GR SILVER MINING LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
GR Silver Mining Ltd.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has a working capital deficit of $17,104,844 and an accumulated deficit of $57,113,607, and expects to incur further losses in the exploration of its operations. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

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

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was $19,724,680 as of December 31, 2022. As more fully described in Note 2 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each statement of financial position date.

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

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

- Obtaining an understanding of the key controls associated with evaluating the E&E Assets for indicators for impairment.
- Evaluating the reasonableness of management's assessment of indicators of impairment for the E&E assets.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Obtaining confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

Estimate of Reclamation Provisions related to Exploration and Evaluation Assets

As described in Note 10 to the consolidated financial statements, the carrying amount of the Company's reclamation provision was $2,347,359 as of December 31, 2022. As more fully described in Note 2 to the consolidated financial statements, management assesses its provision for restoration, rehabilitation, and environmental obligations on an annual basis or when new material information becomes available.

The principal considerations for our determination that the estimate of reclamation provisions is a key audit matter are that estimating the costs of such reclamation activities includes significant judgement such as when the reclamation will take place, the time period required to undertake the reclamation, the extent and costing of reclamation activities, regulatory and legislative changes, inflation and discount rates utilized. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their estimate of the net present value of reclamation provisions.

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

- Evaluating the qualifications, competence and objectivity of management's experts related to the cost estimation process of the reclamation provisions.
- Assessing the reasonableness of changes in cost estimates against prior year calculations, and timing of expected reclamation activities.
- Evaluating the mathematical accuracy of the reclamation provision model.
- Evaluating the inflation rate and discount rate utilized in the reclamation provision model.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 20, 2023

GR SILVER MINING LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31
(Expressed in Canadian Dollars)

	2022	2021
ASSETS		
Current		
Cash (Note 3)	$ 902,238	$ 3,077,796
Receivables (Note 4)	11,722	25,519
Prepaids	324,634	263,408
	1,238,594	3,366,723
Equipment (Note 5)	1,482,432	1,807,195
Exploration and evaluation assets (Note 6)	19,724,680	19,777,764
Reclamation provision indemnification asset (Note 6 and 10)	986,407	1,246,610
Value added tax receivable (Note 4)	1,851,391	2,229,168
	$ 25,283,504	$ 28,427,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8 and 9)	$ 951,380	$ 1,665,656
Mexico mining concession fees (Note 6 and 8)	17,392,058	12,844,788
	18,343,438	14,510,444
Non-current liabilities		
Reclamation provision (Note 10)	2,347,359	2,653,918
Total liabilities	20,690,797	17,164,362
Shareholders' equity		
Share capital (Note 11)	54,011,616	45,492,226
Share compensation reserve (Note 11)	7,694,698	4,090,302
Deficit	(57,113,607)	(38,319,430)
	4,592,707	11,263,098
	$ 25,283,504	$ 28,427,460

Nature of operations and going concern (Note 1)
Subsequent events (Note 17)

On behalf of the Board:

"Eric Zaunscherb" Director *"Larry Taddei"* Director

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

GR SILVER MINING LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2022	2021
EXPENSES		
Consulting	$ 108,610	$ 300,076
Depreciation (Note 5)	573,239	404,612
Exploration expenditures (Note 7 and 9)	13,953,350	12,442,672
Investor relations	608,431	525,257
Office	650,993	645,654
Professional fees (Note 9)	575,206	564,040
Property investigation	-	4,249
Salaries and directors' fees (Note 9)	2,050,881	1,575,121
Share-based compensation (Note 9 and 11)	453,446	1,532,335
Transfer agent	179,631	101,159
Travel	154,739	144,916
	(19,308,526)	(18,240,091)
Accretion expense on restoration obligation (Note 10)	(6,727)	(6,527)
Foreign exchange loss	(1,458,542)	(181,583)
Impairment on value added tax (Note 4)	(693,251)	(450,642)
Interest income	62,382	15,000
Recovery on exploration and evaluation assets (Note 6)	-	70,796
Retirement of concession fees (Note 8)	2,612,428	584,421
Gain (loss) on settlement of accounts payable (Note 11)	4,792	(3,015)
Other	(6,733)	14,398
Loss and comprehensive loss for the year	$ (18,794,177)	$ (18,197,243)
Loss per common share		
-Basic and diluted	$ (0.10)	$ (0.12)
Weighted average number of common shares outstanding		
-Basic and diluted	195,654,720	154,601,181

