Guanajuato Silver Co Ltd

Consolidated Financial Statements

For the years ended

December 31, 2022 and 2021

INDEPENDENT AUDITOR'S 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 statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 of the financial statements, which describes that the Entity has incurred an operating loss, net loss and generated negative cash flows from operating activities for the year ended December 31, 2022 and has an accumulated deficit and a working capital deficiency as at December 31, 2022.

As stated in Note 1 to the financial statements, these events or conditions, along with other matters as set forth in Note 1, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of the acquisition date fair value of mineral properties and property, plant and equipment acquired as part of the Minera Mexicana El Rosario acquisition

Description of the matter

We draw attention to Notes 3(d), 4(e) and 5 to the financial statements. On August 4, 2022, the Entity completed the acquisition of Minera Mexicana El Rosario ("MMR"), which included the Topia Mine, San Ignacio Mine and Valenciana Mines Complex. The acquisition of MMR was accounted for as a business combination, whereby the total consideration was allocated to the underlying assets acquired and liabilities assumed, based on their estimated fair values at the date of acquisition. In connection with this acquisition, the Entity recorded mineral properties of $2,923,222 and property, plant and equipment of $22,308,873.

The fair values of the mineral properties were estimated using discounted cash flow models. The fair values of the property, plant and equipment were estimated using the depreciated replacement cost approach.

Significant assumptions used by the Entity when determining the acquisition date fair value of the mineral properties included:

- Future silver, gold, lead and zinc prices
- Estimated quantities of mineral resources in the life of mine models
- Discount rates.

Significant assumptions used by the Entity when determining the depreciated replacement cost of the property, plant and equipment included:

- Replacement cost
- Physical depreciation.

Why the matter is a key audit matter

We identified the evaluation of the acquisition date fair value of mineral properties and property, plant and equipment as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures regarding the assumptions used to determine the fair value of the mineral properties and property, plant and equipment. Further, specialized skills and knowledge were needed to evaluate these estimates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

We assessed the competence, capabilities and objectivity of the personnel who prepared the mineral resource estimates, including the industry and regulatory standards they applied. We compared the life of mine production estimates to the mineral resources of the Topia Mine, San Ignacio Mine and Valenciana Mines Complex.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the methodologies used by the Entity to determine the fair value of mineral properties and property, plant and equipment
- Evaluating the Entity's future silver, gold, lead and zinc prices by comparing to estimates that were independently obtained using publicly available third-party sources
- Evaluating the appropriateness of discount rates by comparing inputs into the discount rate to publicly available market data for comparable entities
- Evaluating the Entity's replacement cost estimates by comparing the Entity's estimates to market data for comparable assets
- Evaluating the appropriateness of physical depreciation assumptions by comparing the Entity's estimated depreciated cost to a depreciation cost range that was independently developed using market data for comparable assets.

Other Information

Management is responsible for the other information. Other information comprises the information included in 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 auditor's 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 auditor's 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) as issued by the International Accounting Standards Board (IASB), 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.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the 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.

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

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor’s report is Michael D. Woeller.

Vancouver, Canada
April 10, 2023

Guanajuato Silver CO LTD

Consolidated statements of financial position

(Expressed in US dollars)

	Notes	December 31 2022	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents		**$ 8,832,936**	$ 8,234,043
Amounts receivable	6	**11,926,017**	2,620,908
Inventories	7	**5,156,448**	1,586,140
Prepaid expenses and deposits		**1,267,189**	554,354
Other current assets	8	**-**	1,622,935
		27,182,590	14,618,380
Non-current assets			
Property, plant and equipment	9	**39,589,971**	18,310,696
Mineral properties	10	**14,846,037**	13,867,915
Exploration and evaluation assets	10	**3,195,938**	2,797,365
Other assets	6	**834,362**	1,725,520
		$ 85,648,898	$ 51,319,876
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	**$ 12,532,916**	$ 3,467,293
Advance payment	12	**-**	1,293,103
Current portion of loan payable	13	**14,744,690**	7,285,522
Current portion of lease liabilities	14	**2,474,197**	152,354
Other current liabilities	31(b,c)	**3,403,491**	750,000
		33,155,294	12,948,272
Non-current liabilities			
Loan payable	13	**1,743,414**	895,827
Lease liabilities	14	**1,466,527**	425,389
Provision for reclamation and rehabilitation	15	**16,771,876**	6,249,826
		53,137,111	20,519,314
SHAREHOLDERS' EQUITY			
Share capital	16	**82,370,710**	60,688,534
Reserves		**24,573,358**	18,150,184
Accumulated other comprehensive income		**1,794,850**	1,417,390
Deficit		**(76,227,131)**	(49,455,546)
		32,511,787	30,800,562
		$ 85,648,898	$ 51,319,876

Commitments and contingencies (note 31)

Subsequent events (note 10, 31 and 32)

"James Anderson"
Director

"Ramon Davila"
Director

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

Guanajuato Silver CO LTD

Consolidated statements of loss and comprehensive loss

(Expressed in US dollars, except share amounts)

	Notes	For the year ended December 31 2022	December 31 2021
Revenues	19	**$ 36,880,204**	$ 4,116,811
Cost of sales	20	**43,763,193**	6,350,863
Mine operating loss		**(6,882,989)**	(2,234,052)
General and administration	21	**7,389,441**	4,326,383
Share based compensation	17(b)	**1,511,071**	2,547,339
Exploration expenses	22	**2,962,384**	1,140,308
Care and maintenance		**1,242,324**	-
Foreign exchange loss		**1,308,357**	453,185
Other operating expense		**1,880,328**	199,526
Operating loss		**(23,176,894)**	(10,900,793)
Interest and finance costs, net	23	**(3,786,748)**	(1,234,704)
Gain on derivative	25	**54,567**	-
Other finance income, net		**137,490**	285,697
Loss before income taxes		**$ (26,771,585)**	$ (11,849,800)
Current income tax expense		**-**	-
Deferred income tax expense		**-**	-
Net loss for the period		**$ (26,771,585)**	$ (11,849,800)
Other comprehensive income (loss), net of tax			
Foreign currency translation differences		**377,460**	(173,716)
Total comprehensive loss for the period		**$ (26,394,125)**	$ (12,023,516)
Basic and diluted loss per common share	18	**$ (0.10)**	$ (0.06)
Weighted average number of common shares outstanding (000's)		**256,319**	183,698

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

Guanajuato Silver CO LTD

Consolidated statements of changes in equity

(Expressed in US dollars)

	Notes	Number of common shares	Common shares	Share subscriptions	Equity settled share-based payments	Warrants	Reserves total	Accumulated deficit	Accumulated OCI	Total shareholders' equity
Balance, December 31, 2020		**111,037,351**	**$32,300,211**	**$1,588,267**	**$7,254,070**	**$2,529,342**	**$9,783,412**	**$(37,605,746)**	**$1,591,106**	**$7,657,251**
Private placement	16(b)	73,804,306	15,308,472	(1,588,267)	-	5,557,327	5,557,327	-	-	**19,277,532**
Share issue cost		518,139	(914,360)	-	-	570,512	570,512	-	-	**(343,848)**
Shares issued on asset acquisition	16(b)	21,331,058	9,835,451	-	-	-	-	-	-	**9,835,451**
Shares issued on settlement of VAT	16(b)	901,224	387,487	-	-	-	-	-	-	**387,487**
Options exercise for cash	16(b)	1,412,500	261,458	-	(63,783)	-	(63,783)	-	-	**197,675**
Warrant exercise for cash	16(b)	15,211,453	3,386,791	-	-	(244,623)	(244,623)	-	-	**3,142,168**
Deposit received for exercise of warrants		-	123,024	-	-	-	-	-	-	**123,024**
Share-based compensation	16(b)	-	-	-	2,547,339	-	2,547,339	-	-	**2,547,339**
Comprehensive income (loss)		-	-	-	-	-	-	(11,849,800)	(173,716)	**(12,023,516)**
Balance, December 31, 2021		**224,216,031**	**60,688,534**	**-**	**9,737,626**	**8,412,558**	**18,150,184**	**(49,455,546)**	**1,417,390**	**30,800,562**
Private placement	16(b)	57,837,584	10,456,462	-	-	5,237,504	5,237,504	-	-	**15,693,966**
Warrants issued for finder's fee	16(b)	-	(360,074)	-	-	360,074	360,074	-	-	**-**
Share issue cost	16(b)	-	(765,415)	-	-	-	-	-	-	**(765,415)**
Shares issued on business combination	16(b)	25,787,200	8,976,524	-	-	-	-	-	-	**8,976,524**
Shares issued on settlement of debt		2,817,595	826,274	-	-	-	-	-	-	**826,274**
Options exercise for cash	16(b)	50,000	31,814	-	(27,853)	-	(27,853)	-	-	**3,961**
Warrant exercise for cash	16(b)	7,919,737	2,516,591	-	-	(917,294)	(917,294)	-	-	**1,599,296**
Fair value of warrants issued	16(b)	-	-	-	-	259,673	259,673	-	-	**259,673**
Share-based compensation		-	-	-	1,511,071	-	1,511,071	-	-	**1,511,071**
Comprehensive loss for the period		-	-	-	-	-	-	(26,771,585)	377,460	**(26,394,125)**
Balance, December 31, 2022		**318,628,147**	**$82,370,710**	**-**	**$11,220,844**	**$13,352,514**	**$24,573,358**	**$(76,227,131)**	**$1,794,850**	**$32,511,787**

