GR SILVER MINING LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
GR Silver Mining Ltd.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has an accumulated deficit of $38,319,430 and expects to incur further losses in the development of its operations. As stated in Note 1, these material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Guy Thomas.

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

April 25, 2022

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

	2021	2020
ASSETS		
Current		
Cash (Note 3)	$ 3,077,796	$ 4,893,578
Receivables (Note 4)	25,519	38,559
Prepaid	263,408	98,019
	3,366,723	5,030,156
Equipment (Note 5)	1,807,195	1,166,637
Deferred acquisition costs (Note 6)	-	158,860
Exploration and evaluation assets (Note 7)	19,777,764	3,706,680
Reclamation provision indemnification asset (Note 7 and 11)	1,246,610	-
Value added tax receivable (Note 4)	2,229,168	781,678
	$ 28,427,460	$ 10, 844,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9 and 10)	$ 1,665,656	$ 961,297
Mexico mining concession taxes (Note 7 and 9)	12,844,788	-
	14,510,444	961,297
Non-current liabilities		
Reclamation provision (Note 11)	2,653,918	215,461
Total liabilities	17,164,362	1,176,758
Shareholders' equity		
Share capital (Note 12)	45,492,226	27,300,384
Share compensation reserve (Note 12)	4,090,302	2,489,056
Deficit	(38,319,430)	(20,122,187)
	11,263,098	9,667,253
	$ 28,427,460	$ 10,844,011

Nature of operations and going concern (Note 1)
Subsequent events (Note 18)

On behalf of the Board:

"Marcio Fonseca" Director *"Michael Thomson"* Director

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

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

	2021	2020
EXPENSES		
Consulting (Note 10)	$ 300,076	$ 768,385
Depreciation (Note 5)	404,612	88,796
Exploration expenditures (Note 8 and 10)	12,442,672	4,355,090
Foreign exchange loss	181,583	57,108
Investor relations	525,257	732,670
Office	645,654	244,711
Professional fees (Note 10)	564,040	251,822
Property investigation	4,249	43,568
Salaries and directors' fees (Note 10)	1,575,121	-
Share-based compensation (Note 10 and 12)	1,532,335	1,049,075
Transfer agent	101,159	89,171
Travel	144,916	57,153
	(18,421,674)	(7,737,549)
Accretion expense on restoration obligation (Note 11)	(6,527)	(4,770)
Impairment on exploration and evaluation assets (Note 7)	-	(560,268)
Impairment on value added tax (Note 4)	(450,642)	(302,596)
Interest income	15,000	-
Recovery on exploration and evaluation assets (Note 7)	70,796	-
Gain on concession taxes (Note 9)	584,421	-
Loss on settlement of accounts payable (Note 12)	(3,015)	(155,992)
Other income	14,398	17,504
Loss and comprehensive loss for the year	$ (18,197,243)	$ (8,743,671)
Loss per common share		
-Basic and diluted	$ (0.12)	$ (0.09
Weighted average number of common shares outstanding		
-Basic and diluted	154,601,181	102,853,476

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

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (18,197,243)	$ (8,743,671)
Items not affecting cash:		
Amortization (Note 5)	404,612	88,796
Accretion expense on restoration obligation	6,527	4,770
Loss on settlement of accounts payable	3,014	155,992
Gain on concession taxes	(588,421)	-
Share-based compensation	1,532,335	1,049,075
Impairment on exploration and evaluation assets	-	560,268
Impairment on value added tax	450,642	302,596
Changes in non-cash working capital items:		
Increases (decrease) in receivables	28,354	(9,238)
Increase in value added tax	(1,815,564)	(572,769)
Increase (decrease) in prepaids	(141,619)	(59,777)
Increase concession taxes payable	1,466,150	-
Increase in accounts payable and accrued liabilities	928,334	669,680
Net cash used in operating activities	(15,918,879)	(6,554,278)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from Plomosas acquisitions	-	2,379
Cash acquired from La Trinidad acquisitions	5,467	-
Acquisition of San Marcial Property	(2,500,000)	(257,160)
Acquisition of La Trinidad Property	(173,656)	-
Deferred acquisition costs	-	(108,860)
Exploration and evaluation assets	-	(20,157)
Equipment	(413,755)	(797,966)
Net cash used in investing activities	(3,081,944)	(1,181,764)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	18,036,204	11,466,454
Share issue costs	(851,163)	(886,344)
Net cash provided by financing activities	17,185,041	10,580,110
Change in cash during the year	(1,815,782)	2,844,068
Cash, beginning of year	4,893,578	2,049,510
Cash, end of year	$ 3,077,796	$ 4,893,578