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

GR SILVER MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (18,794,177)	$ (18,197,243)
Items not affecting cash:		
Depreciation	573,239	404,612
Accretion expense on restoration obligation	6,727	6,527
(Gain) loss on settlement of accounts payable	(4,792)	3,014
Retirement of concession fees	(2,612,428)	(584,421)
Loss on equipment disposal	7,209	-
Share-based compensation	453,446	1,532,335
Impairment on value added tax	693,251	450,642
Changes in non-cash working capital items:		
Decrease in receivables	13,797	28,354
Increase in value added tax	(315,474)	(1,815,564)
Decrease in prepaids	(61,226)	(141,619)
Increase in concession fees payable	7,159,698	1,466,150
Decrease (Increase) in accounts payable and accrued liabilities	(680,732)	928,334
Net cash used in operating activities	(13,561,462)	(15,918,879)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from La Trinidad acquisitions	-	5,467
Acquisition of San Marcial Property	-	(2,500,000)
Acquisition of La Trinidad Property	-	(173,656)
Equipment disposal	26,898	-
Equipment additions	(282,583)	(413,755)
Net cash used in investing activities	(255,685)	(3,081,944)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	12,874,871	18,036,204
Share issue costs	(1,233,282)	(851,163)
Net cash provided by financing activities	11,641,589	17,185,041
Change in cash during the year	(2,175,558)	(1,815,782)
Cash, beginning of year	3,077,796	4,893,578
Cash, end of year	$ 902,238	$ 3,077,796

Supplemental disclosure with respect to cash flows (Note 12)

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

GR SILVER MINING LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital								
	Number of Shares		Amount		Share Compensation Reserve		Deficit		Total
Balance, December 31, 2020	128,947,415	$	27,300,384	$	2,489,056	$	(20,122,187)	$	9,667,253
Shares issued for cash									
Private placement	19,550,000		11,534,500		-		-		11,534,500
Exercise of warrants	16,153,000		6,265,160		-		-		6,265,160
Exercise of options	849,644		236,544		-		-		236,544
Share issue costs	-		(1,001,615)		-		-		(1,001,615)
Shares issued for non-cash									
Reclassification of reserves on exercise of options	-		172,798		(172,798)		-		-
Reclassification of reserves on exercise of warrants	-		229,754		(229,754)		-		-
Finder's fees – warrants issued	-		(471,463)		471,463				-
Commission shares	255,000		150,450		-		-		150,450
Debt settlement	187,096		142,714		-		-		142,714
Property acquisition	1,500,000		933,000		-		-		933,000
Share-based compensation	-		-		1,532,335		-		1,532,335
Loss for the year	-		-		-		(18,197,243)		(18,197,243)
Balance, December 31, 2021	167,442,155	$	45,492,226	$	4,090,302	$	(38,319,430)	$	11,263,098
Shares issued for cash									
Private placement	63,499,755		12,793,374		-		-		12,793,374
Exercise of warrants	400,987		81,497		-		-		81,497
Share issue costs	-		(1,233,282)		-		-		(1,233,282)
Shares issued for non-cash									
Reclassification of reserves on exercise of warrants	-		39,970		(39,970)		-		-
Finder's fees – warrants issued	-		(331,851)		331,851				-
Debt settlement	136,909		28,751		-		-		28,751
Residual value of warrants	-		(2,859,069)		2,859,069		-		-
Share-based compensation	-		-		453,446		-		453,446
Loss for the year	-		-		-		(18,794,177)		(18,794,177)
Balance, December 31, 2022	231,479,806	$	54,011,616	$	7,694,698	$	(57,113,607)	$	4,592,707

1. NATURE OF OPERATIONS AND GOING CONCERN

GR Silver Mining Ltd. (the "Company" or "GR Silver") was incorporated on November 8, 2012, under the laws of British Columbia. The Company's head office address is 1050 – 400 Burrard Street, Vancouver, BC, V6C 3A6. The Company's registered and records office is Suite 1100 – 736 Granville Street, Vancouver, B.C. V6Z 1G3. To date, the Company has not generated any operating revenue. The Company trades on the TSX Venture Exchange (TSX-V) under the trading system GRSL.

As at December 31, 2022, the Company has a working capital deficit of $17,104,844 and an accumulated deficit of $57,113,607. The Company expects to incur further losses in the exploration and advancement of its mineral projects. The Company's ability to continue the exploration of its mineral projects and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

The Company is in the business of acquiring and exploring exploration and evaluation assets and has not yet determined whether any of its properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus 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 consolidated financial statements.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. Since the declaration, the COVID-19 pandemic has adversely affected workforces, economics, and financial markets globally. The spread of COVID-19 resulted in temporary travel restrictions to Mexico and in Canada, which made work more challenging.

There can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets which may reduce resource prices, share prices and financial liquidity and thereby severely limit the financing capital available in the mineral exploration sector.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IAS 1 'Presentation of Financial Statements' ("IAS 1") using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized for issue by the Board of Directors on April 20, 2023.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value, as explained in the accounting policies set out in Note 2. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Basis of consolidation

These consolidated financial statements of the Company include the balances of its subsidiaries from the date that control is obtained, Goldplay de Mexico SA de CV, Minera San Marcial SA de CV Minera Matatan SA de CV ("Matatan"), and Marlin Gold Mining Ltd. ("Marlin") which are wholly owned subsidiaries incorporated in Mexico. Mineral La Rastra SA de CV which is owned 100% by Matatan and Oro Gold de S.A. de C.V. ("Oro Gold") and Marlin Gold Trading Inc. are 100% owned by Marlin.