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

Guanajuato Silver Co Ltd

Consolidated statements of cash flows

(Expressed in US dollars)

		For the year ended	
	Notes	**December 31 2022**	December 31 2021
Operating activities			
Net loss for the period		**$ (26,771,585)**	$ (11,849,800)
Items not involving cash and cash equivalents:			
Depreciation and amortization		**9,165,643**	1,518,580
Accretion		**1,181,134**	-
Gain on settlement of debt		**(195,910)**	-
Gain on derivatives		**(54,567)**	(365,293)
Gain on change in fair value of contingent payment		**(248,972)**	-
Gain on financial assets carried at fair value		**(190,597)**	-
Interest		**2,714,210**	1,011,971
Impairment of advance receivable		**-**	197,462
Share-based compensation		**1,511,071**	2,547,339
Unrealized foreign exchange		**995,462**	54,762
Other operating expense	6	**1,300,000**	-
Changes in non-cash operating working capital:			
Amounts receivable	6	**(2,654,639)**	(4,280,798)
Inventories	7	**(388,076)**	(1,334,819)
Prepaid expenses and deposits		**(362,235)**	162,706
Purchases of gold and silver bullion		**(5,857,328)**	(1,622,935)
Proceeds from sale of gold and silver bullion		**1,643,708**	-
Accounts payable and accrued liabilities		**4,130,702**	3,531,782
Other current assets		**405,964**	-
Settlement of advance payment	12	**(1,380,815)**	1,500,000
Net cash and cash equivalents used in operating activities		**(15,056,830)**	(8,929,043)
Investing activities			
Acquisition of property, plant and equipment		**(3,411,768)**	(6,412,427)
Acquisition of Minera Mexicana el Rosario, net of cash acquired	5	**(8,235,480)**	-
Acquisition of the El Cubo Complex		**-**	(7,551,461)
Payments to acquire royalties		**(206,124)**	-
Net cash and cash equivalents used in investing activities		**(11,853,372)**	(13,963,888)
Financing activities			
Proceeds from issuance of units		**15,693,966**	19,277,535
Share issuance costs		**(765,415)**	(343,849)
Net proceeds from OCIM loans	13	**2,913,610**	-
Net proceeds from Ocean Partners loans	13	**9,925,000**	7,450,000
Proceeds from the exercise of options and warrants		**1,603,257**	3,462,866
Repayment of promissory note		**-**	(2,475,000)
Repayment of loan payable	13	**(1,168,629)**	(76,478)
Payments of lease obligations		**(1,076,789)**	(174,384)
Share subscriptions received		**-**	-
Net cash and cash equivalents provided by financing activities		**27,125,000**	27,120,690
Effect on cash and cash equivalents of foreign exchange		**384,095**	(173,681)
Change in cash and cash equivalents		**598,893**	4,054,081
Cash and cash equivalents, beginning of period		**8,234,043**	4,179,962
Cash and cash equivalents, end of period		**$ 8,832,936**	$ 8,234,043
Cash and cash equivalents are consisted of:			
Cash		**8,795,779**	$ 8,194,604
Redeemable guaranteed investment certificate ("GIC")		**37,157**	39,439
Total cash and cash equivalents, end of period		**$ 8,832,936**	$ 8,234,043

Supplemental cash flow information (Note 30)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Guanajuato Silver Company Ltd. is the 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 3E1. GSilver's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "GSVR", on the OTCQB under the symbol "GSVR.F", and on the Aquis Exchange under the symbol "GSVR".

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 the El Cubo mine and mill (the "El Cubo Complex") acquired in April 2021. Additionally, on August 4, 2022, the Company acquired 100% of Great Panther Mining's Ltd.'s ("Great Panther") Mexican subsidiary, Minera Mexicana Rosario S.A. de C.V. ("MMR"), which holds the Valenciana Mine Complex (formerly known as the Guanajuato Mine Complex or GMC) including the Cata processing plant, the San Ignacio mine and the Topia mine and production facility (the "MMR Acquisition"). (Note 5).

Going concern

These consolidated financial statements have been prepared on a 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. For the year ended December 31, 2022, the Company generated a mine operating loss of $6,882,989, a net loss of $26,771,585 and negative cash flows from operating activities of $15,056,830, and has an accumulated deficit of $76,227,131 and current liabilities that exceed its current assets by $5,972,704 as at December 31, 2022. 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 10, 2023.

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, 2022 were as follows:

Subsidiary	Location	Ownership Interest	Accounting	Principal Activity
1352168 B.C. Ltd.	Canada	100%	Consolidated	Holding Company
Gato Chico Investments Ltd.	Canada	100%	Consolidated	Holding Company
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
Minera Mexicana El Rosario, SA de C.V.	Mexico	100%	Consolidated	Mining Company
Compañía Minera Nivel 7 S.A. de C.V.	Mexico	100%	Consolidated	Inactive

Obras Mineras El Pinguico S.A. de C.V. operates the El Cubo Mines Complex and Minera Mexicana El Rosario, SA de C.V. operates the Valenciana Mines Complex and Topia.

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 (Note 28) 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

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 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.*

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 rate;
- Equity, including reserves and deficit, were translated using the historical exchange rates; and
- The consolidated statements of loss and comprehensive loss and cash flows 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency translation (continued)

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 Canadian dollar.

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.

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

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 Company 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 silver coins, 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 silver coins, 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

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.

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 and MMR business combination are 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.

On a business combination, the Company applies recognizes the deferred tax assets and liabilities at the acquisition date.

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 metal concentrate. The Company sells gold and silver concentrate, zinc concentrate, and lead concentrate. 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.

Metal 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 has a corporate head office in Canada and three reportable operating segments in Mexico. The Company's operating segments are based on internal management reports that are reviewed by the Company's executives in assessing performance. The El Cubo Mines Complex and Valenciana Mines Complex segments are located in the state of Guanajuato, Mexico. The Topia segment is located in the state of Durango, 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) New accounting standards issued but not yet effective

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, 2024, with early application permitted. This amendment is not expected to have a material impact on the Company's financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) New accounting standards issued but not yet effective (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. This amendment is not expected to have a material impact on the Company's financial statements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted. This amendment is not expected to have a material impact 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.

4. ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

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) Acquisition

Accounting for acquisitions requires estimates with respect to the fair value of the assets acquired and liabilities assumed. The determination of fair value requires management to use valuation methods including discounted cash flow models and other market-based information, and to make assumptions and estimates about future events, such as production, future metal prices, production costs, capital expenditures, discount rates and other assumptions. Changes in these assumptions or estimates could affect the fair values assigned to assets acquired and liabilities assumed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

4. ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

f) 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.

g) 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) Going Concern

The assessment of going concern involves judgement regarding the results of operations at the Company's mines and the availability of future financing. In concluding on whether material uncertainties exist with respect to the Company's ability to continue as a going concern, the Company considers funds on hand at each reporting date and planned expenditures for at least 12 months from the reporting date. 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.

b) 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.

c) 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.

On August 4, 2022, the Company completed the acquisition of MMR (note 5). The Company concluded that this acquisition met the definition of a business and, accordingly, the acquisition was accounted for as a business combination.

