Guanajuato Silver Co Ltd

(Formerly VanGold Mining Corp.)

Consolidated Financial Statements

For the years ended
December 31, 2021 and 2020
(Presented in United States dollars, unless otherwise stated)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Guanajuato Silver Company Ltd.

Opinion

We have audited the consolidated financial statements of Guanajuato Silver Company Ltd. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated statement of loss and comprehensive loss for the year ended December 31, 2021;
- the consolidated statement of changes in equity for the year ended December 31, 2021;
- the consolidated statement of cash flows for the year ended December 31, 2021;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which describes that the Entity has an operating loss, net loss, and generated negative cash flows from operating activities for the year ended December 31, 2021 and has an accumulated deficit as at December 31, 2021.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of Matter - Comparative Information

We draw attention to Note 3 to the consolidated financial statements, which explains that certain comparative information presented:

- For the year ended December 31, 2020 has been restated.
- As at January 1, 2020 has been derived from the financial statements for the year ended December 31, 2020 which have been restated (not presented herein).

Note 3 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2020 and December 31, 2019 (not presented herein but from which the comparative information as at January 1, 2020 has been derived), excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2021 and April 28, 2020, respectively.

As part of our audit of the financial statements for the year ended December 31, 2021, we also audited the adjustments that were applied to restate certain comparative information presented:

- for the year ended December 31, 2020
- as at January 1, 2020.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review or apply any procedures to the financial statements:

- for the year ended December 31, 2020

- for the year ended December 31, 2019 (not presented herein)
- as at January 1, 2020.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Other Information

Management is responsible for the other information. Other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity 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.

- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Guy Elliott.

Vancouver, Canada
April 25, 2022

Guanajuato Silver Co Ltd

Consolidated statements of financial position

(Expressed in US dollars)

As at

		December 31 2021		December 31 2020		January 1 2020
				Restated - Note 3		*Restated - Note 3*
ASSETS						
Current assets						
Cash and cash equivalents (note 5)	$	**8,234,043**	$	4,179,962	$	418,934
Amounts receivable (note 6)		**2,620,908**		83,672		21,781
Inventories (note 7)		**1,586,140**		-		-
Prepaid expenses and deposits		**554,354**		215,372		2,344
Other current assets (note 8)		**1,622,935**		-		-
		14,618,380		4,479,006		443,059
Non-current assets						
Advances receivable (note 9)		**-**		197,462		-
Deposits		**-**		501,689		193,516
Property, plant and equipment (note 10)		**18,310,696**		165,085		2,367
Mineral properties (note 10)		**13,867,915**		-		-
Exploration and evaluation assets (note 10)		**2,797,365**		2,529,887		1,135,429
Other assets (note 6 b))		**1,725,520**		-		-
	$	**51,319,876**	**$**	7,873,129	$	1,774,371
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	$	**3,467,293**	$	194,123	$	254,731
Advance payment (note 11)		**1,293,103**		-		-
Current portion of loan payable (note 12)		**7,285,522**		6,453		-
Current portion of lease liabilities (note 13)		**152,354**		-		-
Other current liabilities (note 10 a))		**750,000**		-		-
		12,948,272		200,576		254,731
Non-current liabilities						
Loan payable (note 12)		**895,827**		15,303		-
Lease liabilities (note 13)		**425,389**		-		-
Provision for reclamation and rehabilitation (note 14)		**6,249,826**		-		-
		20,519,314		215,879		254,731
SHAREHOLDERS' EQUITY						
Share capital (note 15)		**60,688,534**		32,300,211		27,937,235
Reserves		**18,150,184**		9,783,412		8,017,128
Accumulated other comprehensive income		**1,417,390**		1,591,106		1,449,201
Share subscriptions received		**-**		1,588,267		-
Deficit		**(49,455,546)**		(37,605,745)		(35,883,924)
		30,800,562		7,657,251		1,519,636
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**51,319,876**	**$**	7,873,129	$	1,774,371

Commitments and contingencies (note 10a)(i, ii and iii) and 28)

Subsequent events (note 10(b) and 29)

"James Anderson"
Director

"Ramon Davila"
Director

The accompanying notes are an integral part of these financial statements

Consolidated statements of loss and comprehensive loss

(Expressed in US dollars, except share and per share amounts)

		December 31 2021		December 31 2020
				Restated- Note 3
Revenues (note 18)	$	**4,116,811**	$	-
Cost of sales (note 19)		**6,350,863**		-
Mine operating loss		**(2,234,052)**		**-**
General and administration (note 20)		**4,326,383**		948,095
Share based compensation (note 16(b))		**2,547,339**		389,604
Exploration expenses		**1,140,308**		296,388
Foreign exchange loss		**453,185**		130,520
Other operating expenses (income)		**199,526**		(234)
Operating loss		**(10,900,793)**		(1,764,373)
Interest and finance (costs) income, net (note 21)		**(1,234,704)**		6,170
Other income		**285,697**		36,386
Net loss for the year	**$**	**(11,849,800)**	$	(1,721,817)
Other comprehensive income (loss), net of tax				
Foreign currency translation differences		**(173,716)**		141,905
Total other comprehensive income (loss) for the year		**(173,716)**		141,905
Total comprehensive loss for the year	**$**	**(12,023,516)**	$	(1,579,912)
Basic and diluted loss per common share		**(0.06)**		(0.02)
Weighted average number of common shares outstanding (000's)		**183,698**		80,921

The accompanying notes are an integral part of these financial statements

Guanajuato Silver Co Ltd

Consolidated statements of changes in equity

(Expressed in US dollars, except share and per share amounts)

	Number of Common Shares	Common Shares	Share subscriptions	Equity settled share-based payments	Warrants	Reserves Total	Accumulated deficit	Accumulated OCI	Total shareholders' equity
Balance, January 1, 2020 (Restated)	**59,664,089**	**$27,937,235**	**$ -**	**$6,864,466**	**$1,152,660**	**$8,017,126**	**$(35,883,928)**	**$1,449,201**	**$1,519,636**
Private placement (note 15 b))	25,641,902	2,168,075	-	-	838,543	838,543	-	-	**3,006,618**
Share and warrants issued for finders fee	214,665	29,747	-	-	89,618	89,618	-	-	**119,365**
Share issue cost (note 15 b))	-	(222,963)	-	-	-	-	-	-	**(222,963)**
Shares issued on settlement of debt	403,640	13,922	-	-	-	-	-	-	**13,922**
Units issued for royalty repurchased (note 15 b))	3,750,000	665,253	-	-	660,214	660,214	-	-	**1,325,467**
Warrant exercise for cash (note 15 b))	21,363,055	1,708,942	-	-	(211,693)	(211,693)	-	-	**1,497,249**
Share-based compensation	-	-	-	389,604	-	389,604	-	-	**389,604**
Subscriptions received	-	-	1,588,267	-	-	-	-	-	**1,588,267**
Comprehensive loss for the year	-	-	-	-	-	-	(1,721,817)	141,905	**(1,579,912)**
Balance, December 31, 2020 (Restated)	**111,037,351**	**32,300,211**	**1,588,267**	**7,254,070**	**2,529,342**	**9,783,412**	**(37,605,745)**	**1,591,106**	**7,657,251**
Private placement (note 15 b))	73,804,306	15,308,472		-	5,557,327	5,557,327	-	-	**20,865,799**
Share issue cost (note 15 b))	518,139	(914,360)	-	-	570,512	570,512	-	-	**(343,848)**
Shares issued on asset acquisition (note 10)	21,331,058	9,835,451	-	-	-	-	-	-	**9,835,451**
Shares issued on settlement of VAT (note 12 c))	901,224	387,487	-	-	-	-	-	-	**387,487**
Options exercise for cash (note 15 b))	1,412,500	261,458	-	(63,783)	-	(63,783)	-	-	**197,675**
Warrant exercise for cash (note 15 b))	15,211,453	3,386,791	-	-	(244,624)	(244,624)	-	-	**3,142,167**
Deposit received for exercise of warrants	-	123,024	-	-	-	-	-	-	**123,024**
Share-based compensation	-	-	-	2,547,339	-	2,547,339	-	-	**2,547,339**
Subscriptions exchanged	-	-	(1,588,267)	-	-	-	-	-	**(1,588,267)**
Comprehensive loss for the year	-	-	-	-	-	-	(11,849,800)	(173,716)	**(12,023,516)**
Balance, December 31, 2021	**224,216,031**	**$60,688,534**	**$ -**	**$9,737,626**	**$8,412,557**	**$18,150,184**	**$(49,455,546)**	**$1,417,390**	**$ 30,800,562**

The accompanying notes are an integral part of these financial statements

Guanajuato Silver Co Ltd

Consolidated statements of cash flows

(Expressed in US dollars)

