Restricted Cash		25,000	25,000
Receivables		57,535	30,178
Prepaid expenses		144,422	50,082
Deposit		22,860	8,900
		<b>1,329,666</b>	7,97,109
<b>Non-current assets</b>			
Property and equipment	5	91,607	75,993
Exploration and evaluation assets	6	13,121,714	9,780,611
		<b>13,213,321</b>	9,856,604
<b>Total assets</b>		<b>\$ 14,542,987</b>	\$ 17,803,713
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 420,735	\$ 751,337
Loan payable	7	40,000	40,000
<b>Total liabilities</b>		<b>460,735</b>	791,337
<b>Shareholders' equity</b>			
Share capital	8	21,796,857	21,796,857
Reserves		3,008,624	1,416,811
Subscriptions received in advance	15	720,000	-
Deficit		(11,443,229)	(6,201,292)
<b>Total shareholders' equity</b>		<b>14,082,252</b>	17,012,376
<b>Total liabilities and shareholders' equity</b>		<b>\$ 14,542,987</b>	\$ 17,803,713

**Nature of operations and going concern (Note 1)**

**Subsequent event (Note 15)**

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

**Element 29 Resources Inc.**  
**Consolidated Statements of Comprehensive Loss**

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

	Note	2022	2021
<b>General and administrative expenses</b>			
Administration and office		\$ 153,163	\$ 138,326
Corporate development		263,027	124,136
Investor relations		700,987	606,826
Personnel costs	10	834,962	829,836
Professional fees		237,186	297,234
Filing fees		111,125	48,586
Foreign exchange (gain) loss		(188,942)	2,651
Share-based compensation	8,10	1,591,813	873,075
Depreciation	5	17,762	5,140
Other		7,053	(2,274)
<b>Operating loss</b>		<b>3,728,136</b>	<b>2,923,536</b>
Interest income		(27,702)	(17,817)
Impairment charge	6	1,541,503	-
<b>Loss and comprehensive loss for the year</b>		<b>\$ 5,241,937</b>	<b>\$ 2,905,719</b>
<b>Loss per common share</b>			
Basic and fully diluted		\$ (0.07)	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>		<b>79,240,860</b>	<b>68,714,617</b>
<b>Total common shares issued and outstanding</b>	8	<b>79,240,860</b>	<b>79,240,860</b>

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

## Element 29 Resources Inc.

### Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

	Note	Number of Shares	Share capital	Reserves	Subscriptions received in advance	Deficit	Total
<b>Balance at December 31, 2021</b>		79,240,860	\$ 21,796,857	\$ 1,416,811	\$ -	\$ (6,201,292)	\$ 17,012,376
Share subscriptions received in advance	15	-	-	-	720,000	-	720,000
Loss and comprehensive loss		-	-	-	-	(5,241,937)	(5,241,937)
Share-based compensation	8	-	-	1,591,813	-	-	1,591,813
<b>Balance at December 31, 2022</b>		<b>79,240,860</b>	<b>\$ 21,796,857</b>	<b>\$ 3,008,624</b>	<b>\$ 720,000</b>	<b>\$ (11,443,229)</b>	<b>\$ 14,082,252</b>

	Note	Number of Shares	Share capital	Reserves	Subscriptions received in advance	Deficit	Total
<b>Balance at December 31, 2020</b>		66,791,368	\$ 15,068,459	\$ 483,657	\$ -	\$ (3,295,573)	\$ 12,256,543
Issuance of share capital – share options		1,490,000	213,901	(54,901)	-	-	159,000
Issuance of share capital – private placement		11,498,000	6,783,820	114,980	-	-	6,898,800
Share issuance costs		-	(215,472)	-	-	-	(215,472)
Cancellation of common shares		(538,508)	(53,851)	-	-	-	(53,851)
Loss and comprehensive loss		-	-	-	-	(2,905,719)	(2,905,719)
Share-based compensation		-	-	873,075	-	-	873,075
<b>Balance at December 31, 2021</b>		<b>79,240,860</b>	<b>\$ 21,796,857</b>	<b>\$ 1,416,811</b>	<b>\$ -</b>	<b>\$ (6,201,292)</b>	<b>\$ 17,012,376</b>

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

**Element 29 Resources Inc.**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2022 and 2021  
(expressed in Canadian dollars, except where indicated)