Based on an assessment of the relevant facts and circumstances including, the Topia mine was producing at the date of acquisition, a workforce with skills to process the materials was acquired, and the acquired mines had resources, the Company concluded that the acquisition of Minera Mexicana Rosario S.A. de C.V. from Great Panther on August 4, 2022, met the criteria of a business combination.

4. ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

d) 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 and MMR acquisitions are 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.

e) Life of mines

Judgment is required in estimating the life of mine of the Cubo Complex, Valenciana Mines Complex and Topia, 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.

f) Assessment of indicators of impairment

Management applies judgement in assessing whether indicators of impairment exist for an asset or a group of assets. Internal and external factors such as significant changes in the use of the asset, commodity prices, life of mines, regulatory environment in Mexico and interest rates are considered by management in determining whether there are any indicators of impairment or reversal of previous impairments. As of December 31, 2022, the Company determined there were no indicators of impairment. However, adverse changes in any of these assumptions in future periods may result in the need to perform an impairment test to determine whether the carrying amount of an asset or group of assets exceeds its recoverable amount.

5. ACQUISITION OF MINERA MEXICANA EL ROSARIO S.A. DE C.V.

a) Description

On August 4, 2022, the Company completed the acquisition of MMR from Great Panther, including the producing Topia mine and production facility, the San Ignacio mine, the Valenciana Mines Complex (formerly know as the Guanajuato Mines Complex or GMC) and the Cata processing plant, under a binding definitive agreement signed on June 29, 2022. Under the terms of the transaction, the Company acquired 100% of the shares of MMR. The Company has determined that this transaction represents a business combination, with the Company identified as the acquirer. The Company began consolidating the operating results, cash flows and net assets of MMR from August 4, 2022, onwards.

b) Consideration and purchase price allocation

On closing of the MMR Acquisition, GSilver paid $16,739,516 to Great Panther as follows:

- $8,000,000 in cash
- 25,787,200 GSilver common shares which had a fair value of $8,976,524 based on the closing price of the Company's shares on August 4, 2022; and
- A working capital adjustment of $1,065,319 in favour of the Company as a result of a deficiency in the working capital of MMR compared to the target working capital per the Sale and Purchase agreement.

(Expressed in US dollars, unless otherwise indicated)

5. ACQUISITION OF MINERA MEXICANA ROSARIO S.A. DE C.V. (continued)

b) Consideration and purchase price allocation (continued)

In addition, GSilver has agreed to pay Great Panther up to an additional $2,000,000 in contingent payments based on the following:

- $500,000 upon GSilver producing 2,500,000 ounces of silver from the purchased MMR assets.
- $750,000 if the price of silver closes at or above US$27.50 per ounce for 30 consecutive days within two years after closing.
- $750,000 if the price of silver closes at or above US$30.00 per ounce for 30 consecutive days within three years after closing.

On the acquisition date, the contingent payments had a fair value of $828,311, which is included as consideration (Note 31(c)).

In accordance with the acquisition method of accounting, the total consideration was allocated to the underlying assets acquired and liabilities assumed, based upon their estimated fair values at the date of acquisition.

Total consideration for the acquisition was valued at $16,739,516 and has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the closing date as follows:

	Reported as of September 30 2022	Adjustments	Final Allocation
Cash consideration	$ 8,000,000	$ -	$ 8,000,000
25,787,200 GSilver common shares	8,976,524	-	8,976,524
Fair value of contingent consideration	828,311	-	828,311
Working capital adjustment	(1,264,471)	199,152	(1,065,319)
Net assets acquired	**$ 16,540,364**	**$ 199,152**	**$ 16,739,516**

	Reported as of September 30 2022	Adjustments	Final Allocation
Cash and cash equivalents	$ 1,115,396	$ -	$ 1,115,396
Net non-cash working capital, excluding mineral inventory	1,921,693	(500,848)	1,420,845
Right of use assets	1,081,357	-	1,081,357
Property, plant and equipment	18,961,876	3,346,997	22,308,873
Mineral inventory	654,691	-	654,691
Mineral properties	5,570,219	(2,646,997)	2,923,222
Lease liabilities	(1,081,357)	-	(1,081,357)
Provision for reclamation and rehabilitation	(11,683,511)	-	(11,683,511)
Net assets acquired	**$ 16,540,364**	**$ 199,152**	**$ 16,739,516**

(1) Adjustment to property, plant and equipment are due to a re-evaluation of the fair value of the equipment acquired, resulting in higher property, plant and equipment values, in conjunction with a re-evaluation of certain assumptions relating to the underlying value of the mineral properties, resulting in a decrease to mineral properties.
(2) Adjustment to working capital for changes in the provision for certain taxes.

The Company engaged an independent appraiser to assist with determination of the fair values of certain assets acquired and liabilities assumed. The fair values of mineral properties were estimated using discounted cash flow models (Level 3). The fair values of property, plant and equipment were estimated using the depreciated replacement cost approach (Level 3). Expected future cash flows were based on estimates of future silver, gold, lead and zinc prices, estimated quantities of mineral resources, expected future production costs and capital expenditures based on life of mine models at the acquisition date. The fair value of provision for reclamation and rehabilitation was estimated based on the present value of the estimated future cash flows (Level 3). The fair value of mineral inventory was based on forward metal prices and the cost to complete (Level 3).

(Expressed in US dollars, unless otherwise indicated)

5. ACQUISITION OF MINERA MEXICANA ROSARIO S.A. DE C.V. (continued)

b) Consideration and purchase price allocation (continued)

Transaction and integration cost for the year ended December 31, 2022, totalling $1,362,379 were expensed as incurred and presented as legal, other professional fees and corporate administration within general and administration expense in the consolidated statements of loss and comprehensive loss.

Consolidated revenue for the year ended December 31, 2022 includes revenue from the properties acquired in the transaction of $7,791,555. Consolidated net loss for the year ended December 31, 2022 includes net loss from MMR of $5,751,478. Had the transaction occurred on January 1, 2022, pro-forma consolidated revenue and net loss for the year ended December 31, 2022 would have been approximately $48,621,784 and $13,388,305 respectively.

6. AMOUNTS RECEIVABLE

	December 31 2022	December 31 2021
Trade receivables	**$ 3,857,355**	$ 491,731
VAT recoverable	**7,398,102**	3,809,363
Other receivables	**1,504,922**	45,334
	$ 12,760,379	$ 4,346,428
Less: non-current portion of VAT recoverable	**(834,362)**	(1,725,520)
	$ 11,926,017	$ 2,620,908

At the reporting date, the Company assessed the timing of collection of the total VAT receivable of $7,398,102 (December 31, 2021 – $3,809,363) and concluded that $834,362 (December 31, 2021 – $1,725,520) of the VAT recoverable is not expected to be collected within the next 12 months, therefore it was classified as non-current Other assets. Other receivables includes $1,116,318 related to the working capital adjustment from the acquisition of MMR from Great Panther. The Company has the right to offset any contingent payments owed to Great Panther (note 31(c)) against the working capital adjustment receivable. On December 15, 2022, Great Panther filed a termination application to make a voluntary assignment into bankruptcy pursuant to the Bankruptcy and Insolvency Act; as a result, the Company took an allowance of $1,300,000 against the $2,416,318 amount receivable due to the uncertainty surrounding the Great Panther bankruptcy and the ability of the Company to collect the full receivable due from them.

7. INVENTORIES

	December 31 2022	December 31 2021
Concentrate	**$ 1,572,831**	$ 832,707
Ore stockpiles	**113,484**	326,997
Coins and bullion for sale	**12,860**	-
Materials and supplies	**3,457,273**	426,436
Total inventories	**$ 5,156,448**	$ 1,586,140

During the year ended December 31, 2022, the Company expensed $41,663,348 of inventories to cost of sales (year ended December 31, 2021 – $4,303,424).

8. OTHER CURRENT ASSETS

Other current assets are comprised of silver and gold bullion held for repayment of the OCIM loan (note 13(b)). As at December 31, 2022, the Company held nil ounces of gold and nil ounces of silver.

As at December 31, 2021, other current assets were comprised of 400 ounces of gold and 40,000 ounces of silver valued at $1,622,935 (being the lower of cost and net realizable value).