		December 31 2021		December 31 2020
				Restated-Note3
Operating activities				
Net loss for the year	**$**	**(11,849,800)**	$	(1,721,817)
Items not involving cash and cash equivalents:				
Depreciation and amortization		**1,518,580**		11,693
Gain on settlement of debt		**-**		(36,386)
Unrealized gain on derivatives		**(365,293)**		-
Interest		**1,011,971**		847
Impairment of advance receivable		**197,462**		-
Share-based compensation		**2,547,339**		389,604
Unrealized foreign exchange		**54,762**		-
Changes in non-cash operating working capital:				
Amounts receivable		**(4,280,798)**		(61,891)
Inventories		**(1,334,819)**		-
Prepaid expenses and deposits		**162,706**		(213,027)
Purchase of gold and silver (note 8)		**(1,622,935)**		-
Accounts payable and accrued liabilities		**3,531,782**		(8,371)
Advance payment		**1,500,000**		-
Net cash and cash equivalents used in operating activities		**(8,929,043)**		(1,639,348)
Investing activities				
Acquisition of property, plant and equipment		**(6,412,427)**		(142,815)
Acquisition of the El Cubo Complex (note 10 (a))		**(7,551,461)**		-
Proceeds from sale of mineral stockpile		**-**		(470,118)
Deposit on acquisition of the El Cubo Complex		**-**		(147,200)
Option payments to acquire royalties		**-**		(4,300)
Payment to acquire surface land		**-**		6,096
Net cash and cash equivalents used in investing activities		**(13,963,888)**		(758,337)
Financing activities				
Proceeds from issuance of units		**19,277,535**		3,002,664
Share issuance costs		**(343,849)**		(107,699)
Proceeds from the exercise of options and warrants		**3,462,866**		1,708,942
Repayment of promissory note (note 12 (c))		**(2,475,000)**		-
Proceeds from OCIM loan (note 12)		**7,450,000**		-
Repayment of loan payable (note 12)		**(76,478)**		(1,656)
Payments of lease obligations (note 13)		**(174,384)**		-
Share subscriptions received		**-**		1,588,267
Net cash and cash equivalents provided by financing activities		**27,120,690**		6,190,518
Effect on cash and cash equivalents of foreign exchange		**(173,681)**		(31,805)
Change in cash and cash equivalents		**4,054,082**		3,761,028
Cash and cash equivalents, beginning of year		**4,179,962**		418,934
Cash and cash equivalents, end of year	**$**	**8,234,043**	$	4,179,962
Cash and cash equivalents are consisted of:				
Cash	**$**	**8,194,604**	$	4,092,356
Redeemable guaranteed investment certificate ("GIC")		**39,439**		87,606
Total cash and cash equivalents	**$**	**8,234,043**	$	4,179,962

1. NATURE OF OPERATIONS AND GOING CONCERN

Guanajuato Silver Company Ltd. is the ultimate parent company of its subsidiary group (collectively, the "Company" or "GSilver"") and is a publicly traded corporation, incorporated in Canada, with its head office located at 578 – 999 Canada Place, Vancouver, BC, V6E 3C1. GSilver's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "GSVR" and on the OTCQB under the symbol "GSVR.F". On June 10, 2021, the Company changed its name from VanGold Mining Corp. to Guanajuato Silver Company Ltd and trading symbol from VGLD on the TSXV and VGLDF on the OTCQB.

The Company is a precious metals producer engaged in reactivating past producing silver and gold mines near the city of Guanajuato, Mexico. The Company is currently producing silver and gold at its 100% owned El Cubo mine and mill (the "El Cubo Complex") acquired in April 2021, see note 10 (a), while simultaneously advancing the nearby El Pinguico and Ample de El Pinguico mineral properties (collectively, the "Pinguico Mine Project"). The recently acquired El Cubo Complex terminated production of gold-silver concentrate in November 2019 when it was put on care and maintenance by its previous owner. Eight Kilometres from the El Cubo mine is the Company's El Pinguico Project, which terminated production in 1913 due to the Mexican revolution, leaving surface and underground stockpiles. The Company has filed a Preliminary Economic Assessment on the Combined Project (El Cubo Complex and El Pinguico Project) and completed refurbishing the El Cubo Complex.

The Company also owns several exploration properties in Mexico: Patito I & II, Analy I & II and the Three Amigos. Patito I & II are located approximately 1.5 kilometres southwest and 3.0 kilometres due south, respectively, of the El Pinguico mine project. Analy I & II are located 100 kilometres east of the city of Guanajuato and the Three Amigos, comprised of three mining concessions – El Ruso, Ysabela and Camila – is located near the northern boundary between the States of Guanajuato and Queretaro in central Mexico. Additionally, as part of the Endeavour Silver Corp. ("Endeavour") transaction, the Company acquired an additional 48 mining claims.

Going concern

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company started producing and selling silver and gold concentrate in the fourth quarter of 2021, and generated a mine operating loss of $2,234,052, a net loss of $11,849,800 and negative cash flows from operating activities of $8,929,043 for the year ended December 31, 2021, and has an accumulated deficit of $49,455,546 as at December 31, 2021. These factors give rise to material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or to obtain additional financing. Management is of the opinion that sufficient funds will be obtained from operations and/or from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that cash flows from operations or additional financing will not be available on a timely basis or on terms acceptable to the Company.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. BASIS OF PREPARATION

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

These consolidated financial statements were approved by the Company's Board of Directors on April 25, 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The accounts of the Company and its subsidiaries, which are controlled by the Company, have been included in these consolidated financial statements. Control is achieved when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at December 31, 2021 were as follows:

Subsidiary	Location	Ownership Interest	Accounting	Principal Activity
CanMex Silver S.A. de C.V.	Mexico	98%	Consolidated	Exploration Company
Obras Mineras El Pinguico S.A. de C.V.	Mexico	100%	Consolidated	Mining Company
Compañía Minera Nivel 7 S.A. de C.V.	Mexico	100%	Consolidated	Inactive

All intercompany transactions, balances, revenues and expenses have been eliminated upon consolidation.

b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value at the end of each reporting period. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Foreign currency translation

i. Functional currency

The functional currency is the currency of the primary economic environment in which an entity operates. This has been determined within each entity within the Company. The Company considers the functional currency for its Canadian operations to be the C$.

Until September 30, 2021, the Company considered the functional currency of its Mexican subsidiaries to be the MXN$, after which the functional currency changed to the US$. The functional currency determinations were conducted through an analysis of the consideration factors identified in *IAS 21, The Effects of Changes in Foreign Exchange Rates*. The factor that caused the change include the currency of sales which are denominated in US$ upon entering into the concentrate sales agreement (note 18) and the commencement of sales in the fourth quarter of 2021. The functional currency was changed on a prospective basis.

For entities with a functional currency other than the presentation currency, foreign currency balances are translated as follows:

- Assets and liabilities are translated at period end exchange rates;
- Revenue and expenses are translated using exchange rates approximating those in effect on the date transactions occurred; and
- Exchange gains and losses arising on translation are recorded to foreign currency translation reserve in other comprehensive income.

ii. Presentation currency

During the fourth quarter of 2021, the Company changed its presentation currency to the United States dollar ("US$") from the Canadian dollar ("C$"). The Company has determined that this change in presentation currency better reflects the Company's current activities, increases the comparability to its peers, and better enhances the relevance of the financial statements to users. The Company applied the change in presentation currency retrospectively and restated the comparative financial information as if the presentation currency had always been US$, in accordance *with IAS 21, The Effects of Changes in Foreign Exchange Rates, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Error.*

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency translation (continued)

ii. Presentation currency (continued)

The change in presentation currency has been performed on a retrospective basis with comparative periods translated into US$ as follows:

- Assets and liabilities previously presented in C$ were translated into US$ using the comparative reporting date exchange rates;
- Equity, including reserves and deficit, were translated using the historical exchange rates; and
- The consolidated statements of loss and comprehensive loss were translated using the average foreign exchange rates in effect during that period.

The resulting foreign currency exchange differences were recorded to the foreign currency translation reserve.

d) Business combinations

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Company has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

e) Cash and cash equivalents

Cash and cash equivalents are comprised of cash deposits and short-term highly liquid investments that are readily convertible into known amounts of cash, and that are subject to an insignificant risk of changes in value.

f) Gold and silver bullion

Gold and silver bullion represents precious metals purchased to satisfy the Company's principal repayment obligations under loans repayable with gold and silver ounces. At the end of each reporting period, the balance of gold and silver ounces accumulated is valued at the lower of cost or net realizable value. Net realizable value is based on the estimated sale price of the silver and gold, generally determined based on the spot price at the period end.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Inventories

Inventories include mineral concentrates, stockpiled ore, materials and supplies, and are valued at the lower of average production cost and estimated net realizable value. Production costs allocated to mineral concentrates and stockpiled ore, or metal inventories include direct mining costs, direct labor and material costs, mine site overhead, depletion and amortization. Costs allocated to materials and supplies are based on weighted average costs and include all costs of purchase and other costs in bringing these inventories to their existing location and condition.

If the carrying amount exceeds the net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exist to the extent that the related inventory has not been sold. Net realizable value is calculated as the estimated price at the time of sale based on prevailing metal prices less estimated future costs to convert the inventories into saleable form and estimated costs to sell.

h) Exploration and evaluation costs

The Company capitalizes acquisition costs of exploration and evaluation properties, including any cash consideration and the fair market value of shares issued, if any. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded when the payments are made. The recorded amounts of property claim acquisition and option payments represent actual expenditures incurred and are not intended to reflect present or future values. Option payments received on properties are offset against those properties.

Exploration and evaluation costs are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve; (ii) determining the optimal methods of extraction and metallurgical and treatment processes; (iii) studies related to surveying, transportation and infrastructure requirements; (iv) permitting activities; and (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Exploration and evaluation expenditures, other than acquisition costs and estimated closure and decommissioning costs, are expensed as incurred. Once the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and development has been approved by the Board of Directors, exploration and evaluation assets are tested for impairment, and any impairment loss is recognized. Exploration and evaluation assets are then reclassified as mineral properties in property, plant and equipment, with further development costs capitalized.