The Company consolidates its subsidiaries on the basis that it controls the subsidiaries through its ability to govern its financial and operating policies.

All intercompany transactions and balances are eliminated on consolidation.

Foreign currency transactions

The Company's reporting currency and the functional currency of all its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Applicable to all entities in the group, transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Exploration and evaluation assets

Exploration and evaluation assets include all costs related to the acquisition of exploration and evaluation assets. All costs related to exploration and evaluation incurred during the exploration and evaluation phase are expensed as incurred and recognized in profit or loss. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Financial instruments

The Company recognizes financial assets and financial liabilities when it becomes a party to a contract.

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed to profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit or loss in the period in which they arise. Cash is classified as FVTPL.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in profit or loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income. Receivables and value added taxes are classified as amortized cost.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or amortized cost. At December 31, 2022, the Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as amortized cost liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

liabilities are classified as amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include evaluating the potential impairment of exploration and evaluation assets, share-based payments collectability of value added tax ("VAT"), valuation of the reclamation provision, indemnification assets and determination of mining concession fees payable.

<u>Economic recoverability and probability of future economic benefits of exploration and evaluation assets</u>
Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefits, including geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

<u>Valuation of share-based compensation</u>
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

<u>Collectability of value added tax and indemnification assets</u>
The Company pays VAT on expenditures that it incurs in Mexico. Such VAT payments are considered to be refundable, however the timing and successful recovery includes estimation uncertainty. Management has estimated and accrued the likely refundable amount. Indemnification assets relate to estimated contractual obligations payable by a vendor (Note 6). In determining the likelihood of collection the Company has considered the liquidity and working capital of the vendor.

<u>Provision for environmental rehabilitation</u>
The Company assesses its provision for restoration, rehabilitation and environmental obligations on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning and restoration provisions requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future decommissioning and restoration provision. The actual future expenditures may differ from the amounts currently provided.

Significant judgements include the following:

Functional currency
The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Acquisition of entities owning property
The Company acquired Matatan which owns the Plomosas property and related assets and liabilities through the payment of cash and issuance of shares and acquired Marlin which owns the La Trinidad property and related assets and liabilities through the payment of cash and the assumption of mining concession fees payable. The Company determined that both companies acquired were asset acquisitions as these companies did not meet the definition of a business and fair value was based on the consideration provided. Based on a number of factors, the related properties were considered to be in the exploration stage except for the building and equipment acquired.

Going Concern
The Company must assess its ability to continue as a going concern. Factors that affect this determination include current cash and investments, budgeted expenditures for future periods and the conditions of the market for exploration companies.

Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency or finders' fees or other transactions costs are accounted for as share-based payments.

Share-based payments

The fair value of options or compensatory warrants granted is recognized as a share-based payments expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserve to share capital.

The fair value of options granted is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payments to non-employees, who are not providing similar services to employees, are measured at the grant date by using the fair value of the 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 received cannot be reliably measured, and are recorded at the date the goods or services are received.

Related party transactions

Parties are 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 a related party transaction when there is a transfer of resources or obligations between related parties.

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive, or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the year in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these rehabilitation costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time and changes in the estimated future cash flows underlying any initial estimates.

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on 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.

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.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Equipment

Recognition and measurement

On initial recognition equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, except for land, which is not depreciated.

Depreciation

Depreciation is recognized in profit or loss at the following annual rates:

- Office equipment – 10% to 30% declining balance basis.
- Exploration equipment – 10% to 20% declining balance basis
- Mobile equipment – 20% to 25% declining balance basis
- Building – 10% declining balance and useful life

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting policies and amendments

Effective for annual periods beginning on or after January 1, 2024

Amendment to IAS 1: *Presentation of Financial Statements*

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

3. CASH

The Company's cash consists of the following:

	December 31, 2022	December 31, 2021
Cash held with banks in Canadian dollars	$ 816,917	$ 2,731,429
Cash held with banks in foreign currencies	85,321	346,367
Total	$ 902,238	$ 3,077,796

4. RECEIVABLES

The Company's receivable primarily arises from refundable sales tax from government taxation authorities in Canada and Mexico.

	December 31, 2022	December 31, 2021
GST receivable	$ 10,768	$ 12,335
Other receivables	954	13,184
Current receivable	$ 11,722	$ 25,519
VAT receivable	1,851,391	2,229,168
Total receivable	$ 1,863,113	$ 2,254,687

During the year ended December 31, 2022, the Company impaired value added tax by $693,251 (2021 – $450,642) based on increasing provisions for aged value added tax receivable.