	Note	2022	2021
<b>Cash flows used in operating activities</b>			
Loss and comprehensive loss for the year		\$ (5,241,937)	\$ (2,905,719)
Items not affecting cash:			
Share-based compensation	8	1,591,813	873,075
Unrealized foreign exchange gain		7,277	1,108
Depreciation	5	17,762	5,140
Impairment charge	6	1,541,503	-
Other		-	1,848
		(2,083,582)	(2,024,548)
Changes in non-cash operating working capital:			
(Increase) decrease in receivables and prepaid expenses		(121,698)	1,885
(Decrease) increase in accounts payable and accrued liabilities		(8,246)	20,372
Increase in deposits		(13,960)	(8,900)
		(2,227,486)	(2,011,191)
<b>Cash flows used in investing activities</b>			
Purchase of equipment		(28,093)	(80,534)
Restricted cash		-	(25,000)
Payments for exploration and evaluation assets	6	(5,217,521)	(3,112,361)
		(5,245,614)	(3,217,895)
<b>Cash flows from financing activities</b>			
Subscriptions received in advance	15	720,000	-
Proceeds from issuance of common shares – share options	8	-	159,000
Proceeds from issuance of common shares – private placement	8	-	6,898,800
Share issuance costs	8	-	(215,472)
		720,000	6,842,328
<b>(Decrease) increase in cash</b>		<b>(6,753,100)</b>	1,613,242
<b>Cash - beginning of year</b>		<b>7,832,949</b>	6,219,707
<b>Cash - end of year</b>		<b>\$ 1,079,849</b>	\$ 7,832,949
<b>Supplemental cash flow information (Note 12)</b>			

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



# Element 29 Resources Inc.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

### 1 Nature of operations and going concern

#### Nature of operations

Element 29 Resources Inc., together with its subsidiaries (collectively referred to as the “Company” or “E29”), is focused on the exploration of mineral property interests in Peru.

The Company was incorporated on August 30, 2017 in British Columbia. The Company’s registered office is at 1900-1040 West Georgia Street, Vancouver, BC, V6E 4H3, Canada. The Company completed an initial public offering (“IPO”) on December 3, 2020 and the Company’s common shares commenced trading on the TSX Venture Exchange (“TSX-V”) on December 7, 2020 under the symbol “ECU”. On May 27, 2021, the Company commenced trading on the Over-the-Counter OTCQB Venture Market (“OTCQB”) under the symbol “EMTRF”. On November 16, 2022, the Company commenced trading on the Bolsa de Valores de Lima Exchange (“BVL”) under the symbol “ECU”.

All amounts are expressed in Canadian dollars, except for certain amounts denoted in United States dollars (“US\$”).

The Company has not yet determined whether its exploration and evaluation assets contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

#### Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has not generated revenues from its operations to date. As at December 31, 2022, the Company has accumulated net losses of \$11,443,229 since inception and has working capital of \$868,931. The operations of the Company have primarily been funded by the issuance of common shares. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments may be necessary to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

### 2 Basis of presentation

#### Basis of presentation

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 have been prepared on a going concern basis, and in making the assessment that the Company is a going concern, management have taken into account all available information about the future, which is at least, but is not limited to, the years ended December 31, 2022 and 2021.

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at fair value.

The Board of Directors of the Company approved these consolidated financial statements and authorized them for issue on April 28, 2023.

#### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

# Element 29 Resources Inc.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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(expressed in Canadian dollars, except where indicated)

- Candelaria Resources S.A.C. (“Candelaria”)
- Elida Resources S.A.C. (“Elida”)
- Pahuay Resources S.A.C. (“Pahuay”)

All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated upon consolidation.

### 3 Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from management’s best estimates as additional information becomes available.

Significant areas requiring the use of management estimates and judgments include:

- i. The determination of the fair value of the Company’s equity instruments for the calculation of the share-based compensation.
- ii. The assessment of the Company’s ability to continue as a going concern involves judgment regarding future funding available to identify new business opportunities and working capital requirements, the outcome of which is uncertain.
- iii. The determination that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including: geologic and other technical information; a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves; the quality and capacity of existing infrastructure facilities; evaluation of permitting and environmental issues; and local support for the project.
- iv. In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business, results of operations and the timing of proposed transactions at this time.

### 4 Significant accounting policies

The accounting policies set out below have been applied consistently by the Company and its wholly owned subsidiaries and to the periods presented in these consolidated financial statements.

#### a) Financial instruments

##### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

# Element 29 Resources Inc.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

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### *Measurement*

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. The Company's cash, restricted cash, receivables, deposit, accounts payables, accrued liabilities and loan payable are classified as amortized cost.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss.

Financial assets at FVTOCI

Financial assets at FVTOCI are initially recorded at fair value adjusted for transaction costs. Dividends are recognized as income in the consolidated statements of comprehensive income (loss) unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of FVOTCI investment are recognized in other comprehensive income (loss) and are never reclassified to profit or loss.