When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of production, or written off if the property is sold, allowed to lapse or abandoned.

Exploration and evaluation assets are tested for impairment when an indicator of impairment is identified and upon reclassification to mining properties.

i) Underground mine development costs

Underground mine development costs are costs incurred to build new shafts, drifts and ramps that will enable the Company to physically access ore underground. The time over which the Company will continue to incur these costs depends on the mine life. These underground development costs for operating mines are capitalized as incurred. Capitalized underground development costs are depreciated on a unit of production basis, based on the estimated proven and probable reserves and the portion of resources considered probable of economic extraction.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Mineral properties, land, plant and equipment

Mineral properties, land, plant and equipment are initially recognized at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. When provisions for closure and decommissioning are recognized, the corresponding cost is capitalized as part of the cost of the related assets.

Buildings, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Land is stated at cost less accumulated impairment in value and is not depreciated.

Construction expenditures and development are capitalized and classified as construction in progress. Once completed, the costs associated with all applicable assets related to the development and construction are reclassified to the appropriate category within mineral properties or plant and equipment.

Each asset or part's estimated useful life which range from 3 to 6 years, has due regard to both its own physical life limitations and the present assessment of economically recoverable resources of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

Mineral properties, plant and equipment are depreciated using either the straight-line or units-of-production method over the shorter of the estimated useful life of the asset or the expected life of mine. Where an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

k) Impairment of long-lived assets

At each reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows or cash generating units ("CGUs"). These are typically individual mines or development projects. If any such indication of impairment exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposals and value in use, which is the present value of future cash flows expected to be derived from the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized into profit or loss immediately.

l) Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset ("RoU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The RoU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease liability. The RoU asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The RoU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate.

The incremental borrowing rate is the rate which the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the RoU asset in a similar economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Leases (continued)

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in the consolidated statement of income in the period in which they are incurred.

The ROU assets are presented within "Plant and equipment" and the lease liabilities are presented in "Lease liabilities" on the statement of financial position.

m) Provisions

i. Reclamation, rehabilitation and similar provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of property, plant and equipment, and exploration and evaluation assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognized at its present value in the period in which it is incurred, which is generally when an environmental disturbance occurs, or a constructive obligation is determined. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset.

Following the initial recognition of a reclamation and rehabilitation liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes in the estimated provision resulting from revisions to the estimated timing and amount of cash flows, or changes in the discount rate. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the decommissioning liability and the decommissioning asset, unless there is no future benefit, in which case they are expensed.

ii. Other provisions

Provisions are recognized when a present legal or constructive obligation exists as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect of the time value of money is material the provision is discounted using an appropriate current market based pre-tax discount rate.

Contingent consideration payable on the El Cubo Complex acquisition is recognized for payments in the event of the occurrence or non-occurrence of uncertain future criteria that are beyond the control of the Company and the counter party and are measured at estimated fair value.

n) Income taxes

Income tax expense consists of current and deferred tax expense.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at period end adjusted for amendments to tax payable with regards to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income taxes (continued)

Deferred tax is recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits, and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis ("temporary differences"). Deferred taxes are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability is settled.

On an asset acquisition, the Company applies initial recognition exemption and deferred tax assets, and liabilities are not recognized if the tax base is different from the accounting base.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Proceeds related to the issuance of units are allocated between the common shares and warrants on a relative fair value basis where warrants are classified as equity instruments.

The fair value of the warrants is estimated using the Black-Scholes Option Pricing Model. The value attributed to the warrants is recorded to equity reserve. If the warrants are exercised, the value attributable to the warrants is transferred to common shares. When terms of warrants are modified subsequent to initial issuance without any services being provided to the Company, the modification of the warrants continues to qualify as equity and therefore no adjustment is made on modification.

p) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of 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 cannot be reliably measured and are recorded at the date the goods or services are received. The offset to the recorded cost is to equity reserves. Consideration received on the exercise of stock options is recorded as share capital and the related equity reserve is transferred to share capital. When stock options are forfeited prior to becoming fully vested, any expense relating to the unvested options previously recorded, is reversed.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period.

q) Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income or loss for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is based on the weighted average number of common shares outstanding during the year, adjusted for the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year, but only if dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) 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. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities and include key management personnel of the Company. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

s) Revenue recognition

The Company generates revenue from the sale of concentrate containing, gold and silver. Sales revenue is recognized on individual sales to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company considers five steps in assessing whether all of the revenue recognition criteria are met:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations; and
- recognize revenue when or as a performance obligation is satisfied.

The Company satisfies its performance obligation and sales revenue is recognized at the point in time when the product is delivered as specified by the customer, which is typically upon delivery of the product to the customer's defined warehouse. The Company considers that control has passed when there is a present obligation to pay from the customer's perspective; physical possession, control and the risks and rewards of ownership have all passed to the customer; and the customer has accepted the concentrate. The Company recognizes deferred revenue in the event it receives payment from a customer before a sales transaction meets all the criteria for revenue recognition.

Concentrate is provisionally priced whereby the selling price is subject to final adjustment at the end of a 30-day period after delivery to the customer as defined in the sales contract. The final price is based on the market price at the relevant quotation point stipulated in the contract. At each reporting date, the receivable is marked to fair value based on the forward selling price for the quotation period stipulated in the contract. The change in fair value of the receivable subsequent to the date of revenue recognition is recognized within 'Revenue' on the face of the statements of income and is shown separately in the notes to the consolidated financial statements.

Advance payments arose from up-front payments received by the Company or obligations acquired in consideration for future commitments as specified in the corresponding arrangement. Revenue from advance payment is recognized when the customer obtains control of the silver-gold concentrate, and the Company has satisfied its performance obligation.

t) Segment Reporting

The Company's mineral property and equipment is located substantially in Mexico. The Company operates one reportable operating segment, being mineral exploration and mine development and operation in Mexico.

u) Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial instruments (continued)

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recognized in profit or loss.

An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments.

For the Company's trade receivables, it determines the lifetime expected losses for all of its trade receivables. The expected lifetime credit loss provision for the Company's trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required.

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

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated Statements of Financial Position, only if there is an enforceable legal right to offset the recognized amounts and the intention is to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

v) Comparative information

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation, including the for the change in the presentation currency from the Canadian dollar to the US dollar.

w) Adoption of new accounting standards, interpretation or amendments

Property, plant and equipment — proceeds before intended use (amendments to IAS 16)

On May 14, 2020, the IASB published a narrow scope amendment to *IAS 16 Property, Plant and Equipment – Proceeds before Intended Use*. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible.

The Company elected to early adopt the IAS 16 Amendment ("IAS 16 Amendment"). As a result, the Company recognized $4,116,811 of gold-silver concentrate and $6,350,863 of related cost of sales in its income statement. (December 31, 2020 -nil and nil, respectively).

x) New accounting standards issued but not yet effective

i. Classification of liabilities as current or non-current (amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendments are applied on or after the first annual reporting period beginning on or after January 1, 2023, with early application permitted. This amendment is not expected to have a material impact on the Company's financial statements.

ii. Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)

In May 2021, the IASB issued an amendment to *IAS 12 Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* which amended *IAS 12 Income Taxes*. The amendments will become effective January 1, 2023. The Company is assessing the impact of the amendment and does not expect it to have a significant effect on the Company's financial statements.

4. ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of these consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Judgements, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities in future years.

The areas that require management to make significant estimates and assumptions in applying the Company's accounting policies in determining carrying values include, but are not limited to:

a) Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

b) Decommissioning, restoration and similar provisions

The Company has obligations for decommissioning, restoring and other similar activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations.

Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of the obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions, including the future costs, the period over which they will be incurred, and the appropriate discount rate to be used.

c) Revenue recognition

The Company's sales of metal in concentrates allow for price adjustments based on the market price at the end of the relevant quotational period ("QP") stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for metal in concentrate is based on the prevailing spot price on a specified future date. At each balance sheet date, the Company estimates the value of the trade receivable using forward metal prices.

Adjustments to the sale price occurs based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP is generally between one and three months. Any future changes over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. As such, the provisional price adjustments are accounted for as derivatives and presented separately in Note 18 of these financial statements.

d) Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

e) Value-added tax ("VAT") receivable

Timing of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Company assesses the recoverability of the VAT receivable and its classification as current or non- current at each reporting date. This is impacted by several factors, including the status of discussions with the tax authorities, and current interpretation of relevant tax legislation. Changes in these estimates can materially affect the amount recognized as VAT receivable and the classification and could result in an increase in other expenses recognized.

4. ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

f) Leases

Primarily judgements include whether a lease conveys the right to use a specific asset, whether the Company obtains substantially all of the economic benefits from the use of the asset, whether the Company has the right to direct the use of the asset, evaluating the appropriate discount rate to use to discount the lease liability for each lease or groups of assets, and to determine the lease term where a contract includes renewal options. Significant estimates, assumptions and judgements over these factors would affect the present value of the lease liabilities, as well as the associated amount of the ROU asset.

