

Financial Statements of

MUZHU MINING LTD.

As at December 31, 2021 and 2020,
and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Muzhu Mining Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Muzhu Mining Ltd. (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 2 in the financial statements, which indicates that the Company has an accumulated deficit of \$861,726 as at December 31, 2021. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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



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

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

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

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
April 11, 2022

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

	As at December 31, 2021	As at December 31, 2020
	\$	\$
ASSETS		
Current assets		
Cash	658,858	99,584
GST receivable	9,367	23,100
Prepaid expenses	1,250	500
	669,475	123,184
Exploration and evaluation assets (Note 6)	281,946	221,400
	951,421	344,584
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	40,595	339,180
Due to related parties (Note 5)	-	153,941
Flow through share premium liability (Note 7)	52,030	-
	92,625	493,121
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 4)	1,711,722	507,800
Reserve for warrants	8,800	-
Deficit	(861,726)	(656,337)
	858,796	(148,537)
	951,421	344,584

Nature of business and going concern (Note 1)
Subsequent events (Note 12)

Approved and authorized for issue on behalf of the Board on April 11, 2022

"Richard Tong"

Director

"Don Baxter"

Director

The accompanying notes are an integral part of these financial statements

MUZHU MINING LTD.

Statements of Comprehensive Loss

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

	December 31, 2021	December 31, 2020
	\$	\$
Expenses		
Professional fees	100,785	16,028
Advertising and promotion	70,890	92
Consulting fees (Note 5)	46,250	112,500
Filing Fees and Transfer Agent	35,471	-
Directors fees (Note 5)	17,500	72,000
Office and general	999	1,200
Interest and bank charges	395	151
	(272,290)	(201,971)
Gain on debt forgiveness (Note 4 and 5)	66,900	-
Net loss and comprehensive loss	(205,390)	(201,971)
Loss per share – basic and diluted (Note 10)	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding – basic and diluted (i)	16,955,589	6,067,783

(i) Adjusted for 4:3 share consolidation on September 1, 2020 (see note 4).

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

MUZHU MINING LTD.
Statements of Changes in Equity (Deficiency)
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Common shares (i)		Subscription Receivable	Reserve for Warrants	Deficit	Total
	#	\$	\$	\$	\$	\$
Balance, December 31, 2019	5,580,000	264,000	60,000	-	(454,366)	(130,366)
Shares issued for cash	3,500,000	212,500	(60,000)	-	-	152,500
Shares issued for debt settlement	234,750	31,300	-	-	-	31,300
Net loss for the year	-	-	-	-	(201,971)	(201,971)
Balance, December 31, 2020	9,314,750	507,800	-	-	(656,337)	(148,537)
Shares issued under private placement (Note 4)	6,258,500	807,955	-	-	-	807,955
Share issue costs	-	(43,724)	-	-	-	(43,724)
Flow through share premium (Note 7)	-	(52,030)	-	-	-	(52,030)
Valuation of brokers' warrants (Note 4)	-	(8,800)	-	8,800	-	-
Shares issued for Sleeping Giant South (Note 6)	3,500,000	175,000	-	-	-	175,000
Shares issued for debt settlement (Note 4)	3,255,212	325,521	-	-	-	325,521
Net loss for the year	-	-	-	-	(205,390)	(205,390)
Balance, December 31, 2021	22,328,462	1,711,722	-	8,800	(861,726)	858,796

(i) Adjusted for 4:3 share consolidation on September 1, 2020 (see note 4).

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

MUZHU MINING LTD.

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

	December 31, 2021	December 31, 2020
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss for the year	(205,390)	(201,971)
Items not affecting cash:		
Professional fees settled through issue of shares	16,121	31,300
Gain on debt settlement	(66,900)	-
Net Change in non-cash working capital balances related to operations:		
GST receivable	13,733	(17,559)
Prepaid expenses	(750)	-
Accounts payable and accrued liabilities	110,816	282,814
Due to related parties	(12,041)	73,278
	(144,411)	167,862
Investing activities		
Exploration and evaluation asset additions	(60,546)	(221,400)
	(60,546)	(221,400)
Financing activities		
Shares issued for cash	807,955	152,500
Share issue costs	(43,724)	-
	764,231	152,500
Net change in cash	559,274	98,962
Cash, beginning of year	99,584	622
Cash, end of year	658,858	99,584

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

MUZHU MINING LTD.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

NOTE 1 – NATURE OF BUSINESS AND GOING CONCERN

Muzhu Mining Ltd. (“MUZHU” or the “Company”) was incorporated under the Business Corporations Act of British Columbia on January 24, 2018. The address of the Company’s head office is 4353 Halifax Street, Suite 904, Burnaby, BC, V5C 5Z4 and the registered office is 777 Hornby Street, Suite 600, Vancouver, BC, V6Z 1S4, Canada.