Supplemental disclosure with respect to cash flows (Note 13)

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

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

	Share Capital								
	Number of Shares		Amount		Share Compensation Reserve		Deficit		Total
Balance, December 31, 2019	68,699,391	$	13,207,803	$	1,461,881	$	(11,378,516)	$	3,291,168
Shares issued for cash									
Private placement	33,900,000		9,153,000		-		-		9,153,000
Exercise of warrants	7,148,149		2,081,730		-		-		2,081,730
Exercise of options	925,000		231,725		-		-		231,725
Share issue costs	-		(886,344)		-		-		(886,344)
Shares issued for non-cash									
Reclassification of reserves on exercise of warrants	-		221,606		(221,606)		-		-
Reclassification of reserves on exercise of options	-		159,552		(159,552)		-		-
Finder's fees – warrants issued	-		(359,258)		359,258		-		-
Property acquisition	17,847,500		3,131,575		-		-		3,131,575
Debt settlement	427,375		358,995		-		-		358,995
Share-based compensation	-		-		1,049,075		-		1,049,075
Loss for the year	-		-		-		(8,743,671)		(8,743,671)
Balance, December 31, 2020	128,947,415	$	27,300,384	$	2,489,056	$	(20,122,187)	$	9,667,253
Shares issued for cash									
Private placement	19,550,000		11,534,500		-		-		11,534,500
Exercise of warrants	16,153,000		6,265,160		-		-		6,265,160
Exercise of options	849,644		236,544		-		-		236,544
Share issue costs	-		(1,001,615)		-		-		(1,001,615)
Shares issued for non-cash									
Reclassification of reserves on exercise of options	-		172,798		(172,798)		-		-
Reclassification of reserves on exercise of warrants	-		229,754		(229,754)		-		-
Finder's fees – warrants issued	-		(471,463)		471,463		-		-
Commission shares	255,000		150,450		-		-		150,450
Debt settlement	187,096		142,714		-		-		142,714
Property acquisition	1,500,000		933,000		-		-		933,000
Share-based compensation	-		-		1,532,335		-		1,532,335
Loss for the year	-		-		-		(18,197,243)		(18,197,243)
Balance, December 31, 2021	167,442,155	$	45,492,226	$	4,090,302	$	(38,319,430)	$	11,263,098

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

1. NATURE OF OPERATIONS AND GOING CONCERN

GR Silver Mining Ltd. (the "Company" or "GR Silver") was incorporated on November 8, 2012 under the laws of British Columbia. The Company's head office address is 900 – 999 West Hastings Street, Vancouver, BC, V6C 2W2. The Company's registered and records office is 600 – 890 West Pender Street, Vancouver, B.C. V6C 1J9. The Company operates in the mineral resource industry and to date has not earned operating revenue. The Company trades on the TSX Venture Exchange (TSX-V) under the trading system GRSL.

As at December 31, 2021, the Company has a working capital deficiency of $11,143,720 (Note 15) and an accumulated deficit of $38,319,430. The Company expects to incur further losses in the development of its operations. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

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

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

In addition, the COVID-19 pandemic has created a dramatic slowdown in the global economy. The duration of the COVID-19 outbreak and the resultant travel restrictions, social distancing, Government response actions, business closures and business disruptions, can all have an impact on the Company's operations and access to capital. There can be no assurance that the Company will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets which may reduce resource prices, share prices and financial liquidity and thereby severely limit the financing capital available in the mineral exploration sector.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2022.