Information about significant areas of judgment considered by management in preparing the consolidated financial statements is as follows:

a) Functional currency

Assessment of functional currency involves certain judgements 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 that determined the primary economic environment.

b) Acquisitions

On the acquisition of a set of assets and liabilities, a company must determine whether what was acquired includes the inputs, processes and outputs necessary to constitute a business or an asset acquisition as defined in *IFRS 3 – Business Combinations*. Based on an assessment of the relevant facts and circumstances including, the mill facility was on care and maintenance, proven and probable reserves were exhausted before the acquisition and workforce was not acquired with the purchase, the Company concluded that the acquisition of El Cubo Complex in Guanajuato, Mexico from Endeavour Silver Corp. on April 9, 2021, met the criteria of an asset acquisition (note 10 (a)).

c) Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

A liability is recognized in the consolidated financial statements when the outcome of the legal proceedings is probable, and the estimated settlement amount can be estimated reliably. Contingent assets are not recognized in the consolidated financial statements until virtually certain.

The amount of contingent consideration payable recognized on the El Cubo acquisition is subject to judgment on the probability that specific closing price criteria on the price of gold will be achieved within the time periods specified in the acquisition agreement. This judgment affects the amount recognized for the contingent consideration payable. Future closing prices will affect amounts recognized in the future and any amounts ultimately payable, if any.

d) Life of El Cubo Complex

Judgment is required in estimating the life of mine of the El Cubo Complex, including the expected tonnes to be mined economically in the future. The total expected tonnes to be produced is the denominator in determining units of production depreciation in any period. The life of mine is also used in the determination of the reclamation and rehabilitation liability recognized. There have been no mineral reserves identified at the El Cubo complex. Consequently, the life of mine has been estimated using mineral resources including a portion of identified inferred resources. Inferred resources account for approximately 62% of the life of mine at December 31, 2021.

(Expressed in US dollars)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits and money market instruments with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash.

6. AMOUNTS RECEIVABLE

	December 31 2021	December 31 2020
		(Restated)
Trade Receivables (a)	**$ 491,731**	$ -
VAT recoverable (b)	**2,083,843**	-
Other receivables	**45,334**	83,672
	$ 2,620,908	$ 83,672

a. As of December 31, 2021, trade receivables consist of receivables from provisional silver and gold sales from the El Cubo Complex. The fair value of receivables arising from concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted forward price on the measurement date from the exchange that is the principal active market for the particular metal. As such, these receivables which meet the definition of an embedded derivative, are classified as Level 2 of the fair value hierarchy (note 25).

b. At the reporting date, the Company assessed the timing of collection of the total VAT receivable of $3,809,363 balance and concluded that $1,725,520 of the VAT recoverable is expected to be collected in 2023, therefore it was classified as other non-current assets.

7. INVENTORIES

	December 31 2021	December 31 2020
Concentrate stockpiles	**$ 832,707**	$ -
Ore stockpiles	**326,997**	-
Materials and supplies	**426,436**	-
Total inventories	**$ 1,586,140**	$ -

During the year ended December 31, 2021, the Company expensed $4,303,424 (December 31, 2020 – nil) of inventories to cost of sales.

8. OTHER CURRENT ASSETS

As of December 31, 2021, other current assets are comprised of 400 ounces of gold and 40,000 ounces of silver valued at $1,622,935. These are held to satisfy the Company's principal repayment obligations under the OCIM Loan (Note 12).

9. ADVANCE RECEIVABLE

On February 18, 2020, and as amended on August 17, 2020, the Company entered into an agreement with Astor Holdings Inc.("Astor"), a Guyana corporation, and Shooting Star Acquisition Corp. ("Star"), a Capital Pool Company listed for trading on the TSX Venture Exchange, whereby the Company assigned all rights, title and interest in a draft National Instrument 43-101 technical report previously commissioned by the Company on a gold property in Guyana known as the Tassawini property. In consideration, Astor and Star collectively agreed to assume the amount owing to the Company of $167,457 from the previous owner of the Tassawini property and pay the Company $30,005 and issue 1,400,000 common shares of Star in settlement of that debt upon closing of Star's qualifying transaction to acquire Astor. On June 7, 2021, Star announced the termination of the acquisition of Astor and as a result, the Company has written off the advance receivable.

(Expressed in US dollars)

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

Consolidated Property, Plant and Equipment

	Property, plant and equipment						
	Machinery and equipment	Land and buildings	Furniture and other equipment	Total PP&E	Mineral properties	Exploration and evaluation assets	Total
	$	$	$		$	$	$
COST							
Balance at December 31, 2020	106,796	-	18,561	125,358	-	2,529,887	2,655,245
Additions	12,533,441	4,885,684	1,763,436	19,182,561	12,422,640	267,478	31,872,680
Changes in closure and reclamation	-	-	-	-	2,224,967	-	2,224,967
Balance at December 31, 2021	**12,640,237**	**4,885,684**	**1,781,997**	**19,307,919**	**14,647,608**	**2,797,365**	**36,752,892**
ACCUMULATED DEPRECIATION							
Balance at December 31, 2020	1,575	-	5,441	7,016	-	-	7,016
Depreciation	817,124	43,433	129,650	990,207	779,693	-	1,769,900
Balance at December 31, 2021	**818,699**	**43,433**	**135,090**	**997,223**	**779,693**	**-**	**1,776,916**
Net book value at December 31, 2021	**11,821,538**	**4,842,251**	**1,646,907**	**18,310,696**	**13,867,914**	**2,797,365**	**34,975,976**
COST							
Balance at December 31, 2019	1,339	-	6,682	8,020	-	1,135,429	1,143,449
Additions	105,458	-	11,880	117,338	-	1,400,633	1,517,970
Sale of mineral stockpile	-	-	-	-	-	(6,174)	(6,174)
Balance at December 31, 2020	106,796	-	18,561	125,358	-	2,529,887	2,655,245
ACCUMULATED DEPRECIATION							
Balance at December 31, 2019	-	-	-	-	-	-	-
Depreciation	1,575	-	5,441	7,016	-	-	7,016
Balance at December 31, 2020	1,575	-	5,441	7,016	-	-	7,016
Net book value at December 31, 2020	105,221	-	13,121	118,342	-	2,529,887	2,648,229

a) Mineral properties

The El Cubo and El Pinguico properties are located in central Mexico, in the State of Guanajuato, approximately 11 km east of the city of Guanajuato.

El Cubo

On April 9, 2021, the Company purchased the El Cubo Complex in Guanajuato, Mexico from Endeavour Silver Corp. ("Endeavour") As consideration for the El Cubo Complex, the Company:

- paid a non-refundable cash deposit of $500,000 on December 18, 2020;
- paid $7,000,000 cash on closing;
- issued 21,331,058 common shares of the Company on closing with a fair value of $9,835,451; and
- issued a $2,500,000 unsecured, non-interest-bearing promissory note due on April 8, 2022. A market discount rate of 13% was used to calculate the fair value of the promissory note of $2,212,389.

The Company also incurred legal and regulatory costs of $51,461.

Management determined that the acquisition of El Cubo Complex did not meet the definition of a business in accordance with IFRS 3 Business Combinations. Accordingly, the acquisition has been accounted for as an asset acquisition. The fair value of the consideration paid and its allocation to the assets and liabilities acquired consisted of:

(Expressed in US dollars)

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT (continued)

a) Mineral properties (continued)

Consideration		
Cash deposit	$	500,000
Cash		7,000,000
Shares		9,835,451
Promissory note		2,212,389
Contingent payment		750,000
Transaction cost		51,461
Total	**$**	**20,349,301**

Fair Value of Net Assets Acquired		
Plant and equipment	$	8,985,000
Other equipment		45,000
Surface land		4,500,000
Mineral properties		11,419,301
Reclamation and rehabilitation provision		(4,600,000)
Total	**$**	**20,349,301**

Additionally, the El Cubo acquisition agreement requires certain contingent payments as follows:

i. $1,000,000 upon the Company producing 3,000,000 ounces of silver equivalent from the Combined Project (Contingent Payment #1). At the Company's option, the Company can issue common shares for up to 50% of Contingent Payment #1, based on the volume weighted average trading price of the Company's common shares for the 10 trading days immediately preceding the date of such payment.

ii. $1,000,000 if the London Bullion Market Association ("LBMA") spot price of gold closes at or above $2,000 per ounce for 20 consecutive trading days within two years after closing ("Contingent Payment #2").

iii. $1,000,000 if the LBMA spot price of gold closes at or above $2,200 per ounce for 20 consecutive trading days within three years after closing ("Contingent Payment #3").

The Company has accrued a total of $750,000 for contingent payment #2 and contingent payment #3 as other current liabilities on the statement of financial position.

b) Exploration and evaluation assets

		Other Mexican claims		**El Pinguico**		**Total**
Acquisition Cost:						
Balance, December 31, 2019 (Restated)	$	265,257	$	870,172	$	1,135,429
Additions		-		1,400,632		1,400,632
Sale of mineral stockpile		-		(6,174)		(6,174)
Balance, December 31, 2020 (Restated)		265,257		2,264,630		2,529,887
Additions		-		267,478		267,478
Balance, December 31, 2021	$	**265,257**	**$**	**2,532,108**	**$**	**2,797,365**

El Pinguico Mine Project

The Pinguico Mine project is comprised of two mining claims, El Pinguico and Ample de El Pinguico, covering 71.7 hectares. It is subject to a 4% net smelter return ("NSR") royalty and a 15% Net Profits Interest ("NPI") on minerals recovered from the existing surface and underground stockpiles of mineralized rock and a 3% NSR and 5% NPI on all newly mined mineralized material.