The Company's objective is to seek opportunities in the exploration, development and mining of precious metals properties domestically and/or internationally. It currently has exploration property agreements in Canada and China.

These 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. The Company has experienced losses and negative cash flow from operations since incorporation. As at December 31, 2021, the Company had not yet generated revenues and had an accumulated deficit of \$861,726. These factors indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern.

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 the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or proceeds from the disposition of its resource property interests. The timing and availability of additional financing will be determined largely by the performance of the Company and market conditions and there is no certainty that the Company will be able to raise funds as they are required in the future.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to reflect these financial statements on a liquidation basis which could differ from accounting principles applicable to a going concern. Such adjustments could be material.

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. As the Company does not have active operations, the impact of the pandemic has been minimal. Management continues to monitor the situation and take the necessary precautions as deemed appropriate.

Muzhu Mining Ltd.'s common shares were approved for listing on the Canadian Securities Exchange and began trading on the CSE under the trading symbol MUZU as of market open on November 11, 2021.

Basis of measurement and preparation

These financial statements have been prepared in accordance with International Accounting Standards using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They are prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss which have been measured at fair value.

These financial statements are presented in Canadian dollars which is the Company's functional currency.

The board of directors approved these financial statements on April 11, 2022.

MUZHU MINING LTD.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a. Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgements are choices in accounting policies and disclosures which management believes are supported by facts and circumstances existing at the date of the financial statements.

The company's significant estimates and judgements are as follows:

- The provision of deferred income taxes is based on judgements in applying income tax law and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities;
- Going concern - significant judgments are used in the Company's assessment of its ability to continue as a going concern as described in note 1.
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- The application of the Company's accounting policy for E&E expenditures capitalized requires judgment in determining which expenditures are recognized as exploration and evaluation assets and applying the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources.
- Title to mineral property interests - 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 titles. Such properties may be subject to prior agreement or transfers and titles may be affected by undetected defects.
- Valuation and recoverability of exploration and evaluation assets. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project;
- Valuation of share-based payments – the Company records all share based payments and warrants using the fair value method. The Company uses the Black-Scholes model to determine the fair value of stock options and warrants and broker warrants. The main factor affecting the estimates of the fair value of stock options, warrants, broker warrants and compensation options is the stock price expected volatility used. The Company currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Company taking into consideration the expected life of the options.
- Share issued for non-cash consideration – are measured by reference to the fair value of the shares at the date of which they are issued.

b. Income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. To compute diluted income (loss) per share, adjustments are made to common shares outstanding, if applicable. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at the time of issuance, all options and warrants were exercised. The proceeds from exercise are assumed to be used to purchase the Company's common shares at their average market price during the period. If this computation is anti-dilutive, diluted income (loss) per share is the same as basic income (loss) per share. For the periods presented, this calculation proved to be anti-dilutive.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

d. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets – Classification

The Company classifies its financial assets in the following categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income (“OCI”), or through profit or loss), and
- Those to be measured at amortized cost.

The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI.

Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company’s financial instruments are valued.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based upon observable market data.

Cash is carried at fair value using a level 1 fair value measurement.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial assets - Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“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. There are three measurement categories under which the Company classifies its debt instruments:

- 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 method.

MUZHU MINING LTD.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

- Fair value through OCI (“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.
- Fair value through profit or loss: 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.

Cash is measured at FVTPL. The Company has not designated any financial assets as amortized cost and FVOCI.

Financial liabilities

The Company classifies its financial liabilities into the following categories:

- Financial liabilities at FVTPL; and
- 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 fair value changes to financial liabilities at FVTPL are presented as follows:

- 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 designate any financial liabilities at FVTPL. The Company has designated its accounts payable and due to related parties as amortized cost.

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.

e. Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties. The Company capitalizes costs directly related to the acquisition, exploration and evaluation of mineral properties. Such costs include, but are not restricted to, geological, geophysical, drilling, trenching and sampling costs including the support costs and supplies required in relation thereto. These assets are recorded at cost as adjusted for impairments in value. Impairment is assessed when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. In assessing impairment, exploration and evaluation assets are grouped into Cash Generating Units (“CGU’s”), on the basis of areas of interest. Management groups mineral claims that are contiguous and specific to an area that encompasses the same prospective minerals, into one area of interest and assigns a name to this mineral property. Each named mineral property is considered an area of interest and a CGU.

