

# **HILO MINING LTD.**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MAY 31, 2022**

**AND THE PERIOD FROM INCORPORATION ON FEBRUARY 2, 2021 TO MAY 31, 2021**

*(Expressed in Canadian dollars)*

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**INDEPENDENT AUDITORS' REPORT**

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To the Shareholders and Directors of Hilo Mining Ltd.

**Opinion**

We have audited the financial statements of Hilo Mining Ltd. (the "Company"), which comprise the statements of financial position as at May 31, 2022 and 2021, and the statements of loss and comprehensive loss, changes in equity and cash flows for the year ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021, and the related notes comprising a summary of significant accounting policies and other explanatory information (together, the "Financial Statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022 and 2021, and its financial performance and its cash flows for the year ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter - Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying Financial Statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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 audits 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.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Financial Statements.

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Waseem Javed.

*Manning Elliott LLP*

Chartered Professional Accountants  
Vancouver, Canada  
September 28, 2022

**HILO MINING LTD.**  
**Statements of Financial Position**  
(Expressed in Canadian dollars)

<b>As at</b>	<b>May 31, 2022</b>	<b>May 31, 2021</b>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	576,344	1
Amounts receivable	3,129	-
	<u>579,473</u>	<u>1</u>
Exploration and evaluation asset (Note 7)	236,231	-
<b>TOTAL ASSETS</b>	<u>815,704</u>	<u>1</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 9)	78,669	-
	<u>78,669</u>	<u>-</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	855,658	1
Reserves (Note 8)	313,528	-
Deficit	(432,151)	-
	<u>737,035</u>	<u>1</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>815,704</u>	<u>1</u>

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)

Approved and authorized for issue on behalf of the Board on September 28, 2022

"Christos Doulis" Director

"Jeremy Poirier" Director

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

**HILO MINING CORP.**

**Statements of Loss and Comprehensive Loss**

For the year ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

	<b>May 31, 2022</b>	<b>Incorporation on February 2, 2021 to May 31, 2021</b>
	\$	\$
<b>EXPENSES</b>		
Consulting fees (Note 9)	69,650	-
Filing and Transfer agent fees	39,828	-
Investor relations	880	-
Management fee (Note 9)	78,750	-
Office	8,732	-
Professional fees (Note 9)	158,244	-
Share-based payments (Note 8)	74,105	-
Travel	1,962	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>432,151</b>	<b>-</b>
Basic and diluted loss per share	(0.11)	-
Weighted average number of common shares outstanding, basic and diluted	3,904,962	1

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

**HILO MINING LTD.****Statements of Changes in Shareholders' Equity****For the year ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021**

(Expressed in Canadian dollars)

	<b>Common Shares</b>				
	<b>Number of Shares</b>	<b>Amount</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total</b>
		\$	\$	\$	\$
<b>Balance, February 2, 2021</b>	-	-	-	-	-
Shares issued on incorporation	1	1	-	-	1
Net loss	-	-	-	-	-
<b>Balance, May 31, 2021</b>	1	1	-	-	1
Shares issued pursuant to the Arrangement	1,500,000	-	236,231	-	236,231
Shares issued for cash	5,772,363	865,854	-	-	865,854
Shares issuance costs	-	(10,197)	3,192	-	(7,005)
Share-based payments	-	-	74,105	-	74,105
Net loss	-	-	-	(432,151)	(432,151)
<b>Balance, May 31, 2022</b>	7,272,364	855,658	313,528	(432,151)	737,035

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

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**HILO MINING LTD.****Statements of Cash Flows**

For the year ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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	May 31, 2022	Incorporation on February 2, 2021 to May 31, 2021
<b>Cash provided by (used in):</b>	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(432,151)	-
Non-cash items		-
Share-based payments	74,105	
<b>Net changes in non-cash working capital items:</b>		
Amounts receivable	(3,129)	-
Accounts payable and accrued liabilities	78,669	-
<b>Net cash used in operating activities</b>	(282,506)	-
<b>FINANCING ACTIVITY</b>		
Shares issued for cash, net	858,849	1
<b>Net cash provided by financing activity</b>	858,849	1
Change in cash	576,343	1
Cash, beginning of period	1	-
<b>Cash, end of period</b>	576,344	1

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

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**HILO MINING LTD.**

## Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Hilo Mining Ltd. (the "Company") was incorporated on February 2, 2021 under the laws of British Columbia. The Company commenced trading on the TSX Venture Exchange on April 29, 2022 under the trading symbol "HILO.V". The address of the Company's corporate office and its principal place of business is 503 - 905 Pender Street, Vancouver, British Columbia, Canada, V6C 1L6. The Company was incorporated as a subsidiary of Golden Independence Mining Corp. ("Golden")