### *Impairment*

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.

### *Derecognition*

Financial assets

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired.

### **b) Cash and cash equivalents**

Cash and cash equivalents include cash in banks and certificates of term deposits with maturities of less than three months from inception, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of loss in value.

As at December 31, 2022 and 2021, the Company did not hold any cash equivalents.

**Element 29 Resources Inc.**  
**Notes to Consolidated Financial Statements**  
For the years ended December 31, 2022 and 2021  
(expressed in Canadian dollars, except where indicated)

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**c) Exploration and evaluation assets**

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company are capitalized on an individual property basis until the property is put into production, sold, abandoned, or determined to be impaired. Administration costs and general exploration costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation costs are tested for impairment and subsequently transferred to property and equipment. When a property is placed into commercial production, capitalized costs will be depleted using the units-of-production method.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

**d) Property and equipment**

Items of property and equipment are recorded at cost less accumulated depletion and amortization. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management, including estimated decommissioning and restoration costs and, where applicable, borrowing costs. If significant parts of an item of plant and equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment.

Depreciation is recorded on a straight-line balance basis over the estimated useful lives of the individual assets.

No depletion and amortization is recorded until the asset is substantially complete and available for use.

**e) Impairment of non-current assets**

The Company reviews the carrying amounts of its non-financial assets every reporting period. If there is any indication that the assets or cash-generating unit ("CGU") may not be fully recoverable, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs to sell is estimated using a discounted cash flow approach with inputs and assumptions consistent with those at market. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

**f) Decommissioning obligations**

The Company recognizes liabilities for statutory, contractual, legal or constructive obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning obligation is recognized at its net present value in the period in which it is incurred, using a discounted cash flow technique with market-based risk-free discount rates and estimates of the timing and amount of the settlement of the obligation.

Upon initial recognition of the liability, the corresponding decommissioning cost is added to the carrying amount of the related asset. Following initial recognition of the decommissioning obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to significant estimates including the current discount rate, the amount or timing of the underlying cash flows needed to settle the obligation and the requirements of the relevant legal and regulatory framework. Subsequent changes in the provisions resulting from new disturbance, updated cost estimates, changes to estimated lives of operations and revisions to discount rates are also capitalized to the related asset. Amounts capitalized are depreciated over the lives of the assets to which they relate. The amortization or unwinding of the discount applied in

# Element 29 Resources Inc.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

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establishing the net present value of provisions is charged to expense and is included within finance costs in the consolidated statement of comprehensive loss.

### **g) Other provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

### **h) Taxation**

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of unused tax losses and credits, as well as temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on enacted or substantively enacted laws at the reporting date.

The Company computes the provision for deferred income taxes under the liability method. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Future taxable profits are estimated using an income forecast derived from cash flow projections, based on detailed life-of-mine plans and corporate forecasts. Where applicable, the probability of utilizing tax losses or credits is evaluated by considering risks relevant to future cash flows, and the expiry dates after which these losses or credits can no longer be utilized.

Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, associates and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future.

The Company is subject to assessments by various taxation authorities, who may interpret tax legislation differently from the Company. The final amount of taxes to be paid depends on a number of factors, including the outcomes of audits, appeals or negotiated settlements. Such differences are accounted for based on management's best estimate of the probable outcome of these matters.

The Company must make significant estimates and judgments in respect of its provision for income taxes and the composition and measurement of its deferred income tax assets and liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question that may, upon resolution in the future, result in adjustments to the amount of deferred income tax assets and liabilities; those adjustments may be material.

### **i) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component and the common shares are valued at their fair value. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded as reserves.

# Element 29 Resources Inc.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

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### **j) Share-based compensation**

The Company's stock option plan allows the Company's directors, officers, employees, and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based compensation expense with a corresponding increase in reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Where options are subject to vesting, each vesting tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Share-based compensation expense is recognized over the tranche's vesting period by a charge to profit or loss. For employees, the compensation expense is recognized over the requisite service period which approximates the vesting period. Compensation expense for share options granted to non-employees is recognized over the contract services period or, if none exists, from the date of grant until the options vest. Compensation associated with unvested options granted to non-employees is re-measured on each statement of financial position date.

At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods or services received.

### **k) Deferred share units**

The Company has established a deferred share plan under which deferred share units ("DSUs") are granted to directors of the Company as part of long-term incentive compensation. DSUs are classified as equity settled share-based payment transactions as the participants will receive either common shares of the Company or payment of cash, or any combination of the foregoing, as determined by the Company in its sole discretion, following a redemption event. As such, the Company recognizes the expense based on the quoted market price of the Company's common shares at the grant date and a corresponding increase in equity for the eventual redemption when the DSUs are issued.

