Consolidated Financial Statements

December 31, 2022 and 2021

To the Shareholders of Minera Alamos Inc.:

Opinion

We have audited the consolidated financial statements of Minera Alamos Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022, December 31, 2021, and January 1, 2021, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2022 and December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, December 31, 2021, and January 1, 2021, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2022 and December 31, 2021, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 audits 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 is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company as of December 31, 2022 had an accumulated deficit. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Restated Comparative Information

We draw attention to note 4 to the consolidated financial statements, which explains that certain comparative information presented:

- For the year ended December 31, 2021 has been restated.
- As at January 1, 2021 has been derived from the consolidated statement of financial position as at December 31, 2020 (not presented herein).

Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Inventories and Cost of Sales

Key Audit Matter Description

As described in note 7 to the consolidated financial statements, the value of leach pad ore inventory amounted to $6,022,716 as at December 31, 2022 and the Company recorded cost of sales of $13,547,284 for the year ended December 31, 2022.

The determination of costs included in the leach pad ore inventory requires the use of management’s professional judgment to appropriately classify its costs of producing inventory. The recovery of gold from the ore is achieved through a heap leach process. Costs are added to leach pad ore based on current mining and processing costs, including applicable overhead, depletion, and depreciation relating to mining operations. Costs are removed from leach pad ore as ounces are recovered, based on the average cost per ounce of recoverable gold, to work-in-process inventory. The recognition of production costs and depletion and depreciation as part of the Company’s costs of sales requires the use of management’s estimates to calculate the proportion of inventory costs to be included on the statement of income (loss) and comprehensive income (loss) for the year.

We identified the valuation of leach pad ore inventory to be a key audit matter as a result of the risk of error due to sensitivity of management's key valuation assumptions within their model. Cost of sales were considered a key audit matter because it inventory valuation involves management judgment and directly impacts cost of sales.

Audit Response

We responded to this matter by performing procedures in relation to inventories and cost of sale. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained an understanding of the key controls over management's process in estimating the inventory volume on hand, costing, and determination of net realizable value.
- Assessed management's classification of costs allocated to inventory to determine if these costs have been correctly capitalized in accordance with IFRS.
- Verified that management's estimates of the recoverable reserves and depletion used in the calculation of inventory were reasonable by comparing the estimates to third party engineering reports, laboratory reports, and actual results.
- Evaluated the qualifications, competence, and objectivity of management's external experts who corroborated the estimates used in the determination of the recoverable reserves and depletion.

Asset Retirement Obligation

Key Audit Matter Description

As described in notes 4 and 14 to the consolidated financial statements, the Company has recorded a provision for asset retirement obligations of $491,217 as at December 31, 2022.

The calculation of this provision requires management to estimate the value and timing of future costs, discounted to present value using an appropriate discount rate. Management reviews the obligation at each reporting period date, using experts to provide support in the assessment where appropriate. This review incorporates the effects of any changes in management's anticipated approach to restoration of the site and any increase in the scope of restoration due to continued exploration activity during the year. This estimate required significant auditor attention, and accordingly, we have identified this as a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to asset retirement obligation. Our audit work in relation to this included, but was not restricted to, the following:

- Assessed the mathematical accuracy of management's calculation and assessed the appropriateness of the discount rate applied to calculate the net present value of the provision and compared the discount rate against market available data.
- Evaluated the qualifications, competence, and objectivity of management's external expert who produced the cost estimates.
- Assessed the appropriateness and accuracy of the rehabilitation model and changes in the estimate against the prior year calculation.
- Assessed management's process for review of the asset retirement obligation and tested key assumptions, including cost estimates used in the management's rehabilitation model.

Other Information

Management is responsible for the other information. The other information comprises 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 audits 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 audits 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 on this other information, 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 International Financial Reporting Standards, 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.