The Company's principal business activities include the acquisition and exploration of mineral property assets. On April 22, 2021, the Company entered into an arrangement agreement (the "Arrangement") with its parent entity, Golden, whereby the Company will issue 1,500,000 common shares to Golden in exchange for Golden's mining claim representing the Champ exploration property (the "Property"). Under the Arrangement, Golden distributed 1,000,000 of the common shares to its shareholders and Golden held 500,000 common shares of the Company. The Company completed the Arrangement on November 12, 2021.

The Company's financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes that the Company will realize its assets and discharge its liabilities in the normal course of business for at least the next twelve months. Management recognizes that the Company will need to obtain additional financial resources in order to meet its planned business objectives. The Company's ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. There are no assurances that the Company will be able to obtain additional financial resources and/or achieve positive cash flows or profitability. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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

The outbreak of coronavirus, COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Company or its clients, employees, contractors, suppliers and other partners may be unable to conduct regular business activities for an indefinite period of time. At this point, the impact on the Company has been minimal. The Company continues to monitor the situation and is taking all necessary precautions in order to follow rules and best practices as set out by the federal and provincial governments.

**2. SIGNIFICANT ACCOUNTING POLICIES**

## a) Statement of compliance

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

The financial statements were authorized for issue in accordance with a resolution from the Board of Directors on September 28, 2022.

## b) Basis of presentation

These financial statements have been prepared on the historical cost basis, with the exception of financial instruments, which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.



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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

## c) Financial Instruments

## Financial Assets

On initial recognition financial assets are classified as measured at:

- i. Amortized cost;
- ii. Fair value through other comprehensive income ("FVOCI"); and
- iii. Fair value through profit and loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification:

## i. Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method. The Company does not have any assets classified at amortized cost.

## ii. FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.

The Company does not have any assets classified at FVOCI.

## iii. FVTPL

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Statement of Loss and Comprehensive Loss in the period in which it arises.

The Company's cash is classified at FVTPL.

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

## c) Financial Instruments (continued)

## Financial Liabilities and Equity

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

Financial liabilities are classified as measured at (i) FVTPL; or (ii) amortized cost.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI and the remaining amount of the change in the fair value is presented in profit or loss.

The Company does not classify any financial liabilities at FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company classifies its accounts payable at amortized cost.

A financial liability is derecognized when the contractual obligation under the liability is discharged, cancelled or expires or its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

## d) Mineral properties

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as mineral concession taxes, option payments, wages and salaries, surveying, geological consulting and laboratory, field supplies, travel and administration. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they are incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage. Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'.

## e) Impairment of non-financial assets

Non-financial assets, including mineral properties are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down to its recoverable amount. An impairment loss is charged to statements of comprehensive loss.

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**HILO MINING LTD.**

## Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

## e) Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGU's"). These are typically the individual properties or projects.

## f) Reclamation provisions

The Company 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 development of mineral properties, plant and equipment. Provisions for site closure and reclamation 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 is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mine property, plant and equipment. These costs are depreciated on a basis consistent with the depreciation, depletion, and amortization of the underlying assets. The obligation is accreted over time for the change in its present value, with this accretion charge recognized as a finance expense in profit or loss. Additional environment disturbances or changes in reclamation costs will be recognized as additions to the corresponding assets and reclamation provision in the year in which they occur.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur. The Company has no material restoration, reclamation, rehabilitation or environmental obligation as the disturbance to date is minimal.

## g) Share-based payments

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

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**HILO MINING LTD.**

## Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

## h) Cash and cash equivalents

Cash and cash equivalents include cash on hand readily convertible into a known amount of cash and can be redeemed at any time without penalties, and amounts held in trust.

## i) Share capital

The Company's common shares, and any future offerings of share warrants and options are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds. From time to time, the Company arranges equity offerings of units consisting of a common share and warrant, where both instruments are classified as equity. Warrants that are part of units are accounted for using the residual method, following an allocation of the unit price to the fair value of the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

## j) Income taxes

Income taxes comprises both current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the income tax is also recognized in other comprehensive income or directly in equity. Current income taxes are the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

The Company accounts for potential future net tax assets which are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and which are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, no net asset is recognized.

## k) Loss per share

Basic loss per share is calculated by dividing the net loss for the period available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. Basic and diluted loss per share are the same for the periods presented. The Company uses the treasury stock method of calculating fully diluted earnings per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the year.