### **l) Restricted share units**

The Company has established a restricted share plan under which restricted share units ("RSUs") are granted to eligible directors, employees and contractors of the Company. The RSUs are considered equity-settled and are measured using the quoted market price of the Company's common shares at the grant date and recognized as share-based compensation over the vesting period, with a corresponding amount recognized as equity.

### **m) Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average common shares outstanding are increased to include additional shares for the assumed exercise of share options and equity settled instruments, if dilutive. The number of additional common shares is calculated by assuming that outstanding share options and equity settled instruments were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods.

### **n) Related party transactions**

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

### **o) Foreign currency translation**

These consolidated financial statements are presented in Canadian dollars. The functional currency and reporting currency of the Company and its subsidiaries is the Canadian dollar. Accordingly, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the statement of financial position date while non-monetary assets and liabilities denominated in a foreign currency are translated at historical rates. Revenue and expense items denominated in a foreign currency are translated at exchange rates prevailing when such items are recognized in the statement

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

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of comprehensive loss. Exchange gains or losses arising on translation of foreign currency items are included in profit or loss.

#### **p) Right-of-use assets and lease liability**

At inception of a contract, the Company 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 for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, 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. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

#### **q) Standards issued or amended but not yet effective**

*Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* – the amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

**Element 29 Resources Inc.**  
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## 5 Property and equipment

	<b>Equipment</b>
<b>Cost</b>	
Balance at December 31, 2020	\$ 2,601
Additions	78,532
As at December 31, 2021	\$ 81,133
Additions	33,376
As at December 31, 2022	\$ 114,509
<b>Accumulated depreciation</b>	
Balance at December 31, 2020	\$ -
Depreciation for the year	5,140
As at December 31, 2021	\$ 5,140
Depreciation for the year	17,762
As at December 31, 2022	\$ 22,902
<b>Carrying amounts</b>	
As at December 31, 2021	\$ 75,993
As at December 31, 2022	\$ 91,607

## 6 Exploration and evaluation assets

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

### Flor de Cobre copper project

The Company owns a 100% interest of the Flor de Cobre copper project, with the exception of certain claims (“Candelaria claims”), where it has an option to earn 100% interest.

The Company can earn its 100% interest in the Candelaria claims at Flor de Cobre by making payments to the vendor in the total amount of approximately US\$5 million over five years between 2020 and 2024. The Company is currently behind on the payments under the option agreement and is attempting to negotiate an amendment with the vendor. An additional US\$6 million payment would be due on the positive feasibility study for the claim area.

### Elida copper project

The Company owns 100% of the Elida copper project, subject to a 2% NSR to Globetrotters.

### Pahuay copper skarn project

The Company owns 100% interest of the Pahuay copper skarn project, subject to a 2% NSR to Globetrotters. The property is located in Peru.

### Muñaoarjo copper skarn project

The Company owns 100% interest of the Muñaoarjo copper skarn porphyry project, subject to a 2% NSR to Globetrotters. The project is located in Peru.



## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

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#### Impairment of Non-Current Assets

During the year ended December 31, 2022, the Company re-evaluated the carrying value of the Pahuay and Muñaorjo projects and, as a result of this review, recorded an impairment charge of \$1,541,503 (2021 – nil)

Expenditures for the year ended December 31, 2022 were as follows:

	Flor de Cobre	Elida	Pahuay and Muñaorjo	Total
<b>Balance at December 31, 2021</b>	<b>\$ 1,910,378</b>	<b>\$ 6,342,479</b>	<b>\$ 1,527,754</b>	<b>\$ 9,780,611</b>
Additions:				
Option payments	391,128	-	-	391,128
Drilling	1,227,127	659,557	-	1,886,684
Geological and mapping	19,723	159,026	-	178,749
Geophysics and geochemistry	115,130	114,598	-	229,728
Permitting, concessions and taxes	442,096	275,911	991	718,998
Community, health, safety and environment	127,277	281,208	-	408,485
Technical report	-	35,286	-	35,286
Geology salaries	63,666	97,918	-	161,584
Property maintenance and administration	327,316	531,889	12,759	871,964
Total additions for the year	2,713,463	2,155,393	13,750	4,882,606
Impairment charge	-	-	(1,541,503)	(1,541,503)
<b>Balance at December 31, 2022</b>	<b>\$ 4,623,841</b>	<b>\$ 8,497,872</b>	<b>\$ 1</b>	<b>\$ 13,121,714</b>