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

MNP LLP

Toronto, Ontario
May 1, 2023

Chartered Professional Accountants
Licensed Public Accountants

Minera Alamos Inc.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021 and January 1, 2021
***(*Expressed in Canadian dollars)**

	Notes	December 31, 2022	December 31, 2021 (Restated Note 2)	January 1, 2021
		$	$	$
Assets				
Current assets				
Cash and cash equivalents		**13,153,828**	7,042,790	19,910,084
Restricted cash		**30,781**	30,522	30,500
Marketable securities	6	**-**	2,336,400	3,532,800
Accounts receivable	16	**424,004**	1,040,965	270,231
Leach pad ore inventory	7	**6,022,716**	5,337,621	-
Work-in-process inventory	7	**2,789,558**	1,007,386	-
Supplies inventory	7	**335,051**	289,990	-
Prepaid and other		**2,668,761**	1,169,921	128,802
Taxes receivable		**2,155,551**	57,969	107,202
Total current assets		**27,580,249**	18,313,564	23,980,339
Taxes receivable		**5,707,040**	4,326,991	2,025,978
Mineral Properties and Property, Plant, and Equipment	8, 9	**19,995,503**	14,080,556	7,352,742
		53,282,792	36,721,111	33,359,059
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	16	**3,699,024**	3,979,235	1,326,361
Current portion of lease payable	10	**82,920**	68,778	101,385
Deferred revenue	7	**5,514,069**	-	-
Total current liabilities		**9,296,013**	4,048,013	1,427,746
Lease payable	10	**289,046**	371,966	-
Provision for Asset Retirement Obligation	14	**491,217**	48,400	48,400
		10,076,276	4,468,379	1,476,146
Shareholders' Equity				
Share capital	11	**104,863,540**	98,183,612	96,188,073
Contributed surplus		**3,769,713**	3,711,913	3,711,913
Options reserve	13	**2,944,704**	3,243,475	3,001,350
Cumulative translation adjustment		**(1,094,566)**	-	-
Deficit		**(67,276,875)**	(72,886,268)	(71,289,588)
		43,206,516	32,252,732	31,882,913
		53,282,792	36,721,111	33,359,059

Basis of Presentation and Going Concern (note 2)
Work-in-process inventory and deferred revenue (note 7)
Subsequent Event (note 19)

Approved by the Board:

Signed*: "Bruce Durham"*

Director

Signed: *"Darren Koningen"*

Director

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Notes	2022	2021 (Restated Note 4)
Revenues	4c	**21,726,211**	897,910
Cost of sales:			
Mining, processing, royalties		**13,074,958**	574,098
Depletion		**472,326**	18,478
		13,547,284	592,576
Gross Profit		**8,178,927**	305,334
Expenses			
Depreciation		**96,688**	55,054
Exploration and evaluation	8	**2,604,214**	1,486,089
Insurance		**81,612**	76,514
Interest on lease liability		**33,086**	6,549
Investor relations		**345,238**	227,254
Office and administration		**591,219**	541,298
Professional fees		**765,094**	386,258
Salaries and compensation	18	**1,453,147**	1,311,363
Share-based compensation	13, 18	**728,029**	912,815
Transfer agent regulatory fees		**118,095**	114,720
Travel		**165,138**	124,397
		6,981,560	5,242,311
Income (loss) from operations		**1,197,367**	(4,936,977)
Other Items			
FVTPL adjustment on marketable securities	6	**280,250**	(3,336,100)
Foreign exchange (gain) loss		**(4,586,351)**	235,001
Other income		**(105,925)**	(82,658)
		(4,412,026)	(3,183,757)
Net income (loss) for the year		**5,609,393**	(1,753,220)
Foreign currency translation		**(1,094,566)**	-
Net income (loss) and comprehensive income (loss) for the year		**4,412,026**	(1,753,220)
Net Income (loss) per share:			
Basic		**0.012**	(0.004)
Diluted		**0.012**	(0.004)
Weighted average number of common shares outstanding:			
Basic		**452,687,006**	443,304,374
Diluted		**461,431,280**	443,304,374