On August 18, 2020, as amended on November 8, 2020, the Company entered into a royalty purchase option vendor agreement to acquire 3 of the 4 underlying royalties on the El Pinguico Project from the original vendor of the property (the "Option Agreement"), Exploraciones Mineras Del Bajio S.A. de C.V. ("EMBSA"), a company controlled by a director of the Company. Under the Option Agreement, the Company has the option to repurchase the following royalties from EMBSA:

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT (continued)

b) Exploration and evaluation assets (continued)

- the 4% NSR on all "broken material" within both the above ground and underground stockpiles;
- the 3% NSR on all newly established in-situ material discovered on the El Pinguico Project; and
- the 5% NPI on all newly established in-situ material discovered on the El Pinguico Project.

Under the terms of the Option Agreement, the Company will pay a total of CAD$1,675,000 cash and issue 3,750,000 units (each unit comprised of one common share and one non-transferable share purchase warrant, exercisable at CAD$0.175 per share for a term of 5 years) to EMBSA as follows:

- CAD$200,000 cash (paid) and 3,750,000 units on or before November 30, 2020 (issued);
- CAD$325,000 cash on or before February 22, 2021 (paid);
- CAD$525,000 cash on or before February 22, 2022; (see note 29)
- CAD$625,000 cash on or before February 22, 2023.

Upon completion of the payments and exercise of the option, the Company will own an undivided 100% interest in the El Pinguico Mine Project with only a 15% NPI on the existing above and underground stockpiles as the remaining royalty.

In March 2021, the Company acquired 89.6 hectares of land that covers portions of the surface of the El Pinguico mining claims for $22,773. The Company also has an option to purchase 212.98 hectares covering additional portions of surface area of the El Pinguico mining claims for $44,727.

In February 2020, the Company signed a 15-year Surface Land Access Agreement with the Ejido Calderones, the local Ejido group for unrestricted road access for exploration and mining equipment and personnel to the El Pinguico Project through the community of Calderones. The Company made an initial payment of $7,100 (100,000 Mexican Pesos ["MXP"]) and will make annual payments of MXP 50,000 (approximately $3,100) plus value added tax of 16%. During the year ended December 31, 2021, the Company paid $18,133 (MXP 362,659) (December 31, 2020 - $3,735 (MXP 58,000)).

In order to gain a better understanding of the metallurgy of the surface stockpile at the El Pinguico Mine Project, the Company sold 1,039 tonnes of mineralized material to Endeavour on June 22, 2020, for $8,290 (MXP 137,300), net of processing charges. As part of the sale, Endeavour provided the Company with a detailed analysis of all recovery and concentrate data obtained in the processing.

Other Mexican claims

The Company has 7,800 hectares of additional mining claims within the Guanajuato and Queretaro regions as follows:

i. Patito I and II concessions – located approximately 1.5 km southwest, and 3.0 km due south of the El Pinguico Project.
ii. The Analy I & Analy II concessions – located 100 km east of the city of Guanajuato, Mexico.
iii. El Ruso, Ysabela and Camila concessions – located near the northern boundary between the States of Guanajuato and Queretaro in central Mexico.
iv. Over 7,000 hectares of mining claims south and east of the city of Guanajuato acquired from Endeavour as part of the El Cubo Complex transaction.

A 2.5% NSR exists on seven concessions (i, ii, and iii above) of which, one half (1.25%) may be repurchased for $500,000.

Rossland Properties, British Columbia, Canada

As of December 31, 2021, the Company holds certain mineral claims within the historic Rossland gold camp in southeastern British Columbia.

(Expressed in US dollars)

11. ADVANCE PAYMENT

In October 2021, The Company received $1,293,103 (plus $206,897 of VAT) up-front payment which was recognized as deferred revenue. The advance payment bears interest at 12-month Libor + 6.75% and is to be repaid in 15 monthly installments of $100,000, after a 3-month grace period, against the proceeds from the silver-gold concentrate delivered.

The advance payment will be recognized as revenue upon deliver of the silver-gold concentrate when the customer obtains control of the silver-gold concentrate, and the Company has satisfied its performance obligation.

12. LOANS PAYABLE

		OCIM		Vehicles		Total
Balance, December 31, 2020 (Restated)	$	-	$	21,721	$	21,721
Additions		7,450,000		183,576		7,633,576
Interest expense		922,365		50,082		972,447
Loan payments		-		(76,478)		(76,478)
Effect of change in foreign exchange rates		-		(4,624)		(4,624)
Derivative asset		(365,293)		-		(365,293)
Balance, December 31, 2021	$	**8,007,072**	**$**	**174,277**	**$**	**8,181,349**
Which consist of:						
Current portion of loans		7,217,403		68,119		7,285,522
Non-current portion of loans		789,669		106,158		895,827
Balance, December 31, 2021	$	**8,007,072**	**$**	**174,277**	**$**	**8,181,349**

		Vehicles		Total
Balance, December 31, 2019 (Restated)	$	-	$	-
Additions		21,806		21,806
Interest expense		689		689
Loan payments		(1,644)		(1,644)
Foreign exchange loss		905		905
Balance, December 31, 2020 (Restated)	**$**	**21,756**	**$**	**21,756**
Which consist of:				
Current portion of loan		6,453		6,453
Non-current portion of loan		15,303		15,303
Balance, December 31, 2020 (Restated)	**$**	**21,756**	**$**	**21,756**

a) Vehicles

Between April and December 2021, the Company entered into nine, 3-year vehicle loan agreements with aggregate principal totalling $183,576 (MXP 3,698,191). The loans are secured by the respective vehicles, bear interest at 16.83% and are repayable in monthly installments of between $706 and $1,032 (MXP 11,576 and MXP 16,913) plus VAT.

On September 18, 2020, the Company entered into a 3-year vehicle loan agreement. The Company paid a down payment of $13,406 (MXP271,738) with a principal of $22,282 (MXP451,645). The loan is secured by the vehicle, bears interest at 18.5% per annum and is repayable in monthly installments of $809 (MXP16,441) plus VAT.

b) OCIM loan

On May 31, 2021, the Company entered into a definitive agreement for an 18-month gold and silver loan with European based OCIM Group ("OCIM") for $7,500,000 less $50,000 of transaction cost. The loan is repayable over the following 12 months commencing February 28, 2022, with the Company delivering 19,076 silver and 178.5 gold ounces per month (an aggregate 228,916 silver and 2,141 gold ounces). The number of silver and gold ounces was fixed at an annualized 15% discount to the spot price on July 26, 2021, the date the Company served notice of drawdown of funds.

(Expressed in US dollars)

12. LOANS PAYABLE (continued)

b) OCIM loan (continued)

The loan is classified as a financial liability and measured at amortized cost using the effective interest rate implicit in the loan. The requirement to deliver gold and silver ounces was determined to be a derivative and is measured at fair value at the end of each reporting period. As at December 31, 2021, the fair value of the derivative was an asset of $365,293. For the year ended December 31, 2021, the Company recognized a gain of $289,908 on revaluation of the derivative in profit or loss.

c) Promissory note:

On November 30, 2021, the Company repaid the outstanding promissory note related to the acquisition of the El Cubo Complex. Endeavour agreed to reduce the principal amount of the note by $25,000 and settle the associated VAT of $400,000 for 901,224 common shares of the Company.

Promissory note	$	2,500,000
Discount		(287,611)
As of April 9, 2021 (note 10(a))		2,212,389
Accretion		180,221
Loss on settlement		82,390
Payment		(2,475,000)
As of December 31, 2021	**$**	**-**

13. LEASE LIABILITIES

The Company leases office space, employee housing and power generators. These leases are for periods of 2 to 5 years.

The following table presents the lease obligations of the Company:

		December 31 2021		December 31 2020
				Restated
Beginning balance	$	**-**	$	-
Additions		**686,398**		-
Interest		**70,586**		-
Payments		**(174,384)**		-
Effect of change in foreign exchange rates	$	**(4,857)**	$	-
Ending balance		**577,743**		-
Less: current portion		**(152,354)**		-
Non-current lease liabilities	$	**425,389**	$	-

The following table presents lease liability maturity – contractual undiscounted cash flows for the Company:

		December 31 2021		December 31 2020
				Restated
Less than one year	$	**218,942**	$	-
Between one and five years		**547,546**		-
		766,489		-
Less: future finance charges		**(188,746)**		-
Present value of minimum lease payments		**577,743**		-
Less: current portion	$	**(152,354)**	$	-
Non-current lease liabilities	$	**425,389**	$	-

(Expressed in US dollars)

14. PROVISION FOR RECLAMATION AND REHABILITATION

The Company recognized a provision for reclamation related to the environmental restoration and closure costs associated with the acquired El Cubo Complex. Significant reclamation and closure activities include land rehabilitation, decommissioning of buildings and mine facilities, ongoing care and maintenance and other costs.