(Expressed in US dollars, unless otherwise indicated)

9. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment				
	Machinery and equipment	Land and buildings	Furniture and other equipment	Construction in progress	Total PP&E
COST	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2021	12,640,237	4,885,684	1,781,997	-	19,307,919
Additions	2,222,888	22,312	204,413	950,315	3,399,928
Acquisition of MMR (note 5)	19,588,414	2,866,189	935,626	-	23,390,230
Disposals	(166,563)	(21,911)	-	-	(188,474)
Balance, December 31, 2022	**34,284,977**	**7,752,273**	**2,922,036**	**950,315**	**45,909,602**
ACCUMULATED DEPRECIATION					
Balance, December 31, 2021	818,699	43,433	135,090	-	997,222
Depreciation and depletion	4,560,384	252,873	515,748	-	5,329,005
Disposals	(4,406)	(2,191)	-	-	(6,597)
Balance, December 31, 2022	**5,374,678**	**294,115**	**650,838**	**-**	**6,319,631**
Net book value, December 31, 2022	**28,910,299**	**7,458,158**	**2,271,198**	**950,315**	**39,589,971**

	Property, plant and equipment				
	Machinery and equipment	Land and buildings	Furniture and other equipment	Construction in progress	Total PP&E
Cost	$	$	$	$	$
Balance, December 31, 2020	106,796	-	18,561	-	125,358
Additions	12,533,441	4,885,684	1,763,436	-	19,182,561
Balance, December 31, 2021	12,640,237	4,885,684	1,781,997	-	19,307,919
ACCUMULATED DEPRECIATION					
Balance, December 31, 2020	1,575	-	5,441	-	7,016
Depreciation and depletion	817,124	43,433	129,650	-	990,207
Balance, December 31, 2021	818,699	43,433	135,090	-	997,223
Net book value, December 31, 2021	11,821,538	4,842,251	1,646,907	-	18,310,696

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 promissory note was paid on November 16, 2021.

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, unless otherwise indicated)

9. PROPERTY, PLANT AND EQUIPMENT (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, for which $750,000 was accrued at the acquisition date:

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"). Subsequent to December 31, 2022, Contingent Payment #2 expired unpaid.

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").

10. MINERAL PROPERTIES, AND EXPLORATION AND EVALUATION ASSET

	Mineral properties	Exploration and evaluation assets	Total
COST	**$**	**$**	**$**
Balance, December 31, 2021	14,647,607	2,797,365	17,444,972
Additions	4,696,892	398,573	5,095,465
Acquisition of MMR (note 5)	2,923,222	-	2,923,222
Changes in closure and reclamation	(2,837,846)	-	(2,837,846)
Balance, December 31, 2022	**19,429,875**	**3,195,938**	**22,625,812**
ACCUMULATED DEPRECIATION			
Balance, December 31, 2021	779,693	-	779,693
Depreciation and depletion	3,804,144	-	3,804,144
Balance, December 31, 2022	**4,583,838**	**-**	**4,583,838**
Net book value, December 31, 2022	**14,846,037**	**3,195,938**	**18,041,975**

(Expressed in US dollars, unless otherwise indicated)

10. MINERAL PROPERTIES, AND EXPLORATION AND EVALUATION ASSET (continued)

	Mineral properties	Exploration and evaluation assets	Total
COST	**$**	**$**	**$**
Balance, December 31, 2020	-	2,529,887	2,529,887
Additions	12,422,640	267,478	12,690,118
Changes in closure and reclamation	2,224,967	-	2,224,967
Balance, December 31, 2021	14,647,607	2,797,365	17,444,972
ACCUMULATED DEPRECIATION			
Balance, December 31, 2020	-	-	-
Depreciation and depletion	779,692	-	779,692
Balance, December 31, 2021	779,692	-	779,692
Net book value, December 31, 2021	13,867,915	2,797,365	16,665,280

Exploration and evaluation assets

		El Pinguico		Other claims		Total
Acquisition Cost:						
Balance, December 31, 2020	$	2,264,630	$	265,257		2,529,887
Additions		267,478		-		267,478
Balance, December 31, 2021		2,532,108		265,257		2,797,365
Additions		398,573		-		398,573
Balance, December 31, 2022	$	**2,930,681**	**$**	**265,257**	**$**	**3,195,938**

El Pinguico Mine Project

The Pinguico Mine project is comprised of two mining claims, El Pinguico and Ample de El Pinguico ("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 El Pinguico 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:

- 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. On April 7, 2022, the Company and EMBSA amended the Option Agreement whereby the CAD$525,000 option payment originally due on February 22, 2022, was deferred. The revised payment schedule is 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$262,500 on or before April 10, 2022 (paid)
- CAD$262,500 on or before October 10, 2022 (paid)
- CAD$625,000 cash on or before February 22, 2023.

(Expressed in US dollars, unless otherwise indicated)

10. MINERAL PROPERTIES, AND EXPLORATION AND EVALUATION ASSET (continued)

On March 16, 2023, the Company amended the Option Agreement with EMBSA whereby the final option payment of C$625,000, originally due on or before February 22, 2023, was split into two equal payments of C$312,500 each, of which the first payment will be made to EMBSA immediately with the second payment now due on or before October 16, 2023. In addition, the Company purchased all of EMBSA's interest in its 15% royalty on net profits derived from the surface stockpile of historically mined (but unprocessed) mineralized material at El Pinguico for a purchase price of US$70,000. Accordingly, upon payment of the final option payment of C$312,500 to EMBSA on or before October 16, 2023, the only royalty that will remain over the El Pinguico project will be a 15% net profits royalty on the underground stockpile of previously mined material in favour of EMBSA.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2022	December 31 2021
Accounts payable	**$ 9,418,922**	$ 2,740,437
Income and other tax payable	**750,703**	317,990
Payroll and benefits accrual	**2,180,495**	383,813
Other payables	**182,796**	25,053
	$ 12,532,916	$ 3,467,293

12. ADVANCE PAYMENT

In October 2021, the Company received $1,293,103 (plus $206,897 of VAT) up-front payment from Ocean Partners (UK) which was recognized as deferred revenue (the "Advance Payment"). The Advance Payment bears interest at 12-month Libor + 6.75% and was to be repaid in 15 monthly installments of $100,000 (inclusive of VAT), after a 3-month grace period, against the proceeds from the silver-gold concentrate delivered. On June 6, 2022, the repayment schedule was amended whereby the Company was to make monthly installments of $50,000 (inclusive of VAT) from June 2022 to November 2022, and monthly installments of $175,000 (inclusive of VAT) from December 2022 to March 2023.

$679,151 of the Advance Payment was recognized as revenue upon delivery of the silver-gold concentrate when the customer obtained control of the silver-gold concentrate, and the Company has satisfied its performance obligation. In December 2022, concurrent with the new loan with Ocean Partners (note 13 (a)), the Company settled the remaining balance of the Advance Payment of $701,664.

Balance, December 31, 2021	$ 1,293,103
Interest expense	87,712
Settlement of deferred revenue	(679,151)
Repayment	(701,664)
Balance, December 31, 2022	**$ -**

(Expressed in US dollars, unless otherwise indicated)

13. LOANS PAYABLE

	OCIM	OP	Vehicles	Total
Balance, December 31, 2021	$ 8,007,072	$ -	$ 174,277	$ 8,181,349
Additions	2,913,610	9,665,327	-	12,578,937
Interest expense	2,356,368	244,758	2,538	2,603,664
Accretion expense	31,579	70,765	-	102,344
Loan payments	(6,369,489)	(874,669)	(62,298)	(7,306,455)
Effect of change in foreign exchange rates	-	-	3,703	3,703
Gain on settlement of debt	(195,910)	-	-	(195,910)
Changes in fair value of derivative	520,473	-	-	520,473
Balance, December 31, 2022	**$ 7,263,703**	**$ 9,106,182**	**$ 118,219**	**$ 16,488,104**
Which consist of:				
Current portion of loans	7,263,703	7,398,364	82,623	14,744,690
Non-current portion of loans	-	1,707,818	35,596	1,743,414
Balance, December 31, 2022	**$ 7,263,703**	**$ 9,106,182**	**$ 118,219**	**$ 16,488,104**

	OCIM	OP	Vehicles	Total
Balance, December 31, 2020	$ -	$ -	$ 21,721	$ 21,721
Additions	7,450,000	-	183,576	7,633,576
Interest expense	922,365	-	50,082	972,447
Accretion expense	-	-	-	-
Loan payments	-	-	(76,478)	(76,478)
Effect of change in foreign exchange rates	-	-	(4,624)	(4,624)
Changes in fair value of derivative	(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

a) Oceans Partners Facilities

On August 22, 2022, the Company entered into a credit facility (the "OP Facility") with Ocean Partners (UK), a metals off-take and trading firm, for $5,000,000.