Although not an exhaustive list, one or more of the following facts and circumstances indicate that a specific CGU should be tested for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the financial statement period or will expire in the near future and is not expected to be renewed.
- Substantive expenditures on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

An impairment loss may be reversed in a situation where there is a change in the circumstances that had initially dictated that impairment had occurred. An example of such a situation might include, but not be limited to, the re-commencement of exploration activity on a mineral property due to a significant change in commodity prices.

Where the Company's exploration commitments for a CGU are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the CGU to the extent of costs incurred. The excess, if any, is credited to operations. Option payments made by the Company are recorded as exploration and evaluation assets. Options are exercisable entirely at the discretion of the optionee and accordingly, are recorded as exploration and evaluation assets or recoveries when the payments are made or received. The proceeds on the sale of exploration and evaluation assets are applied to the area of interest to the extent of costs incurred and the excess, if any, is credited to operations. In some circumstances option payments received by or made by the Company are made in whole or in part through the issuance of common shares. The value of these payments in shares is calculated using the fair value of the shares on the date of issue.

f. Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statements of comprehensive loss except to the extent that it relates to a business combination, or 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, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: 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 and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g. Flow-through share issuances

The Company finances a portion of its exploration activities through the issue of flow-through shares issued pursuant to the Canadian Income Tax Act ("Tax Act"). Proceeds received from the issuance of flow-through shares are restricted to be used only for qualifying Canadian exploration and development expenses (as defined in the Tax Act).

Pursuant to the terms of the flow-through share subscription agreements, these shares transfer the tax deductibility of qualifying expenditures to flow-through investors. On issuance, the Company allocates a portion of the subscription proceeds as a flow-through share premium, equal to the estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a premium liability. As expenditures are incurred and applied against the Company's associated flow-through commitment, the premium liability is reduced proportionately, charged as a deferred income tax recovery in operations. A deferred income tax liability is recognized for the estimated foregone tax benefit as a result of the renunciation to the shareholders, offset as a deferred income tax expense, to the extent no deferred income tax assets are on hand and eligible to offset. The Company considers renunciation to have occurred when reported for income tax purposes.

MUZHU MINING LTD.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED:

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. There are presently no new standards, interpretations and amendments to existing standards which may have a significant impact on the Company's financial statements.

NOTE 4 – SHARE CAPITAL

a) Common shares

The Company's authorized capital consists of an unlimited numbers of common shares without par value. As at December 31, 2021, there were 22,328,462 issued and outstanding common shares. On September 1, 2020, the Company consolidated its common shares on a 4 for 3 basis, which has been applied retrospectively in these financial statements.

Issued:

	Number of shares	Share capital
Balance December 31, 2019	5,580,000	\$ 264,000
Common shares issued for cash (i) (iii)	3,500,000	212,500
Common shares issued for debt settlement (ii)	234,750	31,300
Balance December 31, 2020	9,314,750	\$ 507,800
Common shares issued for Sleeping Giant South (iv)	3,500,000	175,000
Common shares issued for cash (v)	3,657,000	365,700
Common share as flow-through shares, net of premium (viii)	2,601,500	390,225
Common shares issued for debt settlement (vi) (vii)	3,255,212	325,522
Share issue costs	-	(52,524)
Balance, December 31, 2021	22,328,462	\$ 1,711,723

- (i) On June 30, 2020, the Company issued 450,000 common shares at \$0.133 per share for gross proceeds of \$60,000.
- (ii) On June 30, 2020 the Company issued 234,750 common shares in exchange for services at a deemed price of \$0.133 per share for debt settlement of \$31,300.
- (iii) On December 15, 2020, the Company issued 3,050,000 common shares at \$0.05 per share for gross proceeds of \$152,500.
- (iv) On March 26, 2021, the Company issued 3,500,000 common shares at \$0.05 per share to close the acquisition of the Sleeping Giant South property.
- (v) On March 31, 2021, the Company issued 3,657,000 common shares at \$0.10 per share for gross proceeds of \$365,700.
- (vi) On April 30, 2021, the board of directors approved and issued 3,094,000 common shares in the capital of the Company at a deemed price of \$0.10 per common share for debt settlement of \$376,300, of which, \$80,000 was due to related parties. The Company recognized \$66,900 gain on debt forgiveness in connection with the transaction.
- (vii) On November 16, 2021, the board of directors approved and issued 161,212 common shares in the capital of the Company at a deemed price of \$0.10 per common share for debt settlement of \$16,122.
- (viii) On December 21, 2021, the Company issued 2,601,500 flow through shares at \$0.17 per share for gross proceeds of \$442,255 with flow through share premium of \$52,030.