		El Cubo Complex
Balance at December 31, 2020	$	-
At acquisition of El Cubo Complex		4,600,000
Accretion		209,733
Changes in estimate		1,533,330
Effect of changes in foreign exchange rates		(93,237)
Balance at December 31, 2021	**$**	**6,249,826**

		El Cubo Complex
Anticipated settlement date		2029
Undiscounted uninflated estimated cash flow	$	6,535,333
Estimated life of mine (years)		6
Discount rate		7.93
Inflation rate		7.36

15. SHARE CAPITAL

a) Authorized share capital

The authorized share capital of the Company is as follows:

i. unlimited voting common shares without par value
ii. unlimited preferred shares without par value

b) Equity offerings

During the year ended December 31, 2021, the Company issued common shares as follows:

i. On March 11, 2021, the Company completed a non-brokered private placement and issued 56,500,000 units at CAD$0.30 per unit for gross proceeds of $13,415,117 (CAD$16,950,000). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD$0.45 per share for a period of three years. In connection with the private placement, the Company incurred issuance costs of $270,565 (CAD$341,839) paid in cash, issued 518,139 common shares and 1,648,669 finder's warrants with an exercise price of CAD$0.45 exercisable for three years and a fair value of $532,915 (CAD$670,141) as finders fees.

ii. On April 9, 2021 the Company issued 21,331,058 common shares with a fair value of $9,835,451 in connection with the acquisition of El Cubo Complex, see note 10 (a).

iii. On November 16, 2021, the Company issued a total of 901,224 common shares to settle the VAT payable on the Promissory note with Endeavour in connection with the acquisition of El Cubo Complex, (see note 10 (a) and 12(c)) totalling $387,487.

iv. On December 8, 2021, the Company completed a non-brokered private placement and issued 17,304,306 units at CAD$0.55 per unit for gross proceeds of $7,450,683 (CAD$9,517,368). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD$.0.75 per share for a period of two years. In connection with the private placement, the Company paid $73,284 (CAD$92,928) in cash and issued 352,910 finder's warrants with an exercise price of CAD$0.75 exercisable for two years and a fair value of $37,597 (CAD$47,665) as finders fees.

v. During the year ended December 31, 2021, the Company issued 15,211,453 common shares on exercise of 15,211,543 warrants for net proceeds of $3,142,165 and issued 1,412,500 common shares on the exercise of 1,412,500 options for net proceeds of $197,678.

(Expressed in US dollars)

15. SHARE CAPITAL (continued)

b) Equity offerings (continued)

During the year ended December 31, 2020, the Company issued common shares as follows:

i. On March 18, 2020, the Company issued 403,640 common shares with a fair value of $13,922 (CAD$20,182) to settle accounts payable of $7,023 (CAD$10,182) owed to a vendor and $6,898 (CAD$10,000) owed to a company controlled by the Chief Executive Officer of the Company. The Company recognized a gain on settlement of debt of $10,204 (CAD$14,793).

ii. On August 5, 2020, and August 11, 2020, the Company completed non-brokered private placements and issued 25,641,902 units at CAD$0.155 per unit for gross proceeds of $2,167,767 (CAD$3,974,494). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD$0.25 per share for a period of two years. In connection with the private placement, the Company paid $103,055 (CAD$137,123) in cash, issued 214,665 common shares and 821,011 finders' warrants with an exercise price of CAD$0.25 and a fair value of $89,854 (CAD$119,542) as finders' fees.

iii. On November 30, 2020, the Company issued 3,750,000 units with a fair value of $1,325,467 (CAD$1,703,085) pursuant to an option to acquire royalties (note 10). Each unit consisted of one common share and on non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at CAD$0.175 per share for a period of five years.

iv. During the year ended December 31, 2020, the Company adopted a warrant acceleration bonus program ("Acceleration Program") for its outstanding common share purchase warrants granted in connection with the Company's 2019 non-brokered private placement financing. Under the program, warrant holders would receive one bonus common share for every 10 warrants exercised if exercised on or before June 26, 2020 (the "Bonus Shares"). The Company issued 21,363,055 common shares, including 1,266,055 Bonus Shares, on exercise of 20,097,000 warrants at $0.08 (CAD$0.10) per share for gross proceeds of $1,708,942 (CAD$2,009,700).

16. OTHER RESERVES

a) Warrants

The following summarizes the continuity of common share purchase warrants:

	December 31, 2021		December 31, 2020	
	Number outstanding	**Weighted average exercise price CAD$**	Number outstanding	Weighted average exercise price CAD$
Outstanding, beginning of the year	**32,893,012**	**0.29**	47,199,912	0.36
Issued	**38,727,275**	**0.52**	17,391,962	0.23
Exercised	**(15,211,453)**	**0.26**	(20,097,000)	0.10
Expired and forfeited	**(1,518,500)**	**0.43**	(11,601,862)	0.50
Outstanding, end of the year	**54,890,334**	**0.45**	32,893,012	0.29

As at December 31, 2021, the following common share purchase warrants were outstanding:

Expiry date	**Exercise price CAD$**	**Warrants outstanding**	**Remaining life (years)**
January 18, 2022	0.50	4,504,925	0.05
August 11, 2022	0.25	7,948,814	0.61
November 30, 2023	0.75	7,627,289	1.92
December 7, 2023	0.75	1,201,317	1.93
March 11, 2024	0.45	29,857,989	2.19
November 30, 2025	0.18	3,750,000	3.92
Balance, December 31, 2021	**0.45**	**54,890,334**	**1.86**

(Expressed in US dollars)

16. OTHER RESERVES (continued)

a) Warrants (continued)

In determining the fair value of the warrants issued, the Company used the Black-Scholes option pricing model to establish the fair value of warrants granted by applying the following assumptions:

	December 31 2021	December 31 2020
Risk-free interest rate	**0.50%**	0.27% -0.43%
Expected life of warrants (years)	**3 years**	2 – 5 years
Expected annualized volatility	**155.0%**	181.64% – 194.65%
Expected dividend yield	**Nil**	Nil

b) Stock options

The Company has adopted an incentive stock option plan (the "Plan") under the rules of the TSXV pursuant to which the Company's Board of Directors is authorized, from time to time, to grant stock options to employees, consultants, directors and officers. The Plan is a rolling stock option plan whereby the number of stock options issuable under the plan shall not exceed, on a rolling basis, 10% of the Company's issued and outstanding common shares at the time of grant.

Under the plan, the exercise price of each option is equal to the market price of the Company's common shares on the date of grant. The stock options can be granted for a maximum term of 10 years with vesting terms determined by the Board of Directors. No individual may be granted options exceeding 5% and no consultant or individual employed to provide "investor relations activities" may be granted options exceeding 2% of the Company's common shares outstanding in any 12-month period.

Continuity of the Company's stock options issued and outstanding was as follows:

	Number of options	**Weighted average exercise price CAD$**
Outstanding, December 31, 2019	3,462,500	0.24
Granted	5,075,000	0.17
Expired	(2,125,000)	0.28
Outstanding, December 31, 2020	6,412,500	0.19
Granted	8,325,000	0.50
Exercised	(1,412,500)	0.15
Outstanding, December 31, 2021	**13,325,000**	**0.39**

The following table summarizes the information about stock options outstanding as at December 31, 2021:

Expiry date	**Options outstanding**	**Weighted average exercise price CAD$**	**Options exercisable**	**Weighted average exercise price CAD$**
August 18, 2022	262,500	0.40	262,500	0.40
March 30, 2023	2,225,000	0.08	2,225,000	0.08
May 31, 2023	50,000	0.10	50,000	0.10
June 27, 2023	550,000	0.20	550,000	0.20
October 12, 2023	2,025,000	0.30	1,283,333	0.30
January 4, 2024	150,000	0.30	100,000	0.30
February 6, 2024	150,000	0.30	100,000	0.30
February 17, 2024	37,500	0.30	100,000	0.30
March 24, 2026	6,450,000	0.51	2,150,000	0.51
April 26, 2026	250,000	0.60	125,000	0.60
May 14, 2026	400,000	0.60	133,333	0.60
July 15, 2026	200,000	0.45	200,000	0.45
September 8, 2026	400,000	0.49	133,333	0.49
October 12, 2026	150,000	0.41	50,000	0.41
November 5, 2026	25,000	0.53	8,333	0.53
December 31, 2021	**13,325,000**	**0.39**	**7,470,832**	**0.31**
December 31, 2020	6,412,500	0.19	3,979,167	0.17

16. OTHER RESERVES (continued)

b) Stock options (continued)

In determining the fair value of the stock options issued, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the period by applying the following assumptions:

	December 31 2021	December 31 2020
Risk-free interest rate	0.50%-0.67%	0.27% -0.43%
Expected life of warrants (years)	2-5 years	2 – 5 years
Expected annualized volatility	149.93%-157.82%	181.64%- 194.65%
Expected dividend yield	Nil	Nil

17. LOSS PER SHARE

		Years ended December 31		
		2021		2020
				Restated
Net loss for the year	**$**	**11,849,800**	$	1,721,817
Weighted average number of shares(000's)		**183,698**		80,921
Loss per share-basic and diluted	**$**	**0.06**	$	0.02

18. REVENUES

The Company is principally engaged in the business of producing gold-silver concentrate in Mexico. The disaggregated revenue information in respect of the years ended December 31, 2021, and 2020 is as follows:

		Years ended December 31		
		2021		2020
				Restated
Gold-silver concentrate	$	**4,077,069**	$	-
Provisional pricing adjustments		**39,742**		-
Total Revenues	**$**	**4,116,811**	$	-

The Company sells 100% of gold-silver concentrate to one customer.