Basis of presentation

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

Basis of consolidation

These consolidated financial statements of the Company include the balances of its subsidiaries from the date

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

that control is obtained, Goldplay de Mexico SA de CV, Minera San Marcial SA de CV Minera Matatan SA de CV ("Matatan"), and Marlin Gold Mining Ltd. ("Marlin") which are wholly owned subsidiaries incorporated in Mexico. Mineral La Rastra SA de CV which is owned 100% by Matatan and Oro Gold de S.A. de C.V. ("Oro Gold") and Marlin Gold Trading Inc. are 100% owned by Marlin.

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

All intercompany transactions and balances are eliminated on consolidation.

Foreign currency transactions

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

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

Exploration and evaluation assets

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

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

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

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

Financial instruments

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

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

Financial assets at FVTPL

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial assets at FVTOCI

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

Financial assets at amortized cost

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

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

Impairment of financial assets at amortized cost

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

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

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or amortized cost. At December 31, 2021, the Company has not classified any financial liabilities as FVTPL.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

as FVTPL are recognized in profit or loss.

Significant accounting estimates and judgments

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

Significant accounts that require estimates as the basis for determining the stated amounts include evaluating the potential impairment of exploration and evaluation assets, share-based payments collectability of VAT, valuation of ARO, indemnification assets and determination of mining concession taxes payable.

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

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

<u>Collectability of value added tax and indemnification assets</u>
The Company pays VAT on expenditures that it incurs in Mexico. Such VAT payments are considered to be refundable, however the timing and successful recovery includes estimation uncertainty. Management has estimated and accrued the likely refundable amount. Indemnification assets relate to estimated contractual obligations payable by a vendor (Note 7). In determining the likelihood of collection the Company has considered the liquidity and working capital of the vendor.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Significant judgements include the following:

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

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

Impairment

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

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

Share capital

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

Warrants issued in equity financing transactions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share-based payments

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

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

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

Related party transactions

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

Provisions

Rehabilitation provisions

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

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

Income taxes

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

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

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

Earnings (loss) per share

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

Equipment

Recognition and measurement

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

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

Depreciation

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

- Office equipment – 10% declining balance basis.
- Exploration equipment – 10% to 20% declining balance basis
- Mobile equipment – 20% to 25% declining balance basis
- Building – 5% declining balance and useful life

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

New accounting policies and amendments

Effective for annual periods beginning on or after January 1, 2022

IAS 16, *Property, Plant and Equipment - Proceeds before Intended Use*

The amendment to IAS 16 prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss.

3. CASH

The Company's cash consists of the following:

	December 31, 2021	December 31, 2020
Cash held with banks in Canadian dollars	$ 2,731,429	$ 4,726,008
Cash held with banks in foreign currencies	346,367	167,570
Total	$ 3,077,796	$ 4,893,578

4. RECEIVABLES

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

	December 31, 2021	December 31, 2020
GST receivable	$ 12,335	$ 27,569
Other receivables	13,184	10,990
Current receivable	$ 25,519	$ 38,559
VAT receivable	2,229,168	781,678
Total receivable	$ 2,254,687	$ 820,237

During the year ended December 31, 2021 the Company impaired value added tax by $450,642 (2020 – $302,596).

(Expressed in Canadian Dollars)

5. EQUIPMENT

	Office Equipment	Mobile Equipment	Exploration Equipment	Buildings	Building in Progress	Total
Cost:						
Balance at December 31, 2019	$ 22,957	$ -	$ 54,738	$ -	$ -	$ 77,695
Additions	12,121	63,257	1,045,693	-	69,671	1,190,742
Balance at December 31, 2020	$ 35,078	$ 63,257	$ 1,100,431	$ -	$ 69,671	$ 1,268,437
Transfers to building	-	-	-	69,671	(69,671)	-
Additions	40,527	-	187,396	817,247	-	1,045,170
Balance at December 31, 2021	$ 75,605	$ 63,257	$ 1,287,827	$ 886,918	$ -	$ 2,313,607
Accumulated Depreciation:						
Balance at December 31, 2019	$ 12,456	$ -	$ 547	$ -	$ -	$ 13,003
Depreciation	6,263	8,668	73,866	-	-	88,796
Balance at December 31, 2020	$ 18,719	$ 8,668	$ 74,413	$ -	$ -	$ 101,800
Depreciation	4,674	12,475	141,915	245,548	-	404,612
Balance at December 31, 2021	$ 23,393	$ 21,143	$ 216,328	$ 245,548	$ -	$ 506,412
Net Book Value:						
Balance at December 31, 2020	$ 16,359	$ 54,589	$ 1,026,018	$ -	$ 69,671	$ 1,166,637
Balance at December 31, 2021	$ 52,212	$ 42,114	$ 1,071,499	$ 641,370	$ -	$ 1,807,195