MUZHU MINING LTD.

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

NOTE 4 – SHARE CAPITAL (continued)

b) Stock Options

The Company has a Stock Option Plan (the “Plan”) which provides that the number of options granted may not exceed 10% of the issued and outstanding shares. Options granted under the Plan generally have a five-year term and are granted at a price no lower than the market price of the common shares at the time of the grant.

As of December 31, 2021, and 2020, the company has not granted any stock options.

c) Warrants

A summary of the Company's outstanding warrants at December 31, 2021 and the changes for the period then ended is presented below:

	Number of warrants outstanding	Weighted average exercise price (\$)
Balance, December 31, 2019 and 2020	-	-
Issued December 21, 2021	195,113	0.17
Balance, December 31, 2021	195,113	0.17

The following table summarizes the actual warrants outstanding and exercisable as of December 31, 2021:

Number of warrants outstanding	Grant date fair value (\$)	Exercise price (\$)	Expiry Date
-	-	-	-
195,113	8,800	0.17	December 21, 2022
195,113	8,800	0.17	

The fair value was determined to be \$8,800 using the Black-Scholes option pricing model with the following assumptions: stock price of \$0.15, dividend yield of 0%, expected volatility of 100%, risk free interest rate of 0.94% and expected life of 1 years.

NOTE 5 – RELATED PARTY TRANSACTIONS AND BALANCES

As at December 31, 2021, the Company has a Nil balance due to directors and officers (December 31, 2020 - \$153,941).

Shan Wei Tong, son of James Tong, Director, was paid \$5,250 for consulting fees for the year ended December 31, 2021 (December 31, 2020 – Nil).

Key management personnel compensation

Key management personnel consist of officers and directors of the Company. Remuneration of key management personnel was \$17,500 for the year ended December 31, 2021 (December 31, 2020 - \$72,000).

On April 30, 2021, the Company issued 800,000 common shares to the Director's of the Company in connection with the debt settlements (note 4).

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NOTE 6 - EXPLORATION AND EVALUATION ASSETS

The company's exploration and evaluation properties were as follows:

	Sleeping Giant South Property	XWG Property	Total
Balance December 31, 2019	\$ -	\$ -	\$ -
Acquisition	182,888	-	182,888
Geologists and consulting	38,512	-	38,512
Balance, December 31, 2020	\$ 221,400	\$ -	\$ 221,400

	Sleeping Giant South Property	XWG Property	Total
Balance December 31, 2020	\$ 221,400	\$ -	\$ 221,400
Acquisition	-	-	-
Geologists and consulting	60,546	-	60,546
Balance, December 31, 2021	\$ 281,946	-	\$ 281,946

On November 22, 2021, the Company entered into an Option Agreement with Lingbao Yida Mining Co., Ltd., a private Chinese company, to acquire an undivided 60% interest in the Xia Wa Gou (XWG) mining property, located in the Province of Henan, People's Republic of China.

Pursuant to the terms of the option agreement, the Company is required to:

- (a) incur minimum Expenditures on the Property (in the ground) of not less than an aggregate of \$3,000,000 according to the following schedule:
 - (i) \$500,000 prior to the first anniversary of the Effective Date;
 - (ii) an additional \$1,000,000 prior to the second anniversary of the Effective Date;
 - (iii) an additional \$1,500,000 prior to the third anniversary of the Effective Date;
- (b) issuing and delivering to the Optionor and/or its nominees an aggregate of 3,750,000 Common Shares according to the following schedule:
 - (i) 250,000 Common Shares upon approval and signing by both parties, subject to Exchange Approval or Regulatory Approval (not yet issued);
 - (ii) 1,000,000 Common Shares prior to the first anniversary of the Listing Date;
 - (iii) 1,000,000 Common Shares prior to the second anniversary of the Listing Date; and
 - (iv) 1,500,000 Common Shares prior to the third anniversary of the Listing Date.

As at December 31, 2021, the Company has not completed any of the above terms.

On November 10, 2020 the Company entered into a Purchase Agreement with North American Exploration inc. and Silverwater Capital Corp., private Canadian companies, to acquire a 100% interest in the Sleeping Giant South Property (the "Property"), covering 109 mineral claims in the Quevillon Mining Camp in Quebec.