(Expressed in Canadian Dollars)

5. EQUIPMENT

	Office Equipment	Mobile Equipment	Exploration Equipment	Buildings	Building in Progress	Total
Cost:						
Balance at December 31, 2020	$ 35,078	$ 63,257	$ 1,100,431	$ -	$ 69,671	$ 1,268,437
Transfer to buildings	-	-	-	69,671	(69,671)	-
Additions	40,527	-	187,396	817,247	-	1,045,170
Balance at December 31, 2021	$ 75,605	$ 63,257	$ 1,287,827	$ 886,918	$ -	$ 2,313,607
Additions	-	77,361	118,230	86,992	-	282,583
Disposal	-	-	(46,141)	-	-	(46,141)
Balance at December 31, 2022	$ 75,605	$ 140,618	$ 1,359,916	$ 973,910	$ -	$ 2,550,049
Accumulated Depreciation:						
Balance at December 31, 2020	$ 18,719	$ 8,668	$ 74,413	$ -	$ -	$ 101,800
Depreciation	4,674	12,475	141,915	245,548	-	404,612
Balance at December 31, 2021	$ 23,393	$ 21,143	$ 216,328	$ 245,548	$ -	$ 506,412
Depreciation	30,884	110,757	142,988	288,610	-	573,239
Disposal	-	-	(12,034)	-	-	(12,034)
Balance at December 31, 2022	$ 54,277	$ 131,900	$ 347,282	$ 534,158	$ -	$ 1,067,617
Net Book Value:						
Balance at December 31, 2021	$ 52,212	$ 42,114	$ 1,071,499	$ 641,370	$ -	$ 1,807,195
Balance at December 31, 2022	$ 21,328	$ 8,718	$ 1,012,634	$ 439,752	$ -	$ 1,482,432

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS

The Company's capitalized acquisition expenditures on its exploration and evaluation assets are as follows:

	San Marcial Mexico	Plomosas Mexico	La Trinidad Mexico	Total
Balance, December 31, 2020	$ 612,500	$ 3,094,180	$ -	$ 3,706,680
Acquisition costs				
Shares issued	933,000	-	-	933,000
Acquisition of La Trinidad Property	-	-	12,638,084	12,638,084
Cash	2,500,000	-	-	2,500,000
Total acquisition	3,433,000	-	12,638,084	16,071,084
Balance, December 31, 2021	$ 4,045,500	$ 3,094,180	$ 12,638,084	$ 19,777,764
Reclamation provision	-	182,001	(235,085)	(53,084)
Balance, December 31, 2022	$ 4,045,500	$ 3,276,181	$ 12,402,999	$ 19,724,680

San Marcial Property, Mexico

The Company owns a 100% interest in the San Marcial property located in the Rosario Mining District, Sinaloa, Mexico. As consideration, the Company paid $2,575,000 in cash, issued 3,500,000 common shares with a fair value of $1,470,500 and incurred $3,000,000 in exploration expenditures. The vendor also reserved a net smelter royalty ("NSR") on the San Marcial Property, the amount of which was determined and fixed at 0.75% when the Company issued a NI 43-101 report on June 12, 2020. The Company has a buy back right on the NSR that can be exercised at any time by paying $1,250,000. The Company also assumed a pre-existing 3% NSR on the San Marcial Property which is subject to a buy back right on the NSR of US$600,000 per 1% that can be exercised by the Company at any time and from time to time, in whole or in part.

Plomosas Property, Mexico

The Company entered into a share purchase agreement to acquire a 100% interest in Matatan and its wholly owned subsidiary which own the Plomosas property located in the Rosario Mining District, Sinaloa, Mexico. On March 26, 2020, the Company completed the acquisition by paying $100,000, issuing 17,097,500 common shares of the Company (valued at $2,906,575) and granted a 2% NSR with half of the NSR (i.e., 1% NSR) being subject to a buy-back for US$1,000,000. The Company assumed a pre-existing NSR between 1.75% and 3.5% based on the price of zinc.

La Trinidad Property, Mexico

The Company entered into a share purchase agreement to acquire a 100% interest in Marlin and its wholly owned subsidiary which own the La Trinidad property located in the Rosario Mining District, Sinaloa, Mexico. On March 31, 2021, the Company completed the acquisition by paying $50,000, granting a 1% NSR with the NSR being subject to a buy-back for US$2,000,000 at any time and assuming concession fees owed in Mexico on the concessions acquired as noted below. The Company assumed pre-existing NSR'S between 0.5% and 2.5% on concession claims.