On August 30, 2022, the Company drew down on its $5,000,000 credit facility with Ocean Partners. The OP Facility is for a term of 24-months, repayable over a period of 21-months following a three-month grace period, and is secured by a guarantee of MMR and a pledge over the Company's shares of MMR (the "OP security"). Interest on the loan will be calculated at 12-month LIBOR + 7.5%.

Concurrent with the OP Facility, the Company has agreed to sell 100% of its silver and gold concentrate produced from the Valenciana Mines Complex and San Ignacio Mine to Ocean Partners for a period of 24 months. As further consideration for the OP Facility, the Company has issued a total of 2,500,000 share purchase warrants to Ocean Partners; each warrant entitling Ocean Partners to purchase one common share of GSilver at a price of C$0.50 for period 24 months. The warrants have been classified as equity and have a fair value of $259,673.

13. LOANS PAYABLE (continued)

a) Ocean Partners Facilities (continued)

The loan is classified as a financial liability and measured at amortized cost using the effective interest rate implicit in the loan. The fair value of the warrants along with a $50,000 fee have been recorded against the carrying amount of the loan, resulting in a carrying value of $4,690,327 at initial recognition.

On December 8, 2022, the Company drew down on a new $5,000,000 credit facility (the "New Facility") with Ocean Partners (UK). The New Facility has an initial payment free period until March 31, 2023 and thereafter will be revolving in nature whereby it is re-payable and re-drawable in 4-month intervals over a term of 24 months. As with the OP Facility, this loan is also secured by the OP Security. Interest will be calculated at 12-month SOFR + 7.5%. A portion of the New Facility was used to extinguish $701,644 of existing debt, which represented the final amount owing to Ocean Partners on the Company's Advance Payment (note 12).

Concurrently with the New Facility, the Company has agreed to consolidate and extend the sale of concentrate derived from its Guanajuato mines into a single offtake agreement with Ocean Partners for a term of 24 months ending December 31, 2024, subject to a minimum delivery of 250 wet metric tonnes monthly. A $25,000 fee has been recorded against the carrying amount of the loan, resulting in a carrying value of $4,975,000 at initial recognition.

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 ("Initial Loan"). The loan is repayable over the following 12 months commencing February 28, 2022, with the Company delivering 19,076 silver ounces 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.

The loan is classified as a financial liability and measured at amortized cost using the effective interest rate implicit in the loan.

On May 4, 2022, the Company entered into a definitive agreement for an 18-month gold and silver pre-payment facility with OCIM for $7,500,000 (the "Secondary Loan", and collectively with the Initial Loan, the "OCIM Loan"). Following a six-month grace period, the facility is repayable over a period of 12 months, commencing on November 1, 2022, with the Company delivering 20,240 ounces of silver and 163 ounces of gold per month (an aggregate of 242,877 ounces of silver and 1,958 ounces of gold). The number of silver and gold ounces was fixed at an annualized 12% discount to the spot price on May 4, 2022. A portion of the pre-payment facility was used to repay to OCIM the cash equivalent of six of the Company's remaining nine monthly deliveries of silver and gold ounces due under the Initial Loan, resulting in the Company receiving net proceeds of $2,913,610 in cash.

The Secondary Loan has been accounted for as a loan extinguishment of the Initial Loan resulting in a gain of $195,910 in profit and loss.

The requirement to deliver gold and silver ounces was determined to be an embedded derivative and was separated and measured at fair value at initial recognition and at the end of each reporting period.

During the year ended December 31, 2022, the Company recognized a gain of $92,714 on revaluation of the derivative in the consolidated statements of loss and comprehensive loss (December 31, 2021 - gain of $285,697).

As at December 31, 2022, the carrying value of the Secondary Loan, inclusive of accrued interest of $179,682, are $7,170,989 and the value of the derivative liability is $155,179 resulting net amount of $7,263,703. The outstanding principal amount owing on the OCIM Loan is $6,926,210 as at December 31, 2022.

Subsequent to the year, the Company paid 59,775 ounces of silver and 505 ounces of gold totalling a repayment of $2,331,063 and entered into a new pre-payment agreement (note 32).

(Expressed in US dollars, unless otherwise indicated)

14. LEASE LIABILITIES

The Company leases office space, residential space, and equipment. These leases are for a period of one to four years. Certain leases include an option to renew and the end of the contract term or purchase the equipment.

The following table presents the lease obligations of the Company.

		December 31 2022		December 31 2021
Balance, at beginning of period	$	577,743	$	-
Additions		3,343,487		686,398
Acquisition of MMR		1,081,330		-
Terminations		(168,643)		-
Accretion		186,187		70,586
Payments		(1,076,789)		(174,384)
Foreign exchange		(2,592)		(4,857)
Balance, end of period	**$**	**3,940,724**	**$**	**577,743**
Which consist of:				
Current portion of lease liabilities		2,474,197		152,354
Non-current portion of lease liabilities		1,466,527		425,389
Balance, end of period	**$**	**3,940,724**	**$**	**577,743**

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

		December 31 2022		December 31 2021
Less than one year	$	2,842,898	$	218,943
Between one and five years		1,605,720		547,546
		4,448,618		766,489
Less future finance charges		(507,893)		(188,746)
Present value of minimum lease payments	**$**	**3,940,724**	**$**	**577,743**

15. PROVISION FOR RECLAMATION AND REHABILITATION

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

		Topia Mines Complex		**Valenciana Mines Complex**		**El Cubo Mines Complex**		**Total**
Balance, December 31, 2021	$	-	$	-	$	6,249,826	$	6,249,826
Acquisition of MMR		5,864,034		5,819,477		-		11,683,511
Accretion		197,918		201,342		471,189		870,448
Changes in estimate		(485,512)		149,603		(2,501,937)		(2,837,846)
Effect of change in foreign exchange rates		272,280		275,485		258,172		805,937
Balance, December 31, 2022	**$**	**5,848,719**	**$**	**6,445,907**	**$**	**4,477,249**	**$**	**16,771,876**

(Expressed in US dollars, unless otherwise indicated)

15. PROVISION FOR RECLAMATION AND REHABILITATION (continued)

		Topia Mines Complex		Valenciana Mines Complex		El Cubo Mines Complex
Anticipated settlement date		2029		2028		2041
Undiscounted uninflated estimated cash flow	$	9,761,154	$	10,102,455	$	7,511,791
Estimated life of mine (years)		7.2		6.2		5.3
Discount rate (%)		9.3		9.3		9.3
Inflation rate (%)		3.0		3.0		3.0

16. 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, 2022, the Company issued common shares as follows:

i. On July 21, 2022, the Company completed a private placement and issued 41,885,388 units at $0.256 (CAD$0.33) per unit for gross proceeds of $10,722,659. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD$0.50 per share for a period of three years. The proceeds from the private placement were allocated to the shares ($6,181,271) and warrants ($4,541,388) based on their relative fair values. In connection with the private placement, the Company incurred issuance costs of $503,579 paid in cash and issued 1,524,520 finder's warrants with an exercise price of CAD$0.33 exercisable for three years and a fair value of $307,084 (CAD$385,237) as finders fees.

ii. On August 4, 2022, the Company issued 25,787,200 common shares with a fair value of $8,976,524 (CAD$11,818,491) in connection with the acquisition of MMR.

iii. On December 8, 2022, the Company issued a total of 2,817,595 common shares at a deemed price of $0.293, (CAD$0.40) per share in settlement of $826,274 (CAD$1,127,038) of debt, including 693,750 shares issued to related parties totalling $203,445.

iv. On December 22, 2022, the Company completed the first tranche of a non-brokered Listed Issuer Financing Exemption private placement and issued 15,952,196 units at $0.312 (CAD$0.425) per unit for gross proceeds of $4,971,307. 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$0.60 per share for a period of two years. The proceeds from the private placement were allocated to the shares ($4,275,191) and warrants ($696,116) based on their relative fair values. In connection with the private placement, the Company incurred issuance costs of $190,356 paid in cash and issued 514,591 finder's warrants with an exercise price of CAD$0.60 exercisable for two years and a fair value of $163,462 (CAD$222,962) as finders fees.

v. The Company issued 7,919,737 common shares on the exercise of 7,919,737 warrants for net proceeds of $1,599,296 (CAD$2,054,570).

vi. The Company issued 50,000 common shares on the exercise of 50,000 options for net proceeds of $3,961 (CAD$5,000).