Pursuant to the terms of the purchase agreement, the Company is required to:

- (i) Make a cash payment of \$7,888 (staking costs) on or before December 31, 2020 (paid);
- (ii) Issuance of 3,500,000 fully paid and non-assessable common shares of the Company on or before December 31, 2020 (paid); and
- (iii) Pay a royalty (the "Royalty") equal to 3% of Net Smelter Returns with respect to the Property.

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NOTE 6 - EXPLORATION AND EVALUATION ASSETS (continued)

The Sleeping Giant South Property is subject to:

- an option to purchase one-third of the Royalty from North American Exploration inc. and Silverwater Capital Corp. at any time for the sum of \$500,000; and
- North American Exploration inc. and Silverwater Capital Corp. shall be paid 20% of the proceeds received on the sale of the Property to a third party.

NOTE 7 – FLOW-THROUGH SHARE PREMIUM LIABILITY

The flow-through common shares issued in the financing completed on December 21, 2021 were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers. The flow-through premium was calculated to be \$52,030.

The flow-through premium is derecognized through income as the eligible expenditures are incurred. At December 31, 2021, the Company is committed to spend \$442,255 in eligible exploration expenditures on or before December 31, 2022.

NOTE 8 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and due to related parties. The carrying value of these financial instruments approximates their fair values due to their immediate or short-term maturity.

Assets measured at fair value on a recurring basis were presented on the Company's statement of financial position as follows:

	Fair Value Measurements Using			December 31, 2021
	Level 1	Level 2	Level 3	
Cash	\$ 658,858	–	–	\$ 658,858

	Fair Value Measurements Using			December 31, 2020
	Level 1	Level 2	Level 3	
Cash	\$ 99,584	–	–	\$ 99,584

The Company's financial instruments are exposed to the following risks:

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held at a large Canadian financial institution in interest bearing accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management and ensuring that sufficient financial resources to meet liabilities as they come due. As at December 31, 2021, the Company had working capital surplus of \$576,850 (2020 – working capital deficiency of \$369,937). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices and foreign exchange rates.

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NOTE 8 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest Rate Risk

The Company does not have any financial assets exposed to interest rate risk.

Price Risk

The Company is not exposed to price risk.

NOTE 9 – CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company has a surplus as at December 31, 2021. There were no changes to the Company's approach to capital management during the period ended December 31, 2021. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the near future to meet its obligations.

NOTE 10 – LOSS PER SHARE

The calculation of basic loss per share for the years ended December 31, 2021 and 2020 was based on total loss attributable to common shareholders of \$205,390 (2020 - \$201,971) and a weighted average number of common shares outstanding of 16,955,589 (2020 – 6,067,783).

Diluted loss per share equals basic loss per share as all outstanding options and warrants were anti-dilutive for all periods presented.

NOTE 11 – INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the combined federal and provincial rate of 27% to the income (loss) for the year before taxes as shown in the following table at December 31:

For the year ended December 31,	2021	2020
Income (Loss) before taxes	(205,390)	(201,971)
Expected income tax payable (benefit) based on statutory rates	(55,455)	(54,532)
Increase (decrease) to the income tax benefit resulting from:		
Non-deductible expenses	2,475	-
Share issuance costs	(2,361)	-
Share issuance costs reported in equity	(9,444)	-
Mineral property interest capitalized	(16,347)	-
Change in deferred tax asset not recognized	81,132	54,532
Income tax (recovery) expense	---	---

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NOTE 11 – INCOME TAXES (continued)

Deferred Income Taxes

	2021	2020
Non-capital losses carried forward	197,917	177,211
Share issuance costs	9,444	-
Mineral property interest	50,982	-
Deferred tax asset (liability)	258,343	177,211
Less: deferred tax asset not recognized	(258,343)	(177,211)
Deferred Tax Asset (Liability)	---	---

Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As of December 31, 2021 the company has non-capital loss carry forwards as follows:

2038	185,781
2039	131,170
2040	201,970
2041	214,104

NOTE 12 – SUBSEQUENT EVENTS

On January 5, 2022, the Company granted 1,330,000 stock options exercisable at a price of \$0.14 to various consultants, directors & officers of the Company.

On January 27, 2022, the Company approved the creation of an advisory committee. The Directors have appointed the following members to the advisory committee: Greg Hall, Anthony Tam and Aaron Meckler. On February 10, 2022, the Company granted 250,000 stock options exercisable at a price of \$0.14 to the members of the Company's advisory committee.