Expenditures for the year ended December 31, 2021 were as follows:

	Flor de Cobre	Elida	Pahuay and Muñaorjo	Total
<b>Balance at December 31, 2020</b>	<b>\$ 1,449,929</b>	<b>\$ 3,173,864</b>	<b>\$ 1,511,778</b>	<b>\$ 6,135,571</b>
Additions:				
Option payments	339,344	-	-	339,344
Geological and mapping	1,721	650,959	-	652,680
Geophysics	41,839	26,678	-	68,517
Geochemistry and drilling	-	1,325,934	-	1,325,934
Permitting	1,159	2,588	-	3,747
Community, health, safety and environment	18,927	280,791	-	299,718
Concessions and taxes	435	502,848	1,559	504,842
Technical report	905	3,115	-	4,020
Geology salaries	-	224,661	-	224,661
Property maintenance and administration	56,119	151,041	14,417	221,577
Total additions for the year	460,449	3,168,615	15,976	3,645,040
<b>Balance at December 31, 2021</b>	<b>\$ 1,910,378</b>	<b>\$ 6,342,479</b>	<b>\$ 1,527,754</b>	<b>\$ 9,780,611</b>

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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## 7 Loan payable

The Company entered into an arrangement with its principal banker for a \$40,000 Canada Emergency Business Account (“CEBA Loan”) that was launched in April 2020. The CEBA Loan has an initial term date of December 31, 2022 (the “Initial Term Date”) and has been extended to December 31, 2023. The CEBA Loan is non-revolving with an interest rate of 0% per annum until the Initial Term Date and 5% per annum thereafter, calculated daily and paid monthly. The CEBA Loan can be repaid at any time without penalty.

## 8 Share capital

### a) Common shares

The Company’s authorized share capital consists of unlimited common shares without par value. At December 31, 2022, the Company had 79,240,860 (December 31, 2021 – 79,240,860) shares issued and outstanding and 5,654,878 common shares (2021 – 11,309,754) held in escrow.

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### b) Issued share capital

The Company had no share capital transactions for the year ended December 31, 2022

The Company’s share capital transactions for the year ended December 31, 2021 as follows:

- On December 14, 2021, the Company closed a non-brokered private placement consisting of 11,498,000 units at a price of \$0.60 per unit which raised gross proceeds of \$6,898,800. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercisable to acquire one share at a price of \$0.85 per share for a period of three years from the closing date. The warrants were determined to have a value of \$114,980 using the residual value method. The Company paid a finder’s fee of \$116,262.
- On September 25, 2021, the former Chief Executive Officer and President retired from the Company and 538,508 common shares, with a value of \$53,851, in relation to a promissory note (Note 10) were returned to treasury and cancelled.

### c) Share options

The Company provides share-based compensation to its directors, officers, employees, and consultants through grants of share options.

The Company has adopted a stock option plan (the “Plan”), as amended, to grant options to directors, officers, employees and consultants to acquire up to 10% of the issued and outstanding shares of the Company. Vesting is determined at the discretion of the Board of Directors.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted.

The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the share options. Since the Company has not paid and does not anticipate paying dividends on its common shares, the expected dividend yield is assumed to be zero. Companies are required to utilize an estimated forfeiture rate when calculating the share-based compensation expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of nil in determining the share-based compensation expense recorded in the accompanying Consolidated Statements of Comprehensive Loss.

**Element 29 Resources Inc.**  
**Notes to Consolidated Financial Statements**  
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Share option transactions are summarized as follows:

	<b>Number of share options</b>	<b>Weighted average exercise price \$</b>
Outstanding – December 31, 2020	3,365,000	0.24
Exercised	(1,490,000)	0.11
Granted	2,875,000	0.46
Cancelled	(925,000)	0.37
<b>Outstanding – December 31, 2021</b>	<b>3,825,000</b>	<b>0.42</b>
Granted	2,845,000	0.57
Cancelled	(60,000)	0.57
<b>Outstanding – December 31, 2022</b>	<b>6,610,000</b>	<b>0.49</b>

At December 31, 2022, the following share options were outstanding:

<b>Number of share options</b>	<b>Number of share options vested</b>	<b>Exercise price per share option \$</b>	<b>Expiry date</b>
300,000	300,000	0.30	August 23, 2024
200,000	200,000	0.59	November 28, 2024
200,000	200,000	0.30	May 19, 2025
350,000	350,000	0.30	June 25, 2025
150,000	150,000	0.30	June 29, 2025
150,000	150,000	0.50	October 28, 2025
225,000	225,000	0.50	November 9, 2025
2,100,000	2,100,000	0.45	February 3, 2026
150,000	150,000	0.45	April 7, 2026
2,285,000	1,142,500	0.57	March 1, 2027
500,000	250,000	0.59	March 29, 2027
6,610,000	5,217,500		