For accounting purposes, the acquisition of Marlin was treated as an asset acquisition. As such, effective as of the date of closing, the fair value assigned to the identifiable assets and liabilities purchased are presented below:

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Cash payment	$	50,000
Legal, regulatory, and other costs		282,516
Total purchase price	$	332,516

Net assets acquired and allocation		
Assets		
Cash	$	5,467
Receivables and prepaids		39,084
Value added tax		82,568
Buildings		747,225
Indemnification asset (Note 10)		1,246,610
Exploration and evaluation assets		12,638,084
Liabilities		
Accounts payable	$	(31,533)
Mexico mining concession taxes (Note 8)		(11,963,059)
Reclamation provision (Note 10)		(2,431,930)
Total net assets acquired and allocated	$	332,516

As part of the acquisition, the Company assumed responsibility for estimated mining taxes owing (Note 8 as well as an estimated reclamation liability for which the vendor has agreed to remediate and indemnify the Company (Note 10).

The Company separately entered into an agreement to sell certain non-core concessions (Note 8) that has not yet completed as of December 31, 2022.

El Habal Property, Mexico

The Company acquired all 100% of the rights, title and interest in the El Habal Property by issuing 474,423 common shares of the Company valued at $35,000. The property is subject to an NSR between 1.0% and 1.5%. During fiscal 2018 the Company entered into an option agreement pursuant to which the Company received $1,000 for the option to purchase a 1% NSR on the property, which option can be exercised by payment to the Company of US$1,000,000 per 0.5% NSR, for a total option exercise price of US$2,000,000 for a 1% NSR. The Company also entered into a royalty agreement pursuant to which it received $99,000 for a 1% royalty on four concessions adjacent to the property resulting in a recovery of $65,000.

Golconda Summit Property, Nevada USA

The Company entered into a property option agreement to acquire a 100% interest in and to the Golconda Summit ("Golconda") property. During the year ended December 31, 2021, the Company sold the property option agreement to a third party and received $70,796 in consideration.

(Expressed in Canadian Dollars)

7. EXPLORATION EXPENDITURES

Exploration expenditures for the year ended December 31, 2022, are comprised of the following:

	El Habal	La Trinidad	San Marcial	Plomosas	Total
Concession taxes	$ 131,548	$ 6,464,211	$ 31,798	$ 216,566	$ 6,844,123
Community relations	-	202,585	101,028	40,948	344,561
Consulting	-	-	8,433	12,317	20,750
Drilling	-	-	808,975	1,086,816	1,895,791
Environmental	-	-	16,134	82,069	98,203
Field	10,680	91,797	443,004	1,661,702	2,207,183
Geological	4,426	19,600	665,682	781,393	1,471,101
Geochemistry	-	20,571	316,430	525,636	862,637
Metallurgical	-	117,157	-	-	117,157
Report preparation	-	-	1,240	14,888	16,128
Topography	-	-	24,607	51,109	75,716
Total	$ 146,654	$ 6,915,921	$ 2,417,331	$ 4,473,444	$ 13,953,350

Exploration expenditures for the year ended December 31, 2021, are comprised of the following:

	El Habal	La Trinidad	San Marcial	Plomosas	Total
Concession taxes	$ 83,541	$ 2,253,490	$ 27,344	$ 185,143	$ 2,549,518
Consulting	80	73,695	89,229	39,120	202,124
Drilling	-	-	429,076	2,558,553	2,987,629
Field	-	255,105	453,285	1,708,525	2,416,915
Geological	-	-	1,159,323	1,581,143	2,740,466
Geochemistry	-	686	31,113	665,303	697,102
Geophysical	-	-	501,434	-	501,434
Metallurgical	-	-	-	83,213	83,213
Report preparation	-	-	-	106,479	106,479
Survey	-	-	-	16,438	16,438
Topography	-	-	14,581	74,057	88,638
Underground development	-	-	52,716	-	52,716
Total	$ 83,621	$ 2,582,976	$ 2,758,101	$ 7,017,974	$ 12,442,672

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Trade payables	$ 848,380	$ 1,569,656
Accrued liabilities	103,000	96,000
	951,380	1,665,656
Mexico mining concessions fees	17,392,058	12,844,788
	$ 18,343,438	$ 14,510,444

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd…)

During the year ended December 31, 2022, a portion of the concession fees became statute barred and are no longer payable resulting in the Company recognizing a concession fee retirement amount of $2,612,428 (2021 – $584,421).

During fiscal 2021 the Company entered into an agreement to sell the El Salto and El Salto Sur non-core concessions within the La Trinidad Property in an arm's length transaction. The Company will receive no consideration except the purchaser will be responsible for $10,052,581 (December 31, 2021 - $6,489,455) of the concession fees owed. Approval of the transaction is pending and is subject to approval from government agencies in Mexico.

9. RELATED PARTY TRANSACTIONS

Key management personnel include those people who have authority and responsibility for planning, directing and controlling the activities of the Company. 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. Key management personnel compensation for the year ended December 31 was:

		2022		2021
Short-term benefits paid or accrued:				
Salaries	$	1,135,519	$	907,248
Director fees		49,917		103,750
Share-based compensation		309,442		930,743
Exploration expenditures		-		3,233
Professional fees		203,232		250,337
Total remuneration	$	1,698,110	$	2,195,311

Included in accounts payable and accrued liabilities as at December 31, 2022 was $73,530 (December 31, 2021 – $74,862) owed to a director and companies controlled by a director or officer.