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

	Note	Share capital		Warrants reserve	Contributed surplus	Options reserve	Cummulative Translation Reserve	Deficit [1]	Total equity
		Number of shares	Amount						
Balance, January 1, 2021		**439,527,953**	**$ 96,188,073**	**$ 271,165**	**$ 3,711,913**	**$ 3,001,350**	**$ -**	**$ (71,289,588)**	**31,882,913**
Shares issued for mineral property	*12*	500,000	285,000	-	-	-	-	-	285,000
Options issued	*14*	-	-	-	-	912,815	-	-	912,815
Options exercised	*12, 14*	4,258,000	1,404,875	-	-	(670,690)	-	-	734,185
Warrants exercised	*12, 13*	1,910,400	305,664	(114,625)	-	-	-	-	191,039
Warrants expired	*13*	-	-	(156,540)	-	-	-	156,540	-
Net loss for the year		-	-	-	-	-	-	(1,753,220)	(1,753,220)
Balance, December 31, 2021		**446,196,353**	**$ 98,183,612**	**$ -**	**$ 3,711,913**	**$ 3,243,475**	**$ -**	$ (72,886,268)	**$ 32,252,732**
Balance, January 1, 2022		**446,196,353**	**$ 98,183,612**	**$ -**	**$ 3,711,913**	**$ 3,243,475**	**$ -**	**$ (72,886,268)**	**32,252,732**
Shares issued for mineral property	*11*	500,000	242,500	-	-	-		-	242,500
Shares issued	*11*	7,950,000	4,372,500	-	-	-		-	4,372,500
Share issue cost		-	(38,072)	-	-	-		-	(38,072)
Options issued	*13*	-	-	-	-	728,029		-	728,029
Options exercised	*13, 14*	7,237,500	2,103,000	-	-	(969,000)		-	1,134,000
Options expired	*13*	-	-	-	57,800	(57,800)		-	-
Net loss for the year		-	-	-	-	-	$ (1,094,566)	5,609,393	4,514,827
Balance, December 31, 2022		**461,883,853**	**$ 104,863,540**	**$ -**	**$ 3,769,713**	**$ 2,944,704**	**$ (1,094,566)**	**$ (67,276,875)**	**$ 43,206,516**

1. Deficit restated as at December 31, 2021

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	2022	2021 (Restated Note 4)
Cash flows from operating activities			
Net income (loss) for the year		**5,609,393**	(1,753,220)
Adjustments to reconcile net loss to net cash flows:			
Non-cash adjustments:			
Shares issued for property acquisition	11	**242,500**	285,000
Depreciation	9	**96,100**	155,477
Depletion		**472,326**	18,478
Interest on lease liability	10	**33,086**	6,549
Share-based compensation		**728,029**	912,815
FVTPL adjustment on marketable securities	6	**280,250**	(3,336,100)
Unrealized foreign exchange gain		**(4,766,835)**	-
		2,694,849	(3,711,001)
Changes in non-cash operating adjustments:			
Accounts receivable		**(135,096)**	(770,734)
Prepaid expenses		**(561,278)**	(1,041,119)
Inventory		**(1,483,521)**	(5,851,647)
Taxes receivable		**(2,782,385)**	(2,251,780)
Accounts payable and accrued liabilities		**(633,838)**	2,652,832
Deferred revenue		**5,514,069**	-
Net cash flows from (used in) operating activities		**2,612,800**	(10,973,449)
Cash flows from investing activities			
Acquisition of property plant and equipment	9	**(4,370,716)**	(7,242,128)
Proceeds on sale of marketable securities	6	**2,056,150**	4,532,500
Restricted cash		**-**	22
Net cash flows from (used in) investing activities		**(2,314,566)**	(2,709,606)
Cash flows from financing activities			
Issuance of common shares		**4,372,500**	-
Share issue costs		**(38,072)**	-
Lease payments	10	**(101,864)**	(110,183)
Exercise of options	12	**1,134,000**	734,185
Exercise of warrants		**-**	191,039
Net cash flows from financing activities		**5,366,564**	815,041
Effect of changes in foreign exchange		**446,240**	-
Net increase / (decrease) in cash and cash equivalents		**6,111,038**	(12,868,014)
Cash and cash equivalents, beginning of year		**7,042,790**	19,910,804
Cash and cash equivalents, end of year		**13,153,828**	7,042,790

Please see accompanying notes to the consolidated financial statements

1. GENERAL INFORMATION

Minera Alamos Inc. (the "Company") is a junior mining and exploration company engaged directly and indirectly through its subsidiaries in the acquisition, exploration, and development of mineral properties located in Mexico.