(Expressed in US dollars, unless otherwise indicated)

16. SHARE CAPITAL (continued)

b) Equity Offerings (continued)

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 (CAD$12,372,014) in connection with the acquisition of El Cubo Complex.

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, totalling $387,487 (CAD$495,673).

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 15,211,453 warrants for net proceeds of $3,142,165 (CAD$3,884,425) and issued 1,412,500 common shares on the exercise of 1,412,500 options for net proceeds of $197,678 (CAD$244,375).

17. RESERVES

a) Warrants

The following summarizes the continuity of common share purchase warrants:

	December 31, 2022		December 31, 2021	
	Number outstanding	**Weighted average exercise price CAD$**	Number outstanding	Weighted average exercise price CAD$
Outstanding, beginning of the period	**54,890,334**	**0.45**	32,893,012	0.29
Issued	**54,406,598**	**0.51**	38,727,275	0.52
Exercised	**(7,919,737)**	**0.26**	(15,211,453)	0.26
Expired and forfeited	**(4,907,176)**	**0.48**	(1,518,500)	0.43
Outstanding, end of the period	**96,470,019**	**0.50**	54,890,334	0.45

(Expressed in US dollars, unless otherwise indicated)

17. RESERVES (continued)

a) Warrants (continued)

As at December 31, 2022 the following common share purchase warrants were outstanding:

Expiry date	Exercise price CAD$	Warrants outstanding	Remaining life (years)
November 30, 2023	0.75	7,627,289	0.92
December 7, 2023	0.75	1,201,317	0.93
March 9, 2024	0.45	29,484,815	1.19
August 29, 2024	0.50	2,500,000	1.66
December 21, 2024	0.60	8,496,690	1.98
July 21, 2025	0.33	1,524,520	2.56
August 4, 2025	0.50	41,885,388	2.59
November 30, 2025	0.18	3,750,000	2.92
	0.50	**96,470,019**	**1.94**

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 2022	December 31 2021
Risk-free interest rate	**3.00%-4.02%**	0.50%
Expected life of options (years)	**2-3 years**	3 years
Expected annualized volatility	**81.67%-134.16%**	155.0%
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:

Additionally, the Company has adopted an Omnibus equity compensation plan (the "Omnibus") under the rules of the TSXV pursuant to which the Company's Board of Directors is authorized, from time to time, to grant a varying range of incentive awards, including restricted share units, deferred share units, performance share units and other share-based awards (the "Awards"), to employees, consultants, directors and officers. The Omnibus is a fixed plan whereby the number of Awards shall not exceed 15,000,000 shares of the Company. The Omnibus shares are in addition to, and are not deducted from, the number of shares issuable under the Plan. As at December 31, 2022, no Awards have been issued under the Omnibus plan.

	Number of options	Weighted average exercise price CAD$
Outstanding at December 31, 2020	6,412,500	0.19
Granted	8,325,000	0.50
Expired	(1,412,500)	0.15
Outstanding at December 31, 2021	13,325,000	0.39
Granted	7,175,000	0.38
Exercised	(50,000)	0.10
Expired and forfeited	(262,500)	0.40
Outstanding at December 31, 2022	**20,187,500**	**0.38**

17. RESERVES (continued)

b) Stock options (continued)

The following table summarizes the information about stock options outstanding as at December 31, 2022:

Expiry date	Options outstanding	Weighted average exercise price CAD$	Options exercisable	Weighted average exercise price CAD$
March 30, 2023	2,225,000	0.075	2,225,000	0.075
June 27, 2023	550,000	0.20	550,000	0.20
October 12, 2023	2,025,000	0.30	2,025,000	0.30
January 4, 2024	150,000	0.30	150,000	0.30
February 6, 2024	150,000	0.30	150,000	0.30
February 17, 2024	37,500	0.30	37,500	0.30
March 24, 2026	6,450,000	0.51	4,416,667	0.51
April 26, 2026	250,000	0.60	250,000	0.60
May 14, 2026	400,000	0.60	266,666	0.60
July 15, 2023	200,000	0.45	200,000	0.45
September 8, 2026	400,000	0.49	266,666	0.49
October 12, 2026	150,000	0.41	100,000	0.41
November 5, 2026	25,000	0.53	16,667	0.53
March 22, 2027	500,000	0.64	166,667	0.64
September 22, 2023	200,000	0.64	150,000	0.64
April 4, 2027	200,000	0.61	66,667	0.61
April 18, 2027	200,000	0.62	66,667	0.62
July 18, 2027	5,975,000	0.33	1,991,667	0.33
September 27, 2027	100,000	0.33	33,333	0.33
	20,187,500	**0.38**	**13,129,167**	**0.36**

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 2022	December 31 2021
Risk-free interest rate	**2.31%-3.68%**	0.50%-0.67%
Expected life of options (years)	**2-5 years**	2-5 years
Expected annualized volatility	**137.17%-137.68%**	149.93%-157.82%
Expected dividend yield	**Nil**	Nil

18. LOSS PER SHARE

	Year ended December 31 2022	Year ended December 31 2021
Net loss for the period	**$ (26,771,585)**	$ (11,849,800)
Weighted average number of shares(000's)	**256,319**	183,698
Loss per share-basic and diluted	**$ (0.10)**	**$** (0.06)

All of the outstanding warrants and options are anti-dilutive for the year ended December 31, 2022 (year ended December 31, 2021 – all).

(Expressed in US dollars, unless otherwise indicated)

19. REVENUES

The Company is principally engaged in the business of producing gold-silver, lead and zinc concentrate in Mexico. The disaggregated revenue information for the year ended December 31, 2022, is as follows:

	Year ended	
	December 31 2022	December 31 2021
Gold-silver concentrate	**$ 30,993,033**	$ 4,077,069
Lead concentrate	**6,375,028**	-
Zinc concentrate	**1,884,164**	-
Provisional pricing adjustments	**(2,372,021)**	39,742
	$ 36,880,204	$ 4,116,811

The Company sells 100% of its gold-silver, lead and zinc concentrates to two customers.

20. COST OF SALES

	Year ended	
	December 31 2022	December 31 2021
Production costs	**$ 33,868,211**	$ 6,132,275
Transportation and other selling cost	**1,011,083**	109,452
Inventory changes	**(37,003)**	(1,159,705)
Depreciation	**8,920,902**	1,268,841
	$ 43,763,193	$ 6,350,863

21. GENERAL AND ADMINISTRATION

	Year ended	
	December 31 2022	December 31 2021
Salaries and employee benefits	**$ 1,760,477**	$ 897,490
Professional fees	**2,822,456**	1,125,991
Corporate and administration	**2,568,364**	2,113,278
Depreciation	**238,144**	189,624
	$ 7,389,441	$ 4,326,383

22. EXPLORATION EXPENSES

The Company expenses exploration costs as they are incurred.