	<b>2022</b>	<b>2021</b>
Weighted average exercise price for exercisable share options	<b>\$ 0.46</b>	\$ 0.40
Weighted average share price for share options exercised	<b>n/a</b>	\$ 0.11
Weighted average years to expiry for exercisable share options	<b>3.16 years</b>	3.94 years

For the year ended December 31, 2022, the total share-based compensation charges relating to options granted and vested to directors, officers, employees and consultants was \$1,242,460 (2021 - \$873,075).

The weighted average fair value at date of grant for the options granted during the year ended December 31, 2022 was \$0.43 (2021 - \$0.36) per option.

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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

	2022	2021
Risk-free interest rate	1.72%	0.47%
Expected life of share options (years)	5.0 years	4.86 years
Expected volatility	97.43%	114.06%
Expected dividend	0.00%	0.00%

#### d) Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of share purchase warrants	Weighted average exercise price
Outstanding as at December 31, 2020	9,716,392	\$0.64
Expired	(394,175)	0.50
Granted	5,749,000	0.85
Outstanding as at December 31, 2021	15,070,678	0.72
Outstanding as at December 31, 2022	15,070,678	\$0.72

At December 31, 2022, the following share purchase warrants were outstanding:

Number of share purchase warrants	Exercise price per share purchase warrant \$	Expiry date
6,655,200	0.70	December 3, 2023
2,666,478	0.50	December 3, 2023
5,749,000	0.85	December 14, 2024
15,070,678		

No share purchase warrants were exercised as at December 31, 2022.

On December 14, 2021, the Company completed a unit private placement which included 5,749,000 share purchase warrants exercisable at \$0.85 per share for a period of three years.

#### e) Deferred share units

DSUs are granted to the Company's directors as a part of compensation under the terms of the Company's deferred share units plan (the "DSU Plan"). Each DSU entitles the participant to receive the value of one common share of the Company (a "Common Share"). The maximum number of awards of DSU's and all other security-based compensation arrangements shall not exceed 10% of the Company's outstanding shares.

Participants are entitled to the value of the Common Share upon termination of their service. In accordance to the DSU Plan, upon each vesting date the Company shall decide at, at its sole discretion whether, participants receive (a) the issuance of Common Shares equal to the number of DSUs vesting, or (b) a cash payment equal to the number of vested DSUs multiplied by the fair market value of a Common Share, calculated as the closing price of the Common Shares on the TSX-V for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

On the grant date of DSUs, the Company determines whether it has a present obligation to settle in cash. If the Company has a present obligation to settle in cash, the DSUs are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company has a present obligation to settle in cash if the Company has a past practice or a stated policy of settling in

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

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cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, DSUs are accounted for as equity settled share-based payments and are valued using the share price of the Common Share on grant date. Since the Company controls the settlement, the DSU's are considered equity settled.

At December 31, 2022, the following DSUs were outstanding:

	Number of DSUs
Outstanding – December 31, 2021	-
Granted	300,000
<b>Outstanding – December 31, 2022</b>	<b>300,000</b>

During the year ended December 31, 2022, the Company granted 300,000 DSUs to the Company's directors. The Company recorded share-based compensation of \$171,000 (2021 - \$nil) related to the DSUs granted in the year ended December 31, 2022. The DSUs granted in 2022 vested immediately.

The fair value per DSU granted during fiscal 2022 was determined to be \$0.57 (2021 - \$nil) which is the share price of the Company on the grant date.

#### f) Restricted Share Units

RSUs are granted to the Company's directors, officers, employees and consultants as a part of compensation under the terms of the Company's restricted share units plan (the "RSU Plan"). Each RSU entitles the participant to receive the value of one Common Share. The maximum number of awards of RSU's and all other security based compensation arrangements shall not exceed 10% of the Company's outstanding shares.

The number of RSUs awarded and underlying vesting conditions are determined by the Board of Directors in its discretion. In accordance with the RSU Plan, upon each vesting date the Company shall decide, at its sole discretion, whether participants receive (a) the issuance of Common Shares equal to the number of RSUs vesting, or (b) a cash payment equal to the number of vested RSUs multiplied by the fair market value of a Common Share, calculated as the closing price of the Common Shares on the TSX-V for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

On the grant date of RSUs, the Company determines whether it has a present obligation to settle in cash. If the Company has a present obligation to settle in cash, the RSUs are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company has a present obligation to settle in cash if the Company has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, RSUs are accounted for as equity settled share-based payments and are valued using the share price of the Common Share on grant date. Since the Company controls the settlement, the RSU's are considered equity settled.