19. COST OF SALES

		Years ended December 31		
		2021		2020
				Restated
Production Costs	$	**6,132,275**	$	-
Transportation and selling cost		**109,452**		-
Inventory changes		**(1,159,705)**		-
Depreciation		**1,268,841**		-
Total Cost of sales	**$**	**6,350,863**	$	-

(Expressed in US dollars)

20. GENERAL AND ADMINISTRATION

		Years ended December 31	
		2021	2020
			Restated
Salaries and employee benefits	**$**	**897,490** $	-
Professional fees		**1,125,991**	390,819
Corporate and administration		**2,113,278**	545,583
Depreciation		**189,624**	11,693
Total General and administration	**$**	**4,326,383** $	948,095

21. INTEREST AND FINANCE (COSTS) INCOME

		Years ended December 31	
		2021	2020
			Restated
Interest income	**$**	**27,054** $	7,017
Interest expense		**(941,385)**	(847)
Accretion expense		**(320,373)**	-
Total Interest and finance costs	**$**	**(1,234,704)** $	6,170

22. INCOME TAX

a) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the applicable Canadian statutory income tax rate to income before income taxes. The significant reasons for the differences are as follows:

		Years ended December 31	
		2021	2020
Net income before tax	**$**	**(12,093,855)** $	(1,579,912)
Statutory tax rate		**27.00%**	27.00%
Anticipated income tax at statutory rates		**(3,265,341)**	(426,576)
Non-deductible expenditures		**718,776**	83,255
Differences between Canadian and foreign tax rates		**(179,830)**	(16,494)
7.5% mining royalty in Mexico		**(239,739)**	-
Inflation adjustment		**449,784**	-
Impact of foreign exchange		**284,024**	(39,965)
Changes in deferred tax assets not recognized		**2,890,365**	399,780
Losses Carry Forward - Under/over provided in prior years		**(452,943)**	-
Other items		**(205,097)**	-
Total income tax expense	**$**	**-** $	

(Expressed in US dollars)

22. INCOME TAX (continued)

b) Unrecognized Deferred Tax Assets and Liabilities

The Company recognizes tax benefits on losses or other deductible amounts where it is more likely than not that the deferred tax asset will be realized. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	Years ended December 31			
		2021		**2020**
Unrecognized deductible temporary differences and unused tax losses:				
Marketable securities	**$**	**130,380**	$	130,380
Equipment and buildings		**607,705**		5,205
Lease obligations, net		**17,840**		-
Mineral Property interest		**8,757,034**		8,776,169
Advances from customers		**1,293,103**		-
Accounts payable and accrued liabilities		**462,095**		149,721
Share issuance cost		**359,428**		125,668
7.5% mining royalty in Mexico		**799,129**		-
Other liabilities		**208,976**		-
Non-capital losses		**18,235,115**		10,830,288
Capital loses		**876,410**		876,410
Prepaids		**(148,319)**		-
Unrecognized deductible temporary differences	**$**	**31,598,898**	$	20,893,841

23. RELATED PARTIES

In addition to related party transactions described elsewhere in the notes to the consolidated financial statements, the Company had the following related party transactions:

Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management personnel is as follows:

	Years ended December 31			
		2021		**2020**
				Restated
Salaries, bonus and benefits	$	**123,654**	$	-
Management fees [(1)]		**279,218**		137,898
Consulting fees		**310,411**		138,927
Share-based compensation		**1,464,713**		147,968
Total	$	**2,177,996**	$	424,793

[(1)] Total management fees were paid to Blueberry Capital Corp. a company controlled by the CEO of the Company and Universal Solution Inc. a company controlled by the VP Corporate Development and Corporate Secretary of the Company.

(Expressed in US dollars)

24. SEGMENTED INFORMATION

The Company has one operating mining segment which is located in Mexico as well as a corporate segment.

December 31, 2021		**Mining**		**Corporate**		**Total**
Revenues from external customers	$	4,116,811	$	-	$	4,116,811
Cost of sales before depreciation and depletion		(5,082,022)		-		(5,082,022)
Depreciation and depletion in cost of sales		(1,268,841)		-		(1,268,841)
General and administration		(2,836,769)		(2,386,216)		(5,222,985)
Other income (expense)		-		(2,863,917)		(2,863,917)
Finance items		(943,191)		(585,655)		(1,528,846)
Segmented loss	**$**	**(6,014,012)**	**$**	**(5,835,788)**	**$**	**(11,849,800)**

December 31, 2020 (restated)		Mining		Corporate		Total
Revenues from external customers	$	-	$	-	$	-
Cost of sales before depreciation and depletion		-		-		-
Depreciation and depletion in cost of sales		-		-		-
General and administration		(264,295)		(683,800)		(948,095)
Other income (expense)		(296,387)		(389,604)		(685,991)
Finance items		(86,951)		(780)		(87,731)
Segmented loss	**$**	**(647,633)**	**$**	**(1,074,184)**	**$**	**(1,721,817)**

December 31, 2021		**Mining**		**Corporate**		**Total**
Total assets	$	39,847,235	$	11,472,641	$	51,319,876
Total liabilities	$	(12,001,292)	$	(8,518,022)	$	(20,519,314)
Capital expenditures	$	6,936,659	$	334,442	$	7,271,101

December 31, 2020 (restated)		Mining		Corporate		Total
Total assets	$	1,936,182	$	5,936,947	$	7,873,129
Total liabilities	$	(66,158)	$	(149,721)	$	(215,879)
Capital expenditures	$	117,338	$	1,332,604	$	1,449,942

January 1, 2020 (restated)		Mining		Corporate		Total
Total assets	$	1,159,826	$	614,545	$	1,774,371
Total liabilities	$	(88,440)	$	(166,291)	$	(254,731)

25. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

a) Fair value measurement and valuation techniques

Financial instruments included in the consolidated statements of financial position are measured either at fair value or amortized cost. Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in an arm's-length transaction between knowledgeable and willing parties.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The table below summarizes the valuation methods used to determine the fair value of each financial instrument:

Financial asset or liability	Methods and assumptions used to estimate fair value
Silver and gold bullion (other assets)	Valued at the lower of cost or net realizable value. Net realizable value is based on the estimated sale price of the silver and gold, generally determined using the spot price at the period end.
Trade receivables	Trade receivables arising from the sales of metal concentrates are subject to provisional pricing, and the final selling price is adjusted at the end of a quotational period. These are marked to market at each reporting date based on the forward price corresponding to the expected settlement date.
OCIM loan	The fair value of the loan was estimated using the discounted cash flow method at a rate that equates to a comparable current market interest rate.
Derivative	Valued using inputs derived from observable market data, including quoted commodity forward prices.
Vehicle loans	The carrying values of vehicle loans approximate their fair values as a result of relatively unchanged interest rates since inception of the loans.
Contingent Liability	The fair value of the contingent liability was based on the Monte-Carlo averaging simulation technique on simulated gold prices. The paths of the gold prices are simulated as geometric Brownian motions which is an industry standard approach for simulating the expected future paths of gold prices.

The carrying value of cash and cash equivalents, deposit, accounts payable, promissory note and accrued liabilities, all of which are carried at amortized cost, approximate their fair value given their short-term nature. Trade receivables, loans, contingent liability and the derivative are classified within Level 2 of the fair value hierarchy.

During the years ended December 31, 2021, and 2020, there were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy.

(Expressed in US dollars)

25. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

a) Fair value measurement and valuation techniques (continued)

December 31, 2021	Fair value through profit or loss	Amortized cost	Total	Level 1	Level 2	Carrying value approximates Fair Value
Financial assets measured at Fair Value						
Trade receivables from sale of concentrate	$ 491,731	$ -	$ 491,731	$ -	$ 491,731	$ -
Derivative	365,293	-	365,293	-	365,293	-
	$ 857,024	**$ -**	**$ 857,024**	**$ -**	**$ 857,024**	**$ 1,622,935**
Financial assets not measured at Fair Value						
Cash and cash equivalents	$ -	$ 8,234,043	$ 8,234,043	$ -	$ -	$ 8,234,043
Other receivables	-	2,129,178	2,129,178	-	-	2,129,178
Other assets - silver and gold bullion	-	1,622,935	1,622,935	-	-	1,622,935
	$ -	**$ 11,986,155**	**$ 11,986,155**	**$ -**	**$ -**	**$ 11,986,155**
Financial liabilities measured at Fair Value						
Contingent liability	$ (750,000)	$ -	$ (750,000)	$ -	$ (750,000)	$ -
	$ (750,000)	**$ -**	**$ (750,000)**	**$ -**	**$ (750,000)**	**$ -**
Financial liabilities not measured at Fair Value						
Accounts payable and accrued liabilities	$ -	$ (3,467,293)	$ (3,467,293)	$ -	$ -	$ (3,467,293)
Vehicle loan	-	(174,277)	(174,277)	-	-	(174,277)
OCIM Loan	$ -	$ (8,372,366)	$ (8,372,366)	$ -	$ -	$ (8,372,366)
	$ -	**$ (12,013,936)**	**$ (12,013,936)**	**$ -**	**$ -**	**$ (12,013,936)**

				Fair value		
December 31, 2020	**Fair value through profit or loss**	**Amortized cost**	**Total**	**Level 1**	**Level 2**	**Carrying value approximates Fair Value**
Financial assets not measured at Fair Value						
Cash and cash equivalents	$ -	$ 4,179,962	$ 4,179,962	$ -	$ -	$ 4,179,962
Other receivables	-	83,672	83,672	-	-	83,672
	$ -	**$ 4,263,634**	**$ 4,263,634**	**$ -**	**$ -**	**$ 4,263,634**
Financial liabilities not measured at Fair Value						
Accounts payable and accrued liabilities	$ -	$ (194,123)	$ (194,123)	$ -	$ -	$ (194,123)
Vehicle loan	-	(21,756)	(21,756)	-	-	(21,756)
	$ -	**$ (215,879)**	**$ (215,879)**	**$ -**	**$ -**	**$ (215,879)**

b) Financial risk management

The Company's activities expose it to a variety of financial risks including credit risk, currency risk, liquidity risk and market price risks.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and amounts receivable. The Company deposits its cash and cash equivalents with high credit quality major Canadian and Mexican financial institutions as determined by ratings agencies. trade accounts receivables from concentrate sales are held with large international metals trading companies. The carrying amount of financial assets, as stated in the consolidated statement of financial position, represents the Company's maximum credit exposure.