	Year ended	
	December 31 2022	December 31 2021
El Cubo Mines Complex	**$ 2,591,551**	$ 1,140,308
Valenciana Mines Complex	**170,274**	-
Topia Mines Complex	**200,559**	-
	$ 2,962,384	$ 1,140,308

(Expressed in US dollars, unless otherwise indicated)

23. INTEREST AND FINANCE (COSTS) INCOME

	Year ended			
		December 31 2022		December 31 2021
Interest income	**$**	**108,596**	$	27,054
Interest expense		**(2,714,210)**		(941,385)
Accretion expense		**(1,181,134)**		(320,373)
	$	**(3,786,748)**	$	(1,234,704)

24. 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:

	Year ended			
		December 31 2022		December 31 2021
Net income before tax	**$**	**(26,771,585)**	$	(12,093,855)
Statutory tax rate		**27.00%**		27.00%
Anticipated income tax at statutory rates		**(7,228,328)**		(3,265,341)
Non-deductible expenditures		**2,404,455**		718,776
Differences between Canadian and foreign tax rates		**(634,435)**		(179,830)
7.5% mining royalty in Mexico		**(104,072)**		(239,739)
Inflation adjustment		**284,333**		449,784
Impact of foreign exchange		**665,848**		284,024
Changes in deferred tax assets not recognized		**4,539,979**		2,890,365
Losses carry forward - under/over provided in prior years		**-**		(452,943)
Other items		**72,220**		(205,097)
	$	**-**	$	-

b) Deferred income tax assets and liabilities

The significant components of the recognized deferred tax assets and liabilities are:

	Year ended			
		December 31 2022		December 31 2021
Deferred income tax assets				
Non-capital losses	**$**	8,423,322	$	4,967,235
	$	**8,423,322**	$	**4,967,235**
Deferred income tax liabilities				
Property and equipment	**$**	3,735,966	$	181,928
Mineral property interest		1,517,224		2,364,399
Other		3,170,132		2,420,908
	$	**8,423,322**	$	**4,967,235**
Net deferred income tax liability	**$**	**-**	$	-

(Expressed in US dollars, unless otherwise indicated)

24. INCOME TAX (continued)

c) 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:

	Year ended			
		December 31 2022		December 31 2021
Equipment and buildings	**$**	**12,773,806**	$	607,705
Accounts payable and accrued liabilities		**5,702,845**		462,095
Share issuance cost		**734,585**		359,428
7.5% mining royalty in Mexico		**346,907**		799,129
Other liabilities		**23,664,715**		10,259,016
Non-capital losses		**17,163,638**		18,235,115
Capital loses		**107,233**		876,410
	$	**60,493,728**	$	31,598,898

d) Tax loss carry forwards

Tax losses have the following expiry dates:

	Year of expiry		**December 31, 2022**	**Year of expiry**		**December 31, 2021**
Canada - non-capital losses	**2027 - 2042**	**$**	**16,201,977**	2026 - 2041	$	11,787,918
Mexico - operating losses	**2023 - 2032**	**$**	**28,984,109**	2022 - 2031	$	1,459,986

25. GAIN ON DERIVATIVE

The requirement to deliver gold and silver ounces under the OCIM Loan (note 13) was determined to be a derivative and is measured at fair value at the end of each reporting period. The remaining deliveries of gold and silver ounces for the Initial and Secondary Loans were fixed on July 26, 2021 and May 4, 2022 respectively. Changes in gold and silver prices relative to the fixed payment terms effect the value of the derivative.

On December 31, 2022, the Company revalued the remaining deliveries of gold and silver ounces. For year ended December 31, 2022, the Company recognized a loss of $155,179 on the revaluation of the derivative on the Secondary OCIM Loan and the settlement of the derivative portion of the Initial OCIM loan (year ended December 31, 2021 – nil)

(Expressed in US dollars, unless otherwise indicated)

26. 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:

	Year ended			
		December 31 2022		December 31 2021
Salaries, bonus and benefits	**$**	**169,901**	$	123,654
Consulting fees		**569,480**		310,411
Share-based compensation		**825,686**		1,464,713
	$	**1,565,067**	$	1,898,778

[(1)] Consulting fees were paid to Blueberry Capital Corp., a company controlled by the CEO of the Company, Universal Solution Inc., a company controlled by the VP Corporate Development and Corporate Secretary of the Company, and Ramon T. Davila Flores a company controlled by the President of the Company.

27. SEGMENTED INFORMATION

The Company has three operating mining segments, located in Mexico, as well as a corporate segment.

The Company's operations are based in Mexico with Corporate offices based out of Canada.

December 31, 2022		**Total Assets**		**Total liabilities**		**Capital expenditures**
El Cubo Mines Complex	$	39,880,692	$	(12,179,268)	$	6,160,948
Valenciana Mines Complex		14,255,300		(6,445,907)		1,238,213
Topia Mines Complex		18,477,593		(16,571,858)		1,004,480
Corporate		13,035,313		(17,940,078)		46,693
Consolidated	**$**	**85,648,898**	**$**	**(53,137,111)**	**$**	**8,450,334**

December 31, 2021		Total Assets		Total liabilities		Capital expenditures
El Cubo Mines Complex	$	39,847,235	$	(12,001,292)	$	6,936,659
Valenciana Mines Complex		-		-		-
Topia Mines Complex		-		-		-
Corporate		11,472,641		(8,518,022)		334,442
Consolidated	**$**	**51,319,876**	**$**	**(20,519,314)**	**$**	**7,271,101**

(Expressed in US dollars, unless otherwise indicated)

27. SEGMENTED INFORMATION (continued)

Year ended December 31, 2022	Revenues	Cost of sales	Exploration expense	G&A and other expenses	Finance items	Segmented loss before taxes
El Cubo Mines Complex	$ 29,088,649	$ 33,621,970	$ 2,536,481	$ 3,820,863	$ 752,944	$ (11,643,609)
Valenciana Mines Complex	195,829	403,990	170,274	1,242,324	-	(1,620,759)
Topia Mines Complex	7,595,726	9,737,233	200,559	1,226,612	477,031	(4,045,709)
Corporate	-	-	55,070	7,041,722	2,364,716	(9,461,508)
Consolidated	**$ 36,880,204**	**$ 43,763,193**	**$ 2,962,384**	**$ 13,331,521**	**$ 3,594,691**	**$ (26,771,585)**

Year ended December 31, 2021	Revenues	Cost of sales	Exploration expense	G&A and other expenses	Finance items	Segmented loss before taxes
El Cubo Mines Complex	$ 4,116,811	$ 6,350,863	$ 896,604	$ 2,279,021	$ 291,257	$ (5,700,934)
Valenciana Mines Complex	-	-	-	-	-	-
Topia Mines Complex	-	-	-	-	-	-
Corporate	-	-	243,704	5,247,412	657,750	(6,148,866)
Interco elimination	-	-	-	-	-	-
Consolidated	**$ 4,116,811**	**$ 6,350,863**	**$ 1,140,308**	**$ 7,526,433**	**$ 949,007**	**$ (11,849,800)**

28. 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).

28. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

a) Fair value measurement and valuation techniques (continued)

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.
Ocean Partners loans	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.
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.
Other current liabilities	The fair value of the contingent liabilities where payment is contingent on the price of gold and silver was estimated using the Monte-Carlo averaging simulation technique on simulated gold and silver prices. The fair value of the contingent liability where payment is contingent on achieving production milestones was estimated using the discounted cash flow method and an assigned probability of the achievement of the production milestones.

The carrying value of cash and cash equivalents, other receivables, accounts payable, 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, 2022, and 2021, there were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy.

(Expressed in US dollars, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

a) Fair value measurement and valuation techniques (continued)

December 31, 2022	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	$ 3,857,355	$ -	$ 3,857,355	$ -	$ 3,857,355	$ -
	$ 3,857,355	**$ -**	**$ 3,857,355**	**$ -**	**$ 3,857,355**	**$ -**
Financial assets not measured at fair value						
Cash and cash equivalents	$ -	$ 8,832,936	$ 8,832,936	$ -	$ -	$ 8,832,936
Other receivables	-	9,073,024	9,073,024	-	-	9,073,024
	$ -	**$ 17,905,960**	**$ 17,905,960**	**$ -**	**$ -**	**$ 17,905,960**
Financial liabilities measured at fair value						
Other current liabilities	(3,403,491)	-	(3,403,491)	-	(3,403,491)	-
Derivative	(155,179)	-	(155,179)	-	(155,179)	-
	$ (3,558,670)	**$ -**	**$ (3,558,670)**	**$ -**	**$ (3,558,670)**	**$ -**
Financial liabilities not measured at fair value						
Accounts payable and accrued liabilities	-	(12,532,916)	(12,532,916)	-	-	(12,532,916)
Vehicle loan	-	(118,220)	(118,220)	-	-	(118,220)
OCIM loan	-	(7,108,524)	(7,108,524)	-	-	(7,108,524)
Ocean Partners loans	-	(9,106,182)	(9,106,182)	-	-	(9,106,182)
	$ -	**$ (28,865,842)**	**$ (28,865,842)**	**$ -**	**$ -**	**$ (28,865,842)**

(Expressed in US dollars, unless otherwise indicated)

28. 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**	**$ -**
Financial assets not measured at fair value						
Cash and cash equivalents	$ -	$ 8,234,043	$ 8,234,043	$ -	$ -	$ 8,234,043
Other assets - silver and gold bullion	-	1,622,935	1,622,935	-	-	1,622,935
Other receivables	-	2,129,178	2,129,178	-	-	2,129,178
	$ -	**$ 11,986,156**	**$ 11,986,156**	**$ -**	**$ -**	**$ 11,986,156**
Financial liabilities measured at fair value						
Other current liabilities	(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)**

(Expressed in US dollars, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

b) Financial risk management

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include fluctuations in metal prices, exchange risk, credit risk, interest rate risk, and liquidity risk . Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Commodity price risk

Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production, short-term changes in supply and demand due to speculative hedging activities and certain other factors. The ability of the Company to develop its mineral properties and exploration and evaluation assets is highly correlated to the market price of gold and silver. If metal prices decline for a prolonged period below the anticipated cost of production of the Company's mines, it may not be economically feasible to continue production.