At December 31, 2022, the following RSUs were outstanding:

	Number of RSUs	Number of RSUs vested
Outstanding – December 31, 2021	-	-
Granted	500,000	-
<b>Outstanding – December 31, 2022</b>	<b>500,000</b>	<b>-</b>

During the year ended December 31, 2022, the Company granted 500,000 RSUs to the Company's directors, officers, employees and consultants. For the year ended December 31, 2022, the Company recorded share-based compensation of \$178,353 (2021 - \$nil) related to the RSUs vested during the year. The RSUs vest 50% after the first anniversary of the grant date and 50% after the second anniversary of the grant date.

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

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The fair value per RSU granted during fiscal 2022 was determined to be \$0.57 (2021 – \$nil) which is the share price of the Company on the grant date.

#### g) Loss per common share

Net loss per common share information in these consolidated financial statements is computed by dividing the net loss attributable to common shares by the weighted average number of common shares outstanding during the year. All share options and share purchase warrants outstanding at each year end have been excluded from the weighted average share calculation as they are anti-dilutive.

## 9 Income tax

	2022	2021
Loss for the year before income taxes	\$ (5,241,937)	\$ (2,905,719)
Statutory rate	27.00%	27.00%
Expected income tax recovery	(1,415,000)	(785,000)
Change in statutory, foreign tax exchange rates and other	(37,000)	(2,000)
Permanent differences	938,000	241,000
Share issue costs	-	(57,000)
Adjustment to prior years provision versus statutory tax return	(110,000)	(268,000)
Change in unrecognized deductible temporary differences	624,000	870,000
<b>Total income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's deferred income tax assets that have not been recognized in these consolidated financial statements is as follows:

	2022	2021
Deferred income tax assets:		
Exploration and evaluation assets	\$ 11,000	\$ 7,000
Property and equipment	23,000	-
Share issuance costs	105,000	152,000
Non-capital losses available for future periods	2,519,000	1,515,000
	<b>2,298,000</b>	<b>1,674,000</b>
Unrecognized tax assets	(2,298,000)	(1,674,000)
<b>Net deferred income tax</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has available for deduction against future taxable income non-capital losses of approximately \$7.9 million (2021 - \$5.6 million) in Canada and \$0.1 million (2021 - \$0.1 million) in Peru. These losses, if not utilized, will expire through 2040. Subject to certain restrictions, the Company also has foreign resource expenditures available to reduce taxable income in future years. Deferred tax benefits which may arise as a result of these losses, resource expenditures, equipment, share issue and legal costs have not been recognized in these consolidated financial statements.

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## 10 Related party transactions

The Company's related parties include key management personnel and directors. Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Board of Directors and corporate officers, including the Company's Chief Executive Officer, Chief Financial Officer, Vice President Exploration and Corporate Secretary.

Direct remuneration paid to the Company's directors and key management personnel during the year ended December 31, 2022 and 2021 was as follows:

	2022	2021
Salaries and benefits – personnel costs	\$ 321,667	\$ 374,339
Consulting fees – personnel costs	391,707	258,121
Directors' fees – personnel costs	97,553	95,138
Share-based compensation	1,089,492	606,120
	\$ 1,900,419	\$ 1,333,718

As at December 31, 2022, included in accounts payable and accrued liabilities was an amount of \$22,275 (2021 - \$16,000) due to the Company's interim Chief Executive Officer.

In 2019, the former Chief Executive Officer and President was issued 2,000,000 common shares of the Company in exchange for a Promissory Note of \$200,000. The former Chief Executive Officer's Promissory Note bore interest at 2% per annum, would mature on September 15, 2022 and was secured by the 1,500,000 common shares of the Company acquired with the Promissory Note and were held in escrow. On September 25, 2021, the former Chief Executive Officer and President retired from the Company and the remaining balance of the Promissory Note of \$53,851 was cancelled. As a result, 538,508 common shares in relation to this Promissory Note were returned to treasury and cancelled.

## 11 Segmented information

The Company has one business segment, the exploration of mineral properties. As at December 31, 2022, all of the Company's significant non-current non-financial assets are located in Peru.