(Expressed in Canadian Dollars)

6. DEFERRED ACQUISITION COSTS

On December 12, 2019, the Company entered into a letter of intent with Mako Mining Corp. ("Mako") to acquire, its 100% owned subsidiary, Marlin relating to the acquisition of the La Trinidad mine facility and concessions in Mexico, The Company paid $50,000 for an exclusive right to December 31, 2020 and extended to January 31, 2021 to acquire Marlin and incurred acquisition costs of $108,860 and were recorded as a deferred acquisition costs during the year ended December 31, 2020. During the year ended December 31, 2021, the deferred acquisition costs have been allocated to the purchase price.

7. EXPLORATION AND EVALUATION ASSETS

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

	San Marcial Mexico	Nevada USA	La Trinidad Mexico	Plomosas Mexico	Total
Balance, December 31, 2019	$ 387,500	$ 540,111	$ -	$ -	$ 927,611
Acquisition costs					
Shares issued	225,000	-	-	-	225,000
Acquisition of Plomosas Property	-	-	-	3,094,180	3,094,180
Cash	-	20,157	-	-	20,157
Total acquisition	-	560,268	-	-	367,711
Impairment	-	(560,268)	-	-	(560,268)
Balance, December 31, 2020	$ 612,500	$ -	$ -	$ 3,094,180	$ 3,706,680
Acquisition costs					
Shares issued	933,000	-	-	-	933,000
Acquisition of La Trinidad Property	-	-	12,638,084	-	12,638,084
Cash	2,500,000	-	-	-	2,500,000
Total acquisition	3,433,000	-	12,638,084	-	16,071,084
Balance, December 31, 2021	$ 4,045,500	$ -	$ 12,638,084	$ 3,094,180	$ 19,777,764

La Trinidad Property, Mexico

The Company entered into a share purchase agreement to acquire a 100% interest in Marlin and its wholly owned subsidiary which own the La Trinidad property located in the Rosario Mining District, Sinaloa, Mexico. On March 31, 2021, the Company completed the acquisition by paying $50,000, granted a 1% net smelter royalty ("NSR") with the NSR being subject to a buy-back for US$2,000,000 at any time and assumed concession taxes owed in Mexico on concessions acquired as noted below.

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

(Expressed in Canadian Dollars)

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

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

Net assets acquired and allocation		
Assets		
Cash	$	5,467
Receivables and prepaids		39,084
Value added tax		82,568
Buildings		747,225
Indemnification asset		1,246,610
Exploration and evaluation assets		12,638,084
Liabilities		
Accounts payable	$	(31,533)
Mexico mining concession taxes (Note 9)		(11,963,059)
Reclamation provision (Note 11)		(2,431,930)
Total net assets acquired and allocated	$	332,516

As part of the acquisition, the Company assumed responsibility for estimated mining taxes owing (Note 9) as well as an estimated reclamation liability for which the vendor has agreed to remediate and indemnify the Company (Note 11). The Company entered into an agreement on non-core concessions (Note 9) that has not yet completed.

Plomosas Property, Mexico

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

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

(Expressed in Canadian Dollars)

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

Purchase Price		
Cash payment	$	100,000
Common shares issued		2,906,575
Legal, regulatory, and other costs		161,268
Total purchase price	$	3,167,843

Net assets acquired and allocation		
Assets		
Cash	$	2,379
Receivables		11,095
Equipment		276,965
Exploration and evaluation assets		3,094,180
Liabilities		
Accounts payable	$	(6,085)
Reclamation provision (Note 11)		(210,691)
Total net assets acquired and allocated	$	3,167,843

San Marcial Property, Mexico

The Company owns a 100% interest in the San Marcial property located in the Rosario Mining District, Sinaloa, Mexico. As consideration, the Company paid $2,575,000 in cash, issued 3,500,000 common shares with a fair value of $1,470,500 and incurred $3,000,000 in exploration expenditures. The vendor has been granted a 0.75% NSR and the Company has a buy back right on the NSR that can be exercised at any time by paying $1,250,000.