These consolidated financial statements include the accounts of the Company, its Mexican subsidiaries Minera Alamos de Sonora S.A. de C.V., Molibdeno Los Verdes S.A. de C.V., Cobre 4H S.A. de C.V., Minera Mirlos, S. de R.L. de C.V., and Corex Global S de RL de SV. The Company's head office is located at 55 York Street East, Suite 402, Toronto, Ontario, Canada, M5J 1R7.

2. BASIS OF PRESENTATION AND GOING CONCERN

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current development and exploration programs will result in profitable mining operations. This is dependent upon the discovery of economically recoverable reserves, the ability of the Company to raise financing, the achievement of profitable operations or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

These consolidated financial statements have been prepared on a basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue to do so is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations. There are no assurances that the Company will be successful in achieving these goals.

Although the Company has demonstrated positive cash flows during the current reporting period there is no guarantee that the Company won't incur further losses going forward as the Company pursues its exploration activities on its other properties. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

3. STATEMENT OF COMPLIANCE

These consolidated financial statements of the Company have been prepared in accordance with International Financial Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations set by the IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee, "IFRIC"). The Company has consistently applied the same accounting policies for all periods reported in these consolidated financial statements.

The policies applied in these consolidated financial statements are presented in Note 4 and are based on IFRS issued and outstanding as of December 31, 2022. The Board of Directors approved these consolidated financial statements on May 1, 2023.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of measurement

These consolidated financial statements are presented in Canadian dollars and are prepared on the historical cost basis, modified by the measurement at fair value of certain financial instruments.

b) Adoption of New Accounting Policy and Restated Comparative Information

During the first quarter of 2022, the Company adopted Amendments to International Accounting Standard ("IAS") 16, Property, Plant & Equipment, Proceeds Before Intended Use ("IAS 16"). The amended standard prohibits the Company from deducting any proceeds from selling items produced from the cost of building an item of mineral interest, plant, and equipment, while bringing that asset to be capable of operating in the manner intended by management. The Company adopted the accounting policy retrospectively with respect to applicable transactions occurring on or after the earliest period presented herein, being January 1, 2021. With the adoption of the amended standard, pre-commercial production sales of gold and silver produced and sold, and related costs while bringing a mine into a condition necessary for it to be capable of operating in the manner intended by management, are recognized in profit or loss in accordance with applicable standards to the extent those sales occurred on or after January 1, 2021. The entity measures the cost of those items applying the measurement requirements of IAS 2, Inventories ("IAS 2"). Prior to adoption of this amendment, all costs and proceeds from sale were capitalized to mineral properties and property, plant, and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Adoption of New Accounting Policy and Restatement (Continued)

	As previously presented, December 31, 2021	Effect of restatement	As restated, December 31, 2021
Statement of Financial Position			
Inventories	$ -	$ 6,634,997	$ 6,634,997
Mineral Properties and Property, Plant and Equipment	20,410,219	(6,329,663)	14,080,556
Total Assets	**36,415,777**	**305,334**	**36,721,111**
Retained Earnings	(73,191,602)	305,334	(72,886,268)
Total Shareholders' Equity	31,947,398	305,334	32,252,732
Total Liabilities and Shareholders' Equity	**$ 36,415,777**	**$ 305,334**	**$ 36,721,111**
Statement of Income (Loss) and Comprehensive Income (Loss)			
Revenue	$ -	$ 897,910	$ 897,910
Costs of sales	-	(592,576)	(592,576)
Net Loss and Comprehensive Loss for the year	**$ (2,058,554)**	**$ 305,334**	**$ (1,753,220)**
Statement of Cash Flows			
Net Loss and Comprehensive Loss for the year	$ (2,058,554)	$ 305,334	$ (1,753,220)
Depletion	-	18,478	18,478
Changes in inventory	-	(5,851,647)	(5,851,647)
Net cash flows from (used in) operating activities	**(5,445,614)**	**(5,527,835)**	**(10,973,449)**
Acquisition of property plant and equipment	(12,769,963)	5,527,835	(7,242,128)
Net cash flows from (used in) investing activities	**(8,237,441)**	**5,527,835**	**(2,709,606)**
Net increase / (decrease) in cash and cash equivalents	**$ (12,868,014)**	**$ -**	**$ (12,868,014)**

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue recognition

The Company earns revenue primarily from the sale of gold. Other metals, such as silver, produced as part of the extraction process are considered to be by-products arising from the production of gold. Revenue relating to the sale of metals is recognized when control of the metal is transferred to the customer in an amount that reflects the consideration the Company expects to receive in exchange for the metal.