During the year ended December 31, 2022, the Company issued Nil (December 31, 2021 - 45,999) common shares valued at $Nil (December 31, 2021 - $32,659) as debt settlement with officers and a director of the Company.

10. RECLAMATION PROVISIONS

As at December 31, 2022 the Company's reclamation provisions are related to the Company's La Trinidad and Plomosas properties (Note 6). The provision was calculated using an inflation rate of 3.5% and a discount rate of approximately 9.5% with the assumption that the reclamation will be settled between 2025 and 2027. Significant activities include land rehabilitation, demolition and removal and restoration costs. On March 31, 2021, the Company acquired the La Trinidad property (Note 6) and added a reclamation provision of $2,431,930 relating to the property reclamation and dismantling and removal of buildings, salvaged topsoil replacement and recontouring and grading. Mako Mining Corp. is responsible for certain costs estimated at $1,246,610 which has been recorded as an indemnification asset and adjusted to $986,407 because of the change in the discount rate as of December 31, 2022. The amounts and timing of the reclamation will vary depending on several factors including exploration success and alternative mining plans. During the year ended December 31, 2022, the Company increased the reclamation provision on the Plomosas property by $188,729 and decreased the La Trinidad property by $495,288. The Company also decreased the indemnification asset by $260,203.

(Expressed in Canadian Dollars)

10. RECLAMATION PROVISIONS (cont'd…)

		December 31, 2022		December 31, 2021
Balance as at beginning of year	$	2,653,918	$	215,461
Acquisition of the La Trinidad property (Note 6)		-		2,431,930
Change in estimate and discount rates		(630,459)		-
Foreign exchange		317,173		-
Accretion expense		6,727		6,527
Balance as at end of year	$	2,347,359	$	2,653,918

11. SHARE CAPITAL AND RESERVES

Authorized – Unlimited common shares without par value
<u>During the year ended December 31, 2022 the Company;</u>

a) Issued 400,987 common shares on the exercise of warrants for proceeds of $81,497. Share issue costs of $684 were incurred and was recorded as an offset to share capital, as share issue costs.

b) Issued 136,909 common shares valued at $28,751 as debt settlement resulting in a gain on settlement of $4,792. Share issue costs of $556 were incurred and was recorded as an offset to share capital, as share issue costs.

c) Completed conversion of 27,236,755 special warrants (the "Special Warrants") to 27,236,755 units (the "Units"). The Special Warrants were previously issued upon completion of a private placement at a price of $0.27 per Special Warrant for gross proceeds of $7,353,924. Upon receipt of a final short form prospectus, each Special Warrant was automatically exercised, at no additional cost to the holder thereof, for one Unit. Each Unit was comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one share at an exercise price of $0.37 per share to March 29, 2025. The Company valued the warrants at $2,315,124 using the residual value approach. On completion of the private placement, the Company paid cash finders fees of $422,931 and issued 1,566,410 special agent warrants valued at $190,844. Upon receipt of a final short form prospectus, each special agent warrant was automatically exercised, at no additional cost to the holder thereof, for one broker warrant. Each broker warrant is exercisable for one common share until March 29, 2025, at an exercise price of $0.27 per share. Additional share issue costs of $266,298 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

d) Completed a brokered private placement of 36,263,000 units at a price of $0.15 per unit for gross proceeds of $5,439,450. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant and each whole warrant is exercisable into one common share of the Company at an exercise price of $0.22 per share until August 30, 2025. The Company valued the warrants at $543,945 using the residual value approach. The Company paid cash finders fees of $271,458 and issued 1,809,720 agent warrants valued at $118,761. The Company also paid a corporate finance fee of $50,000, recorded as an offset to share capital, as share issue costs and issued 339,000 agent warrants valued at $22,246. Each agent warrant is exercisable into one common share at an exercise price of $0.15 per share until to August 30, 2025. Additional share issue costs of $221,354 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

<u>During the year ended December 31, 2021, the Company;</u>

e) Issued 16,153,000 common shares on the exercise of warrants for proceeds of $6,265,160.

f) Issued 849,644 common shares on the exercise of options for proceeds of $236,544.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND RESERVES (cont'd…)

g) Issued 187,096 common shares valued at $142,714 as debt settlement including $32,659 to a related party, resulting in a loss on settlement of $3,015.

h) Issued 1,500,000 common shares for acquisition of exploration and evaluation assets at a value of $933,000.

i) Completed a bought deal private placement of 19,550,000 units at a price of $0.59 per unit for gross proceeds of $11,534,500. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant and each whole warrant is exercisable into one common share of the Company at an exercise price of $0.74 per warrant to April 27, 2023. The Company paid cash finders fees of $617,369, issued 1,301,388 agent warrants and issued 255,000 units valued at $150,450. The Company also paid a corporate finance fee of $22,000 and 37,000 agent warrants. Each agent warrant is exercisable at an exercise price of $0.59 per agent warrant to April 23, 2023. The agent warrants were valued at $431,714 and the warrants on the units at $39,749. Additional share issue costs of $223,796 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

Additional share issue costs of $10,083 were incurred in connection with the exercise of options and warrants and shares issued for debt settlement, and was recorded as an offset to share capital, as share issue costs.

Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time-to-time, at its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed a rolling 10% of the Company's issued and outstanding common shares at the time the options are granted. Vesting of stock options is at the discretion of the Board of Directors. Stock options are exercisable for a maximum of 10 years, and the exercise price of the stock options is set in accordance with the policies of the TSX-V.

As at December 31, 2022, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Life Remaining
1,157,157	$0.30	March 1, 2023(*)	0.16
450,000	$0.30	May 7, 2023	0.35
1,070,000	$0.22	December 19, 2023	0.97
370,000	$0.21	August 8, 2024	1.60
217,000	$0.20	January 26, 2027	4.07
975,000	$0.185	November 27, 2024	1.91
300,000	$0.20	April 16, 2025	2.29
935,000	$0.335	May 13, 2025	2.37
935,000	$0.78	September 14, 2025	2.71
1,705,000	$0.74	January 21, 2026	3.06
200,000	$0.75	February 24, 2026	3.15
460,000	$0.71	May 13, 2026	3.37
65,000	$0.29	October 5, 2026	3.76
895,000	$0.25	April 6, 2027	4.27
9,734,157			2.22

(*) Options expired unexercised (Note 18)

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND RESERVES (cont'd…)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2020	7,702,178	$ 0.33
Expired	(429,000)	0.67
Exercised	(849,644)	0.28
Granted	3,660,000	0.72
As at December 31, 2021	10,083,534	$ 0.46
Expired	(1,269,377)	0.63
Granted	920,000	0.25
As at December 31, 2022	9,734,157	$ 0.42
Number of options currently exercisable	9,017,491	$ 0.40

During the year ended December 31, 2022, the Company recognized share-based payments expense of $453,446 (2021 - $1,532,335) in connection with the vesting of stock options granted.

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted during the year ended as follows:

	December 31, 2022	December 31, 2021
Risk-free interest rate	2.51%	0.61%
Expected life of options	5	5
Annualized volatility	96.65%	100%
Dividend rate	0%	0%

Warrants

The following common shares purchase warrants entitle the holder thereof to purchase one common share for each warrant. Warrant transactions are summarized as follows:

(Expressed in Canadian Dollars)

11. SHARE CAPITAL AND RESERVES (cont'd…)

	Number of Warrants	Weighted Average Exercise Price	
As at December 31, 2020	17,685,487	$	0.38
Granted	11,240,888		0.72
Expired	(237,500)		0.40
Exercised	(16,153,000)		0.39
As at December 31, 2021	12,535,875	$	0.67
Granted	35,465,007		0.28
Expired	(894,000)		0.25
Exercised	(400,987)		0.20
As at December 31, 2022	46,705,895	$	0.38

The weighted average remaining contractual life of warrants outstanding at December 31, 2022 was 1.96 (December 31, 2021 – 01.25) years.

Warrants outstanding are as follows:

Number of Shares	Exercise Price		Expiry Date
9,902,500	$	0.74	April 27, 2023
1,338,388	$	0.59	April 27, 2023
1,566,410	$	0.27	March 29, 2025
13,618,377	$	0.37	March 29, 2025
18,131,500	$	0.22	August 30, 2025
2,148,720	$	0.15	August 30, 2025
46,705,895			

The weighted average Black-Scholes inputs for finders warrants granted are as follows:

	December 31, 2022	December 31, 2021
Expected life of warrants	3.00	2.00
Annualized volatility	75.62%	100%
Dividend rate	-	-
Discount rate	3.03%	0.33%

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2022;

- reclassification of reserves to share capital of $39,970 for warrants exercised.
- issued 136,909 common shares in settlement of debt in the amount of $28,751.
- issued 3,715,130 agent warrants with a fair value of $331,851 recorded as share issue costs.

Significant non-cash transactions during the year ended December 31, 2021;

- issued 1,500,000 common shares for the acquisition of exploration and evaluation assets at a fair value of $933,000.

(Expressed in Canadian Dollars)

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

- issued 1,383,388 agent warrants with a fair value of $471,463 recorded as share issuance costs.
- issued 255,000 units valued at $150,450 recorded as share issue costs.
- reclassification of reserves in share capital of $402,552 on exercise of warrants and options.
- issued 187,096 common shares in settlement of debt in the amount of $142,714.
- deferred acquisition costs of $158,860 applied to property acquisition.
- assumed assets and liabilities as described in Note 6.