## 12 Supplemental cash flow information

	Note	2022	2021
Non-cash investing activities			
- Exploration and evaluation expenditures included in accounts payable		\$ 207,673	\$ 530,028
- Promissory notes	(i)	\$ -	\$ (53,851)

- (i) In 2021, the former Chief Executive Officer and President retired from the Company and cancelled the outstanding balance of \$53,851 relating to the Promissory Note to acquire common shares of the Company. The related common shares were returned to treasury of the Company and cancelled (Note 10).

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

## 13 Financial instruments

### a) Fair value classification of financial instruments

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Level 3 inputs are for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company's financial instruments consist of cash, restricted cash, receivables, deposits, accounts payable and accrued liabilities, and loan payable. Restricted cash represents collateral in respect of the corporate credit card facility with a financial institution.

The carrying values of these financial instruments approximate their fair value due to their short terms to maturity.

The following table summarizes the classification and carrying values of the Company's financial instruments at December 31, 2022 and 2021:

December 31, 2022	FVTPL	Amortized cost (financial assets)	Amortized cost (financial liabilities)	Total
<b>Financial assets</b>				
Cash	\$ -	\$ 1,079,849	\$ -	\$ 1,079,849
Restricted cash	-	25,000	-	25,000
Receivables	-	57,535	-	57,535
Deposit	-	22,860	-	22,860
<b>Total financial assets</b>	\$ -	\$ 1,185,244	\$ -	\$ 1,185,244
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 420,735	\$ 420,735
Loan payable	-	-	40,000	40,000
<b>Total financial liabilities</b>	\$ -	\$ -	\$ 460,735	\$ 460,735



## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

December 31, 2021	FVTPL	Amortized cost (financial assets)	Amortized cost (financial liabilities)	Total
<b>Financial assets</b>				
Cash	\$ -	\$ 7,832,949	\$ -	\$ 7,832,949
Restricted cash	-	25,000	-	25,000
Receivables	-	30,178	-	30,178
Deposit	-	8,900	-	8,900
<b>Total financial assets</b>	\$ -	\$ 7,897,027	\$ -	\$ 7,897,027

#### Financial liabilities

Accounts payable and accrued liabilities	\$ -	\$ -	\$ 751,336	\$ 751,336
Loan payable	-	-	40,000	40,000
<b>Total financial liabilities</b>	\$ -	\$ -	\$ 791,336	\$ 791,336

#### b) Financial risk management

##### *i) Credit risk*

The Company's credit risk is primarily attributable to cash.

The Company limits its credit exposure on cash held in bank accounts by holding its key transactional bank accounts with large, highly rated financial institutions.

The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

##### *ii) Liquidity risk*

The Company manages liquidity risk by trying to maintain enough cash balances to ensure that it is able to meet its short term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

The Company's operating results may vary due to fluctuation in commodity price, inflation and foreign exchange rates.

##### *iii) Market risks*

#### Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash. The Company does not believe that it is exposed to material interest rate risk on its cash.

As at December 31, 2022, the Company has not entered into any contracts to manage interest rate risk.

#### Foreign exchange risk

The functional currency of the parent and its subsidiaries is the Canadian dollar. A portion of the Company's operating expenses are in United States dollars ("US\$") and Peruvian soles.

As at December 31, 2022, the Company has not entered into contracts to manage foreign exchange risk.

## Element 29 Resources Inc.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars, except where indicated)

The Company is exposed to foreign exchange risk through the following assets and liabilities:

	2022	2021
Cash	\$ 361,325	\$ 1,058,809
Accounts payable and accrued liabilities	(206,925)	(533,415)
	\$ 154,400	\$ 525,394

As at December 31, 2022, with other variables unchanged, a 5% increase or decrease in value of the US\$ against the currencies to which the Company is normally exposed (Canadian dollar) would result in an insignificant change in net loss.

## 14 Capital management

The Company considers items included in shareholders' equity as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. There are no external restrictions on management of capital and there has been no changes to the Company's capital management during the current year. The Company believes it will be able to raise new funds as required in the long term to fund its exploration programs but recognizes there will be risks involved that may be beyond its control.

## 15 Subsequent event

Subsequent to December 31, 2022, the following event occurred:

- On January 6, 2023 the Company closed a non-brokered private placement consisting of 7,725,000 units at a price of \$0.20 per unit which raised gross proceeds of \$1,545,000, of which \$720,000 had been received as of December 31, 2022 and included in subscriptions in advance. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one share at a price of \$0.30 per share for a period of two years from the closing date. The Company paid an aggregate finder's fee of \$31,500.
- On March 3, 2023, the Company vested 237,500 RSUs resulting in the issuance of 237,500 common shares of the Company.