When considering whether the Company has satisfied its performance obligation, it considers performance indicators of the transfer of control, which include, but are not limited to, whether the Company has a present right to payment; the customer has legal title to the metal; the Company has transferred physical possession of the metal to the customer; and the customer has the significant risks and rewards of ownership of the metal.

d) Inventory

The Company predominantly produces gold. The recovery of gold from the ore is achieved through a heap leach process. Costs are added to leach pad inventory based on current mining costs, including applicable overhead, depletion, and depreciation relating to mining operations. Costs are removed from leach pad inventory as ounces are recovered, based on the average cost per ounce of recoverable gold stacked and are carried as work-in-process inventory as the recovered gold undergoes the final stages of refinement. The costs of extracting the gold from the ore on the leach pads and refining the recovered gold are included in work-in-process inventory.

The value of all production inventories includes direct production costs and attributable overhead incurred to bring the materials to their current point in the processing cycle. All inventories are valued at the lower of cost and net realizable value, with net realizable value determined with reference to market prices, less estimated future production costs to convert inventories into saleable form. If carrying value exceeds 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 exists.

Quantities of gold ore are assessed primarily through surveys and assays. Certain estimates, including expected metal recoveries, are calculated using available industry, engineering, and scientific data, and are periodically reassessed, taking into account technical analysis and historical performance.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Share-based payment

The Company's share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as salary and compensation expense with a corresponding increase in equity. The fair value of the option grant is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in share-based payments reserve, is recorded as an increase in common shares.

f) Deferred taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in consolidated statement of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous year.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the consumption of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net income (loss) and comprehensive income (loss) or in equity depending on the item to which the adjustment relates.

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

g) New accounting standards and interpretations effective in future periods

IAS 1, Presentation of Financial Statements ("IAS 1") and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in January 2020 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could 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 are effective for annual reporting periods beginning on or after November 1, 2023. Earlier adoption is permitted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, Plant, and Equipment

Property, Plant, and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of property, plant, or equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Where an item of property, plant, and equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, are capitalized. The Company provides for depreciation of its equipment at the following annual rates:

Mineral property and project costs	-	Units of production based on mineral resource estimate
Mining equipment	-	5 to 10 years straight line basis
Office equipment	-	20% to 45% declining balance and 10 years straight line basis
Vehicles	-	30% declining balance and 4 years straight line basis
Leasehold improvements	-	Lesser of 5 years or lease term, straight line basis
Right-of-use assets	-	Lesser of expected useful life or the lease term (including expected renewal periods), straight line basis

(i) Mineral properties and exploration and evaluation costs

The Company expenses all costs relating to the acquisition of, exploration for, and development of mineral properties in the exploration stage. Such costs include, but are not limited to, geological, geophysical studies, exploratory drilling, and sampling.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized; this includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit. During the prior year, the Company changed its judgment of the stage of the project and prospectively, began to capitalize expenditures incurred on the Santana project.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) 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 pre-tax 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 the consolidated statement of income (loss) and comprehensive income (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. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount 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 consolidated statement of income (loss) and comprehensive income (loss).

k) Foreign currencies

The functional and presentation currency of the Company is the Canadian dollar and the functional currency of the Company's Mexican subsidiaries is the Mexican Peso.

Transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statements of income (loss) and comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Foreign currencies (continued)

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the end of the financial reporting period;
- Income, expenses, and cash flows are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange.