13. SEGMENTED INFORMATION

The business of the Company is the acquisition and exploration of mineral properties which is considered one business segment.

Geographic information is as follows:

	December 31, 2022	December 31, 2021
Equipment		
Mexico	$ 1,479,197	$ 1,802,574
Canada	3,235	4,621
Total	$ 1,482,432	$ 1,807,195
Exploration and evaluation assets		
Mexico	$ 19,724,680	$ 19,777,764
Total	$ 19,724,680	$ 19,777,764

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, receivables and value added tax. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions. Credit risk with respect to value added taxes due from a government agency in Canada is low and undeterminable in Mexico based on past refund practices of the Mexican tax authorities. Value added taxes are subject to review and potential adjustment by taxation authorities. Indemnification assets is due from a publicly traded company.

Liquidity risk

As of December 31, 2022, the Company had cash balance of $902,238 to settle current liabilities of $18,343,439 which includes significant expenditure requirements pursuant to Mexican concession taxes (Note 6 and 8). The Company is exposed to liquidity risk. The funds raised (Note 11(c and d) and Note 18) are not sufficient to cover its current liabilities as of December 31, 2022, and additional financing will be required. Additional funds will be required for property expenditures, retention of essential personnel, general and administration and to maintain its listing on the TSX.V

Market risk

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

Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade demand investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in foreign currency. Amounts exposed to foreign currency risk include cash of MX$1,227,816, value added tax receivable of MX26,642,560 and accounts payable of MX$258,773,377 as at December 31, 2022. A 10% change in foreign exchange rates will affect profit or loss by approximately $1,605,000.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

Foreign jurisdiction risk

In conducting operations in Mexico, the Company is subject to considerations and risks not typically associated with companies operating in Canada. These include risks such as the political, economic, and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

(Expressed in Canadian Dollars)

15. CAPITAL MANAGEMENT

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

The Company manages its capital structure and adjusts it, based on the funds available to the Company, to support the acquisition and exploration of exploration and evaluation assets.

The Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions. There were no changes to the Company's approach to capital management during the year.

16. INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2022	2021
Loss for the year	$ (18,794,177)	$(18,197,243)
Expected income tax (recovery)	$ (5,074,000)	$ (4,913,000)
Change in statutory, foreign tax, foreign exchange rates and other	(1,662,000)	404,000
Permanent differences	(1,585,000)	496,000
Impact of acquisition	-	(22,051,000)
Share issue cost	(333,000)	(239,000)
Adjustments to prior years provision versus statutory tax returns	(3,906,000)	255,000
Change in unrecognized deductible temporary differences	12,560,000	26,048,000
Total income tax expense (recovery)	$ -	$ -

The significant components of the Company's deferred tax assets that have not been included on the consolidated statements of financial position as follows:

	2022	2021
Deferred Tax Assets (liabilities)		
Non-capital losses available for future periods	$ 32,986,000	$ 25,257,000
Property and equipment	173,000	68,000
Share issue costs	541,000	374,000
Asset retirement obligation	61,000	3,000
Exploration and evaluation assets	10,677,000	6,176,000
	44,438,000	31,878,000
Unrecognized deferred tax assets	(44,438,000)	(31,878,000)
Net deferred tax liability	$ -	$ -

(Expressed in Canadian Dollars)

16. INCOME TAX (cont'd…)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	December 31, 2022	Expiry dates	December 31, 2021	Expiry dates
Exploration and evaluation assets	$ 35,697,000	No expiry date	$ 20,705,000	No expiry date
Property plant and equipment	575,000	No expiry date	229,000	No expiry date
Share issue cost	2,003,000	2043 to 2046	1,384,000	2042 to 2045
Asset retirement obligation	202,000	No expiry date	11,000	No expiry date
Non-capital losses available for future years	114,440,000		87,216,000	
Canada	44,846,000	2033 - 2042	30,239,000	2032 - 2041
Mexico	69,594,000	2025 - 2032	56,977,000	2025 - 2031

Tax attributes are subject to review and potential adjustment by tax authorities.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company**:**

a) had 1,157,157 share purchase options expire unexercised.

b) completed a private placement of 30,300,000 units at a price of $0.10 per unit for gross proceeds of $3,030,000. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant and each whole warrant is exercisable into one common share of the Company at an exercise price of $0.15 per warrant to February 14, 2025, subject to an acceleration clause. The Company paid cash finders fees of $116,940 and issued 1,169,400 agent warrants. Each agent warrant is exercisable at an exercise price of $0.15 per agent warrant to February 14, 2025.

c) granted 300,000 share purchase options to a new director at an exercise price of $0.12 valid for a period of five years.