El Habal Property, Mexico

The Company acquired all 100% of the rights, title and interest in the El Habal Property by issuing 474,423 common shares of the Company valued at $35,000. The property is subject to an NSR between 1.0% and 1.5%.

During fiscal 2018 the Company entered into an option to sell an additional 1% NSR on the property and four concessions adjacent to the property for proceeds up to $2,000,000 by paying the Company US$1,000,000 per 0.5% NSR.

Golconda Summit Property, Nevada USA

The Company entered into a property option agreement to acquire a 100% interest in and to the Golconda Summit ("Golconda") property. During the year ended December 31, 2021, the Company sold the property option agreement to a third party and received $70,796 in consideration. During the year ended December 31, 2020, the Company determined that the carrying value of its interest in the Golconda property was impaired because no additional expenditures are planned for the property. The Company incurred acquisition costs of $212,852 and accordingly wrote-off these costs as impairment of exploration and evaluation assets.

Stone Cabin Property, Nevada USA

The Company had entered into a property option agreement to acquire a 100% interest in and to the Stone Cabin property. The Company incurred acquisition costs of $173,739 and accordingly wrote-off costs as impairment of exploration and evaluation assets.

During the year ended December 31, 2020, the Company terminated the property option agreement on the Stone Cabin property.

(Expressed in Canadian Dollars)

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

Boldt Property, Nevada USA

The Company had entered into a property option agreement to acquire a 100% interest in and to the Boldt property. During the year ended December 31, 2020 the Company terminated the property option agreement on the Boldt Property. The Company incurred acquisition costs of $173,677 and accordingly wrote-off these costs as impairment of exploration and evaluation assets.

8. EXPLORATION EXPENDITURES

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

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

Exploration expenditures for the year ended December 31, 2020 are comprised of the following:

	Plomosas	San Marcial	El Habal	Golconda	Boldt	Stone Cabin	Total
Assay	$ -	$ 14,096	$ -	$ -	$ -	$ -	$ 14,096
Concession taxes	92,459	27,953	82,015	10,583	16,349	14,814	244,173
Consulting	112,092	83,128	2,728	6,742	6,461	6,461	217,612
Drilling	547,114	181,830	-	-	-	-	728,944
Field	747,012	641,273	3,136	2,276	7,420	2,875	1,403,992
Geological	221,541	622,763	-	-	-	-	844,304
Geochemistry	81,765	67,441	599	-	-	-	149,805
Geophysical	10,013	-			-	-	10,013
Metallurgical	133,613	-	-	-	-	-	133,613
Report preparation	16,384	-	-	-	-	-	16,384
Survey	56,008	6,872	-	-	-	-	62,880
Topography	9,642	4,276	-	-	-	-	13,918
Underground development	30,420	484,937	-	-	-	-	515,356
Total	$ 2,058,063	$ 2,134,569	$ 88,478	$ 19,601	$ 30,230	$ 24,150	$ 4,355,090

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Trade payables	$ 1,569,655	$ 921,297
Accrued liabilities	96,000	40,000
	1,665,655	961,297
Mexico mining concessions taxes	12,844,788	-
	$ 14,510,443	$ 961,297

As part of the acquisition of Marlin (Note 7) the Company assumed liabilities for unpaid Mexican mining concession taxes of $11,963,059 for the years 2015 – 2020. During the year ended December 31, 2021, a portion of the concession taxes became statute barred and are no longer payable resulting in the Company incurring a gain on concession tax forgiveness of $584,421 (2020 – $Nil).

During fiscal 2021 the Company entered into an agreement to sell the El Salto and El Salto Sur non-core concessions within the La Trinidad Property in an arm's length transaction that will result in the vendor being responsible for $6,489,455 of the concession taxes owed upon completion of the transaction.

10. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the year ended December 31 was:

	2021	2020
Short-term benefits paid or accrued:		
Consulting fees	$ -	$ 500,958
Salaries	835,846	-
Director fees	103,750	-
Share-based compensation	930,743	727,738
Exploration expenditures	3,233	49,385
Professional fees	250,337	3,473
Total remuneration	$ 2,123,909	$ 1,281,554

Included in accounts payable and accrued liabilities as at December 31, 2021 was $74,862 (December 31, 2020 – $132,422) owed to directors and officers and a company controlled by a director.

During the year ended December 31, 2021, the Company issued 45,999 (December 31, 2020 - 60,396) common shares valued at $32,659 (December 31, 2020 - $50,733) as debt settlement with officers and a director of the Company.

(Expressed in Canadian Dollars)

11. RECLAMATION PROVISIONS

As at December 31, 2021 the Company's reclamation provisions are related to the Company's La Trinidad and Plomosas properties (Note 7). The provision was calculated using an inflation rate of 3.25% and a discount rate of approximately 3.03% with the assumption that the reclamation would be settled in the year ended 2025. Significant activities include land rehabilitation, demolition and removal and restoration costs. On March 31, 2021, the Company acquired the La Trinidad property (Note 7) and added a reclamation provision of $2,431,930 relating to the property reclamation and dismantling and removal of buildings, salvaged topsoil replacement and recontouring and grading. Mako is responsible for certain costs estimated at $1,246,610 which has been recorded as an indemnification asset. The amounts and timing of the reclamation will vary depending on several factors including exploration success and alternative mining plans.

		December 31, 2021		December 31, 2020
Balance as at beginning of year	$	215,461	$	-
Acquisition of the Plomosas property (Note 7)		-		210,691
Acquisition of the La Trinidad property (Note 7)		2,431,930		-
Accretion expense		6,527		4,770
Balance as at end of year	$	2,653,918	$	215,461

12. SHARE CAPITAL AND RESERVES

Authorized – Unlimited common shares without par value

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

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

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

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

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

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

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

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

During the year ended December 31, 2020, the Company;

a) Issued 7,148,149 common shares on the exercise of warrants for proceeds of $2,081,729 Additional share issue costs of $8,581 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

b) Issued 17,847,500 common shares for the acquisition of exploration and evaluation assets at a value of $3,131,575 (Note 7).

c) Completed a bought deal private placement of 33,900,000 units at a price of $0.27 per unit for gross proceeds of $9,153,000. Each Unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant ("Warrant") and each whole warrant is exercisable into one common share, of the Company at an exercise price of $0.40 per warrant to June 18, 2021. The Company paid cash finders fees of $636,660 and issued 2,358,000 agent warrants valued at $359,258. Each agent warrant is exercisable at an exercise price of $0.27 per agent warrant to June 18, 2021. Additional share issue costs of $233,776 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

d) Issued 925,000 common shares on the exercise of options for proceeds of $231,725. Additional share issue costs of $321 were incurred in connection with this financing, and was recorded as an offset to share capital, as share issue costs.

e) Issued 427,375 common shares valued at $358,995 as debt settlement including $55,468 to related parties, resulting in a loss on settlement of debt of $155,992. Additional share issue costs of $7,006 were incurred in connection with this debt settlement, and was recorded as an offset to share capital, as share issue costs.

Escrow Shares

As at December 31, 2021, there were no shares held in escrow.

Stock Options

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

(Expressed in Canadian Dollars)

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

As at December 31, 2021, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
1,186,534	$0.30	March 1, 2023	1.16
450,000	$0.30	May 7, 2023	1.35
1,090,000	$0.22	December 19, 2023	1.97
370,000	$0.21	August 8, 2024	2.60
217,000	$0.20	January 26, 2027	5.08
1,040,000	$0.185	November 27, 2024	2.90
300,000	$0.20	April 16, 2025	3.29
985,000	$0.335	May 13, 2025	3.37
1,010,000	$0.78	September 14, 2025	3.96
2,280,000	$0.74	January 21, 2026	4.06
200,000	$0.75	February 24, 2026	4.15
800,000	$0.71	May 13, 2026	4.37
155,000	$0.29	October 5, 2021	4.76
10,083,534			2.71

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2019	6,172,178	$ 0.24
Expired	(375,000)	0.20
Exercised	(925,000)	0.25
Granted	2,830,000	0.50
As at December 31, 2020	7,702,178	$ 0.33
Expired	(429,000)	0.67
Exercised	(849,644)	0.28
Granted	3,660,000	0.72
As at December 31, 2021	10,083,534	$ 0.46
Number of options currently exercisable	8,783,534	$ 0.42

During the year ended December 31, 2021, the Company recognized share-based payments expense of $1,532,335 (2020 - $1,049,075) in connection with the vesting of stock options granted.