## l) Foreign currency

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

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Critical accounting estimates*

- The inputs used in valuing share-based payments.
  - The Company uses the fair-value method of accounting for share-based payments (related to incentive stock options and compensation warrants granted, modified or settled). Under this method compensation costs attributable to option awards granted are measured at fair value at the issue or grant date and are expensed over the vesting period. In determining the fair value for share-based payments, the Company uses option pricing models and makes estimates of the expected volatility of the stock, the expected life and risk-free rate. The expected volatility is based on historical volatility of the Company's stock over a period commensurate with the expected life of the option. Changes to these estimates could result in the fair value of share-based payments expense being less than or greater than the amount recorded.

*Significant accounting judgments*

- The determination of categories of financial assets and financial liabilities
  - The determination of categories of financial assets and financial liabilities has been identified as an accounting policy choice which involves judgments or assessments made by management.
- The evaluation of the Company's ability to continue as a going concern.
  - The Company's management has made an assessment of the Company's ability to continue as a going concern. Factors considered by management are disclosed in Note 1.

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

- Exploration and evaluation assets
  - The Company is required to review the carrying value of its exploration and evaluation properties at each reporting date for potential impairment. Impairment is indicated if the carrying value of the Company's exploration and evaluation assets is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation assets exceeds their estimated fair value is charged to the statements of comprehensive loss.
  - Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves or resources. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities, contractual issues with joint venture partners, the impact of government legislation and political stability in the region, and the impact of current and expected future metal prices on potential reserves.

**4. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

A number of amendments to standards and interpretations applicable to the Company are not yet effective for the year ended May 31, 2022 and have not been applied in preparing these financial statements nor does the Company expect these amendments to have a significant effect on its financial statements.

**5. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of resource properties. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, reserves and deficit as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK***Fair value*

As at May 31, 2022, the Company's financial instruments consist of cash and accounts payable.

IFRS 13 *Fair Value Measurement* establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 13 prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
- Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e., quoted prices for similar assets or liabilities).
- Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

The fair value of cash is based on Level 1 inputs. There are no Level 2 or Level 3 financial instruments.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position at May 31, 2022 as follows:

Fair Value Measurements Using	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	576,344	-	-	576,344

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The financial instrument that potentially subjects the Company to concentrations of credit risk consists principally of cash. To minimize the credit risk, the Company places its cash with high quality financial institutions.

*Liquidity risk*

The Company manages liquidity risk through the management of its capital structure, as outlined in Note 5. The Company monitors its ability to meet its short-term exploration and administrative expenditure requirements by raising additional funds through share issuances when required.

*Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flows will fluctuate due to changes in foreign exchange rates. The Company is not exposed to significant foreign exchange risk.

*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 Company is not exposed to significant interest rate risk.

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**7. EXPLORATION AND EVALUATION ASSET**

Expenditures related to the acquisition and exploration of mineral properties consisted of:

	Champ Property
	\$
Acquisition Costs:	
Balance, May 31, 2021	-
Shares issued pursuant to the Arrangement	236,231
Balance, May 31, 2022	236,231
Exploration Costs:	
Balance, May 31, 2021 and May 31, 2022	-
Total, May 31, 2021	-
Total, May 31, 2022	236,231

Pursuant to an option agreement (the "Agreement") dated August 24, 2017, Golden was granted an option to acquire a 100% undivided interest in the Property located in the Greenwood Mining District of British Columbia. In accordance with the Agreement, Golden acquired a 100% undivided interest in the Property by issuing a total of 300,000 common shares of Golden and making a payment of \$10,000.

The optionor retains a 2% net smelter return royalty on the Property. Golden has the right to purchase the first 1% of the royalty for \$1,000,000 and the remaining 1% for \$1,000,000 at any time during the five-year period starting from the date of commencement of commercial production.

Prior to the closing of the Arrangement (Note 1) with the Company's parent, Golden, the Company and Golden entered into an Asset Purchase Agreement pursuant to which the Company acquired Golden's interest in the Champ Project in exchange for the issuance of 1,500,000 common shares of the Company. The fair value of the Property was determined to be \$236,231 at the date of the transaction.

**8. SHARE CAPITAL**

## a) Authorized

The Company's authorized capital consists of an unlimited number of common shares without par value.

On April 22, 2022, the Company entered into an escrow agreement with various security holders and an escrow agent. As of May 31, 2022, 2,086,756 shares were held in escrow.