As of	December 31 2021	December 31 2020
Cash and cash equivalents	**$ 8,234,043**	$ 4,179,962
Trade receivables	**491,731**	-
VAT recoverable - current	**2,083,843**	-
VAT recoverable – non-current	**1,725,520**	-
Other receivables	**55,651**	83,672
	$ 12,590,788	$ 4,263,634

25. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

b) Financial risk management

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

The Company enters into contracts that give rise to commitments in the normal course of business. The following table summarizes the remaining contractual maturities of the Company's financial liabilities, operating and capital commitments, shown in contractual undiscounted cash flows, at December 31, 2021:

	Expected payments due by year as at December 31, 2021			
	Less than 1 year	**1 -3 years**	**After 5 years**	**Total**
Trade and other payables	$ 3,580,431	$ -	$ -	$ **3,580,431**
Advance payment	1,293,103	-	-	**1,293,103**
Loans	7,632,937	913,706	-	**8,546,643**
Lease obligations	218,942	547,546	-	**766,488**
Other liabilities	750,000	-	6,535,333	**7,285,333**
Total	**$ 13,475,413**	**$ 1,461,252**	**$ 6,535,333**	**$ 21,471,998**

Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is mainly held in bank accounts at a Canadian chartered bank. The interest rate risks on cash and cash equivalents are not considered significant.

The company interest rate risk principally arises from the interest rate impact on interest charged on its loan payable and lease liabilities. The Company's loans payable and lease liabilities are subject to fixed interest rates thus any changes in external interest rates would not result in a significant impact on the Company's net loss.

Currency risk

Currency risk is the risk that foreign exchange rates will fluctuate significantly from expectations. The Company reports its financial statements in US dollars; however, it operates in Mexico which utilized both the Mexican Peso and the US Dollar ("USD") and in Canada where the Canadian $ is the functional currency for its operations there. Consequently, the financial results of the Company's operations as reported in US dollars are subject to changes in the value of the US dollar relative to the local currencies. Since a significant portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the US dollar and positively impacted by the inverse.

(Expressed in US dollars)

25. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

b) Financial risk management (continued)

Currency risk (continued)

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

As at December 31, 2021	Canadian dollars	Mexican pesos
Cash and cash equivalents	11,835,196	11,208,940
Amounts receivable	65,912	88,721,508
Accounts payable and accrued liabilities	(298,040)	(68,756,797)
Current portion of lease liabilities	(63,547)	(1,920,676)
Advance payment	-	(26,616,595)
Other long-term liabilities	-	(20,583,500)
Lease liabilities	(286,197)	(4,676,790)
Provision for reclamation and rehabilitation	-	(82,845,688)
Total foreign currency exposure	11,253,324	(105,469,598)
US$ equivalent of foreign currency exposure	8,876,261	(5,123,987)

As at December 31, 2020	Canadian dollars	Mexican pesos
Cash and cash equivalents	4,923,346	6,214,766
Amounts receivable	273,388	1,320,300
Accounts payable and accrued liabilities	(217,434)	(882,771)
Lease liabilities	-	(432,542)
Total foreign currency exposure	4,979,300	6,219,753
US$ equivalent of foreign currency exposure	3,910,858	312,844

The Company is primarily exposed to fluctuations in the value of CAD$ against US$ and US$ against Mexican pesos ("MX$"). With all other variables held constant, a 10% change in CAD$ against US$ or US$ against MX$ would result in the following impact on the Company's net loss for the year:

Currency	Change		Effect
Canadian dollars	+/- 10%	$	820,911
Mexican pesos	+/- 10%	$	465,024

Commodity price risk

Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control. At December 31, 2021, the Company owns 40,000 silver ounces and 400 gold ounces recorded in other current assets.

The following table summarizes the effect on provisionally priced sales and accounts receivables of a 10% change in metal prices from the realized prices used at December 31, 2021:

Metal	Change		Effect on Sales
Canadian dollars	+/- 10%	$	212,569
Mexican pesos	+/- 10%	$	195,673

(Expressed in US dollars)

26. MANAGEMENT OF CAPITAL

The Company's capital consists of share capital, equity reserves, and deficit as well as loans and leases. The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support operations, mine refurbishment, exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. The Board of Directors has not established quantitative capital structure criteria management, but reviews, on a regular basis, the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued operations, evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal deposits.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal; and
- To obtain the necessary financing to complete mine refurbishment and exploration and development of its properties, when it is required.

The properties in which the Company currently holds interests in are in the production and exploration stages and the Company is dependent on external financing to fund planned growth and working capital. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In addition, the Company may issue new equity or incur additional debt, enter into joint venture arrangements, or dispose of certain assets. When applicable, the Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends.

There were no changes in the Company's approach to capital management during the year ended December 31, 2021, compared to the year ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

27. SUPPLEMENTAL CASHFLOW

The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes for the years as set out below are as follows:

	Loans	Leases	Contingent liability	Promissory note
As at December 31, 2019	$ -	$ -	$ -	$ -
Additions	21,806	-	-	-
Interest	689	-	-	-
Payments	(1,644)	-	-	-
Transaction costs	-	-	-	-
Equity component	-	-	-	-
Foreign exchange	905	-	-	-
Changes in fair value	-	-	-	-
As at December 31, 2020	21,756	-	-	-
Additions including derivative	7,655,980	686,398	750,000	2,212,389
Terminations	-	-	-	-
Interest	972,447	70,586	-	180,221
Payments	(76,478)	(174,384)	-	(2,475,000)
Foreign exchange	(4,659)	(4,857)	-	-
Loss on settlement	-	-	-	82,390
Changes in fair value of derivative	(387,697)	-	-	-
As at December 31, 2021	**$ 8,181,349**	**$ 577,743**	**$ 750,000**	**$ -**

(Expressed in US dollars)

27. SUPPLEMENTAL CASHFLOW (continued)

The significant non-cash financing and investing transactions during the years ended December 31, 2021 and 2020 are as follows:

		December 31, 2021		December 31, 2020
Closure and reclamation provision at "El Cubo" acquisition	**$**	4,600,000	$	-
Closure and reclamation provision remeasured	**$**	2,343,755	$	-
Contingent liability on El Cubo Complex acquisition	**$**	750,000	$	-
Shares issued on El Cubo Complex acquisition	**$**	9,835,452	$	-
Shares issued on VAT on Promissory note payment	**$**	387,488	$	-
Leases/ROU assets recognized	**$**	686,398	$	-
Shares and warrants issued for finders' fees	**$**	570,512	$	124,826
Units issued for option to acquire royalties	**$**	-	$	1,337,641
Shares issued on settlement of debt	**$**	-	$	15,851
Vehicle acquired with loan payable	**$**	-	$	21,958

28. COMMITMENTS

As at December 31, 2021, the Company had commitments of $149,800, for equipment purchases and other services which are expected to be expended within one year.

29. SUBSEQUENT EVENTS

On January 18, 2022, 4,504,925 warrant units expired unexercised.

On March 24, 2022, the Company signed an indicative term sheet with OCIM Precious Metals S.A. ("**OCIM**") a Swiss based precious metals trading firm, to provide $7,500,000 in financing in the form of a silver and gold pre-payment facility.

The Company will use a portion of the facility to repay a majority of its current outstanding debt with OCIM, drawn on July 27, 2021.The remaining pre-payment facility is expected to be for a term of 18 months, secured against the Company's El Cubo Complex assets, and repayable over a period of 12 months (commencing six-months after drawing down) by the Company delivering a fixed number of ounces of silver and gold monthly. The number of ounces to be delivered will be calculated at a fixed discount to the prevailing LBMA spot metals' prices on the day of the drawdown of the facility. This financing is subject to various conditions of OCIM including completion of satisfactory due diligence, execution of binding pre-payment documentation and TSXV acceptance, which both parties anticipate finalizing in April 2022.

On April 7, 2022, the Company and EMBSA amended the Option Agreement whereby the CAD$525,000 option payment due on February 22, 2022, was deferred and will be paid as follows:

- CAD$262,500 on or before April 10, 2022 (paid)
- CAD$262,500 on or before October 10, 2022 (Second Installment)

The Second Installment shall bear interest from February 22, 2022, at an annual rate of 5%, compounded annually, until the date of repayment.