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

(Expressed in Canadian Dollars)

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

	December 31, 2021	December 31, 2020
Risk-free interest rate	0.61%	0.40%
Expected life of options	5	5.00
Annualized volatility	100%	100%
Dividend rate	0%	0%

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2019	5,883,777	$ 0.24
Granted	19,308,000	0.38
Exercised	(7,148,149)	0.29
Expired	(358,141)	0.19
As at December 31, 2020	17,685,487	$ 0.38
Granted	11,240,888	0.72
Expired	(237,500)	0.40
Exercised	(16,153,000)	0.39
As at December 31, 2021	12,535,875	$ 0.67

The weighted average remaining contractual life of warrants outstanding at December 31, 2021 was 1.25 (December 31, 2020 – 0.55) years.

Warrants outstanding are as follows:

Number of Shares	Exercise Price	Expiry Date
304,987	$ 0.22	March 15,2022 (Note 18)
99,000	$ 0.15	June 24, 2022
891,000	$ 0.25	November 6, 2022
9,902,500	$ 0.74	April 27, 2023
1,338,388	$ 0.59	April 27, 2023
12,535,875		

The following weighted average assumptions were used in the Black-Scholes option pricing model to determine option or compensatory warrant grants:

	December 31, 2021	December 31, 2020
Expected life of warrants	2	1.00
Annualized volatility	100%	100%
Dividend rate	-	-
Discount rate	0.33%	1.50%

(Expressed in Canadian Dollars)

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

- issued 1,500,000 common shares for the acquisition of exploration and evaluation assets at a fair value of $933,000.
- issued 1,383,388 agent warrants with a fair value of $471,463 recorded as share issuance costs.
- issued 255,000 units valued at $150,000 recorded as share issue costs.
- reclassification of reserves in share capital of $402,552 on exercise of warrants and options.
- issued 187,096 common shares in settlement of debt in the amount of $142,714.
- deferred acquisition costs of $158,860 applied to property acquisition.
- assumed assets and liabilities as described in Note 7.

Significant non-cash transactions during the year ended December 31, 2020:

- issued 17,847,500 common shares for the acquisition of exploration and evaluation assets at a fair value of $3,131,575.
- incurred a reclamation provision of $210,691 and accretion expense of $4,770.
- issued 2,358,000 agent warrants with a fair value of $359,258 recorded as share issuance costs.
- reclassification of reserves in share capital of $381,158.
- issued 427,375 common shares in settlement of debt in the amount of $358,995 and incurred a loss on accounts payable of $155,992.
- incurred equipment costs of $115,810 included in accounts payable.
- assumed assets and liabilities as described in Note 7.

14. SEGMENTED INFORMATION

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

Geographic information is as follows:

	December 31, 2021	December 31, 2020
Equipment		
Mexico	$ 1,802,574	$ 1,160,035
Canada	4,621	6,602
Total	$ 1,807,195	$ 1,166,637
Exploration and evaluation assets		
Mexico	$ 19,777,764	$ 3,706,680
Total	$ 19,777,764	$ 3,706,680

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

Financial risk factors

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, receivables value added tax receivable and reclamation provision indemnification asset. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions. Credit risk with respect to value added taxes is considered to be low as they are due from a government agency. Value added taxes are subject to review and potential adjustment by taxation authorities. Indemnification asset is due from a publicly traded company.