## b) Issued and outstanding

Share capital activities during the year ended May 31, 2022 are as follows:

- On November 12, 2021, the Company completed the Arrangement (Note 1) and issued 1,500,000 common shares.
- On November 17, 2021, the Company issued 5,772,363 common shares for gross proceeds of \$865,854. The Company incurred cash finder's fees of \$7,005. The Company issued 47,299 brokers' warrants with an exercise price of \$0.30 and maturity two years after the grant date with a fair value of \$3,192.
- On February 1, 2022, the Company granted 550,000 stock options with a maturity date of February 1, 2027 and an exercise price of \$0.15 to certain directors, officers and consultants of the Company. The stock options had a fair value of \$74,105 and vested immediately.



**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

**8. SHARE CAPITAL** (continued)

## c) Stock options

Stock option transactions and the number of stock options outstanding are summarized below:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, May 31, 2021	-	-
Granted	550,000	0.15
Balance, May 31, 2022	550,000	0.15

Additional information regarding stock options outstanding is as follows:

Expiry Date	Exercise Price (\$)	Number of Options Issued and Exercisable
February 1, 2027	0.15	550,000
Balance, May 31, 2022		550,000

The stock options were valued using the following Black-Scholes option pricing model using the following assumptions:

	2022
Share price	\$0.15
Risk-free interest rate	1.65%
Dividend yield	0%
Expected volatility	144.56%
Expected life (years)	5
Forfeiture rate	0%

The expected volatility used for the stock options granted is based on the historical share prices of comparable companies.

## d) Brokers' warrants

Brokers' warrants transactions and the number of brokers' warrants outstanding are summarized below:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, May 31, 2021	-	-
Granted	47,299	0.30
Balance, May 31, 2022	47,299	0.30

Additional information regarding brokers' warrants outstanding is as follows:

Expiry Date	Exercise Price (\$)	Number of Warrants Issued and Exercisable
November 17, 2023	0.30	46,699
December 17, 2023	0.30	600
Balance, May 31, 2022		47,299

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**HILO MINING LTD.**

Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**8. SHARE CAPITAL** (continued)

## d) Brokers' warrants (continued)

The brokers' warrants were valued using the following Black-Scholes option pricing model using the following assumptions:

	2022
Risk-free interest rate	1.00%
Dividend yield	0%
Expected volatility	116.97%
Expected life (years)	2
Forfeiture rate	0%

The expected volatility used for the brokers' warrants granted is based on the historical share prices of comparable companies.

**9. RELATED PARTY BALANCES AND TRANSACTIONS**

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

As disclosed in Notes 1 and 7, pursuant to an Arrangement with the Company's parent entity, Golden, the Company acquired a 100% interest in the option agreement representing the Champ Property.

The Company also incurred consulting fees of \$60,000 from Golden, the Company's former parent, for work related to the transaction. During the year ended May 31, 2022, the Company paid an additional \$11,125 to Golden for other expense reimbursements related to the Arrangement.

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 consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

During the year ended May 31, 2022, the Company incurred key management compensation of \$78,750 (2021 - \$nil) related to management fees and \$74,105 (2021 - \$nil) related to share-based payments. In addition, the Company incurred professional fees of \$20,458 from a company that employs the Chief Financial Officer. At May 31, 2022, \$63,985 (2021 - \$nil) related to management fees and professional fees payable to related parties remained in accounts payable and accrued liabilities.

The amounts payable are non-interest-bearing, unsecured, due on demand and have no fixed terms of repayment.

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**HILO MINING LTD.**

## Notes to the Financial Statements

For the years ended May 31, 2022 and the period from incorporation on February 2, 2021 to May 31, 2021

(Expressed in Canadian dollars)

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**10. INCOME TAX**

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment and concluding the deferred tax assets were not realized.

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

	<b>2022</b>	<b>2021</b>
Canadian statutory income tax rate	27%	27%
	\$	\$
Loss for the year before income taxes	(432,151)	-
Expected income tax recovery	(117,000)	-
Non-deductible expenditures and non-taxable revenues	21,000	-
Share issue costs	(2,000)	-
Change in deferred tax assets not recognized	98,000	-
Income taxes recoverable	-	-

The nature and effect of the Company's deferred tax assets is as follows:

	<b>2022</b>	<b>2021</b>
	\$	\$
Non-capital losses carried forward	97,000	-
Share issuance costs	1,000	-
Deferred tax assets	98,000	-
Deferred tax assets not recognized	(98,000)	-
Net deferred tax asset	-	-

As at May 31, 2022, the Company had non-capital losses carried forward of \$358,000, which will expire in 2042.