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, 2022:

Metal	Change	Effect on Sales $
Silver	+/- 10%	1,246,738
Gold	+/- 10%	959,287
Lead	+/- 10%	107,115
Zinc	+/- 10%	205,192

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. Within other receivables there are $1,116,318 owed by Great Panther. On December 15, 2022, Great Panther filed a termination application to make a voluntary assignment into bankruptcy pursuant to the Bankruptcy and Insolvency Act. The Company has the right of offset against any contingent payments owed to Great Panther. The Company took an allowance of $1,300,000 against the $2,416,318 amount receivable due to the uncertainty surrounding the Great Panther bankruptcy and the ability of the Company to collect the full receivable due from them.

As of	December 31, 2022	December 31, 2021
	$	$
Cash and cash equivalents	**8,832,936**	8,234,043
Trade receivables	**3,857,355**	491,731
VAT recoverable	**7,398,102**	3,809,363
Other receivables	**1,504,922**	55,661
	21,593,315	12,590,798

28. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

b) Financial risk management (continued)

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, including interest, at December 31, 2022:

	Expected payments by year as at December 31, 2022			
	Less than 1 year	1 -3 years	After 5 years	Total
	$	$	$	$
Trade and other payables	12,532,916	-	-	**12,532,916**
Loans	19,126,017	1,904,762	-	**21,030,779**
Lease obligations	2,802,958	1,605,720	-	**4,408,678**
Other liabilities	3,403,491	-	26,755,325	**30,158,816**
Total	**37,865,382**	**3,510,482**	**26,755,325**	**68,131,189**

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 Canadian and Mexican chartered banks. The interest rate risks on cash and cash equivalents are not considered significant.

The Company's interest rate risk principally arises from the interest rate impact on interest charged on its loan payable and lease liability. The Company's loan payable and lease liability 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. Based on the Company's interest rate exposure at December 31, 2022, a change of 25 basis points increase or decrease of market interest rate does not have a significant impact on 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 ("MXN") and the US Dollar ("USD") and Canada which utilized the Canadian dollar ("CAD") (collectively "Local Currencies"). 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.

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

As at December 31, 2022	Canadian dollars	Mexican pesos
Cash and cash equivalents	7,939,130	1,716,473
Amounts receivable	-	129,285,340
Accounts payable and accrued liabilities	(562,374)	(158,223,949)
Current portion of lease liabilities	(71,808)	(23,035,441)
Lease liabilities	(214,389)	(25,401,617)
Provision for reclamation and rehabilitation	-	(324,728,675)
Total foreign currency exposure	7,090,559	(400,387,869)
US$ equivalent of foreign currency exposure	5,235,203	(17,939,985)

The Company is primarily exposed to fluctuations in the value of CAD against USD and USD against MXN. With all other variables held constant, a 10% change in CAD against USD or USD against MXN would result in the following impact on the Company's net loss for the period:

Currency	Change	Effect $
Canadian dollars	+/- 10%	460,416
Mexican pesos	+/- 10%	1,632,236

29. 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, 2022, compared to the year ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

(Expressed in US dollars, unless otherwise indicated)

30. SUPPLEMENTAL CASHFLOW INFORMATION

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

	Loans	Leases	Other current liabilities	Promissory note
As at December 31, 2020	$ 21,756	$ -	$ -	$ -
Additions	7,655,980	686,398	750,000	2,212,389
Interest	972,447	-	-	180,221
Accretion	-	70,586	-	-
Payments	(76,478)	(174,384)	-	(2,475,000)
Loss on settlement	-	-	-	82,390
Foreign exchange	(4,659)	(4,857)	-	-
Changes in fair value	(387,697)	-	-	-
As at December 31, 2021	8,181,349	577,743	750,000	-
Additions	12,578,937	3,343,487	-	-
Acquisition of MMR	-	1,081,330	2,658,311	-
Terminations	-	(168,643)	-	-
Interest	2,603,664	-	-	-
Accretion	102,344	186,187	-	-
Payments in cash	(1,168,629)	(1,076,789)	-	-
Payments in gold and silver	(6,137,826)	-	-	-
Foreign exchange	3,703	(2,592)	-	-
Gain on settlement of debt	(195,910)	-	-	-
Changes in fair value of contingent payment	-	-	(4,820)	-
Changes in fair value of derivative	520,473	-	-	-
As at December 31, 2022	**$ 16,488,104**	**$ 3,940,724**	**$ 3,403,491**	**$ -**

The significant non-cash financing and investing transactions during the year ended December 31, 2022 and 2021, are as follows:

	Year ended December 31 2022	December 31 2021
Payment for OCIM loan in gold and silver ounces	**$ 6,137,826**	$ -
Closure and reclamation provision	**$ (2,837,846)**	$ 2,343,755
Changes in contingent liability	**$ 823,491**	$ 750,000
Shares and warrants issued for finders' fees	**$ 360,074**	$ 570,512
Shares issued on acquisition of Minera Mexicana el Rosario	**$ 8,976,524**	$ -
Shares issued on settlement of debt	**$ 826,274**	$ -
Leases/ROU assets recognized	**$ 3,343,487**	$ 686,398
Shares issued on El Cubo Complex acquisition	**$ -**	$ 9,835,452
Closure and reclamation provision at "El Cubo" acquisition	**$ -**	$ 4,600,000
Shares issued on VAT on Promissory note payment	**$ -**	$ 387,488

31. COMMITMENTS AND CONTINGENCIES

a) Commitments

As at December 31, 2022, the Company had no commitments which are expected to be expended within one year.

b) Contingencies – El Cubo Complex

The Company has certain contingent payments in relation to the acquisition of El Cubo Complex in 2021 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"). Subsequent to December 31, 2022, Contingent Payment #2 expired unpaid.

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 $231,552 for contingent payment #2 and contingent payment #3 as other current liabilities on the statement of financial position with fair value gains of $518,448 recorded in Other operating expense (income).

c) Contingencies – Minera Mexicana el Rosario (note 5)

The Company has certain contingent payments in relation to the acquisition of MMR in 2022 as follows:

i. $500,000 upon GSilver producing 2,500,000 ounces of silver from the purchased MMR assets.
ii. $750,000 if the price of silver closes at or above US$27.50 per ounce for 30 consecutive days within two years after closing.
iii. $750,000 if the price of silver closes at or above US$30.00 per ounce for 30 consecutive days within three years after closing.

The Company has accrued a total of $1,097,789 for these contingent payments in other current liabilities on the statement of financial position with fair value loss of $269,478 recorded in Other operating expense (income).

32. SUBSEQUENT EVENTS

On January 11, 2022, the Company completed the second and final tranche of a non-brokered Listed Issuer Financing Exemption private placement and issued 4,080,486 units at $0.313 (CAD$0.425) per unit for gross proceeds of $1,277,061. 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$0.60 per share for a period of two years.

On March 29, the Company entered into a new $5,000,000 pre-payment agreement with OCIM (the "Tertiary Loan"). The Tertiary Loan has a term of 19-months and repayable over 16 months, following a 3 month grace period, by delivery 9,832 ounces of silver and 77 ounces of gold on a monthly basis (an aggregate of 157,232 ounces of silver and 1,241 ounces of gold), calculated at a fixed discount to the prevailing London Bullion Market Association (LBMA) spot metals' prices on March 29, 2023. The full proceeds of the pre-payment facility plus an additional payment of $510,143 were used to extinguish the outstanding balance on the Secondary Loan.

Subsequent to December 31, 2022, the Company issued 1,158,000 shares on the exercise of 1,158,000 stock options and received proceeds of $68,632 (CAD$93,390).