Liquidity risk

As of December 31, 2021, the Company had cash balance of $3,077,796 to settle current liabilities of $14,510,444 and has significant expenditure requirements pursuant to Mexican concession taxes (Note 7 and 9). The Company is exposed to liquidity risk. Subsequent to December 31, 2021, the Company completed a private placement of special warrants for gross proceeds of $7,353,924 (Note 18). The funds raised are not sufficient to cover its current liabilities as of December 31, 2021, and additional financing will be required. Additional funds will be required for property expenditures, retention of essential personnel, general and administration and to maintain its listing on the TSX.V

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in foreign currency. Amounts exposed to foreign currency risk include cash of MX$5,506,629 as of December 31, 2021, and accounts payable of MX$226,715,977. A 10% change in foreign exchange rates will affect profit or loss by less than $1,392,000.

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

Price risk

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

Foreign jurisdiction risk

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

16. CAPITAL MANAGEMENT

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

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition and exploration of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

(Expressed in Canadian Dollars)

17. INCOME TAX

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

	2021	2020
Loss for the year	$ (18,197,243)	$ (8,743,671)
Expected income tax (recovery)	$ (4,913,000)	$ (2,361,000)
Change in statutory, foreign tax, foreign exchange rates and other	404,000	(1,157,000)
Permanent differences	496,000	478,000
Impact of acquisition	(22,051,000)	-
Share issue cost	(239,000)	(239,000)
Adjustments to prior years provision versus statutory tax returns	255,000	-
Change in unrecognized deductible temporary differences	26,048,000	3,279,000
Total income tax expense (recovery)	$ -	$ -
Current income tax	-	-
Deferred tax recovery	-	-

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

	2021	2020
Deferred Tax Assets (liabilities)		
Non-capital losses available for future periods	$ 25,257,000	$ 1,830,000
Property and equipment	68,000	558,000
Share issue costs	374,000	268,000
Asset retirement obligation	3,000	58,000
Exploration and evaluation assets	6,176,000	3,116,000
	31,878,000	5,830,000
Unrecognized deferred tax assets	(31,878,000)	(5,830,000)
Net deferred tax liability	$ -	$ -

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

Temporary Differences	December 31, 2021	Expiry dates	December 31, 2020	Expiry dates
Exploration and evaluation assets	$ 20,705,000	No expiry date	$ 10,526,000	No expiry date
Property plant and equipment	229,000	No expiry date	1,859,000	No expiry date
Share issue cost	1,384,000	2042 to 2045	994,000	2041 to 2044
Asset retirement obligation	11,000	No expiry date	215,000	No expiry date
Non-capital losses available for future years	87,216,000		6,667,000	
Canada	30,239,000	2032 - 2041	4,871,000	2032 - 2040
Mexico	56,977,000	2025 - 2031	1,796,000	2028 - 2030

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

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2021, the Company:

a) Granted 920,000 share purchase options to employees in its Mexican subsidiaries at an exercise price of $0.25 for a period of five years.

b) Issued 304,987 common shares on the exercise of warrants for proceeds of $67,097.

c) Had 355,000 share purchase options expired unexercised.

d) Announced debt settlement of 136,910 common shares valued at $33,543. All shares issued in connection with the debt settlement are subject to the approval of the TSX.V

e) Completed a private placement by issuing 27,236,755 special warrants (the "Special Warrants") at a price of $0.27 per Special Warrant for gross proceeds of $7,353,924. Each Special Warrant is exercisable for one unit of the Company comprised of one common share and one-half of one common share purchase warrant. Each whole warrant shall be exercisable to acquire one share at an exercise price of $0.37 per share to March 29, 2025. The Company paid cash finders fees of $442,931 and issued 1,566,410 special broker warrants, each of which is exercisable for one broker warrant at no additional cost to the holder thereof. Each broker warrant is exercisable for one common share until March 29, 2025, at an exercise price of $0.27 per share.

   The Special Warrants shall be automatically exercised, without any further action or payment of additional consideration by the holder thereof, on the date that is the earlier of: (i) the date that is five (5) business days following the date on which the Company obtains a receipt from the applicable securities regulatory authorities for a (final) short form prospectus ("Final Prospectus") qualifying distribution of the shares and warrants underlying the Special Warrants, and (ii) July 30, 2022.

   If the Company has not received a receipt from the applicable securities regulatory authorities for the Final Prospectus by June 7, 2022, each unexercised Special Warrant shall thereafter be exercisable for one Penalty Unit, with each Penalty Unit being comprised of one share and one full warrant (in place of one-half of one warrant).