On January 1, 2022, commensurate with the significant increase in the Company's extraction operations, the Company re-evaluated the functional currency of its Mexican subsidiaries and determined that a change in their functional currency from Canadian dollars to Mexican pesos was appropriate. Accordingly, the Company recorded a translation adjustment on January 1, 2022, to reflect the impact of translating the Company's Mexican assets and liabilities into Canadian Dollars (the presentation currency) at the opening spot rate for the year.

l) Financial Instruments

The Company applies IFRS 9, Financial Instruments ("IFRS 9") for the recognition and measurement, impairment and de-recognition of financial instruments.

The Company determines the classification of its financial instruments at initial recognition.

Financial assets

i. Financial assets recorded at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or fair value through other comprehensive income ("FVOCI"). Gains or losses on these items are recognized in consolidated statement of income (loss) and comprehensive income (loss).

The Company's cash and cash equivalents, restricted cash, and marketable securities are classified as financial assets measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial Instruments (Continued)

ii. Amortized cost
Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest". Financial assets classified as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. The Company's accounts receivable are classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities measured at amortized cost, including borrowings, are measured at fair value, net of transaction cost. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis. The effective yield basis is a method of calculating the unamortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow payments over the expected life of the financial liability to the net carrying amount on initial recognition. The Company's accounts payable and accrued liabilities do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

Transaction costs

Transaction costs associated with financial instruments, carried at fair value through consolidated statement of income (loss) and comprehensive income (loss), are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in consolidated statement of income (loss) and comprehensive income (loss). Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial Instruments (Continued)

Derecognition of financial liability

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in consolidated statement of income (loss) and comprehensive income (loss).

Expected credit loss impairment model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

The Company recognizes expected credit loss for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Classification

The following table presents the classification of the Company's financial instruments:

Financial assets and liabilities	Classification
Cash	Amortized cost
Restricted cash	Amortized cost
Marketable securities	FVTPL
Accounts receivable, excluding HST receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The Company determines the classification of financial assets at initial recognition. The classification of its instruments is based on the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as fair value through profit and loss. 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 at fair value through other comprehensive income. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Leases

The Company applies IFRS 16, Leases ("IFRS 16") to assess whether a contract is, or contains, a lease at the inception of a contract. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether:

- the contract involves the use of an explicitly or implicitly identified asset;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract term; and
- the Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees and the exercise price of a purchase option reasonably certain to be exercised by the Company.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company presents right-of-use assets in the property, plant and equipment line item on the consolidated statement of financial position and lease liabilities in the lease payable line item on the consolidated statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and do not contain a purchase option or for leases related to low value assets. Lease payments on short-term leases and leases of low value assets are recognized as an expense in the consolidated statement of income (loss) and comprehensive income (loss).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit and short-term investments with remaining maturities of three months or less at time of acquisition. The Company does not hold any asset backed commercial paper.

o) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

p) Provisions

A provision is recognized in the consolidated statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Asset retirement obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against consolidated statement of income (loss) and comprehensive income (loss) over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

q) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Convertible instruments including stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive.

S) Segment reporting

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, mineral exploration, and two geographical segments, Canada and Mexico.

t) Deferred Stripping

In open pit mining operations, overburden and other waste materials must be removed to access ore from which minerals can be extracted economically. The process of removing overburden and waste materials is referred to as stripping. During the development of a mine (or, in some instances, a pit; see below), before production commences, stripping costs related to a component of an orebody are capitalized as part of the cost of construction of the mine (or pit) and are subsequently amortized over the life of the mine (or pit) on a units of production basis.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, initial stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping (i.e., overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping (see below).

The Company's judgment as to whether multiple pit mines are considered separate or integrated operations depends on each mine's specific circumstances.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Deferred Stripping (continued)

The following factors would point towards the initial stripping costs for the individual pits being accounted for separately:

- If mining of the second and subsequent pits is conducted consecutively following that of the first pit, rather than concurrently;
- If separate investment decisions are made to develop each pit, rather than a single investment decision being made at the outset;
- If the pits are operated as separate units in terms of mine planning and the sequencing of overburden removal and ore mining, rather than as an integrated unit;
- If expenditures for additional infrastructure to support the second and subsequent pits are relatively large; and
- If the pits extract ore from separate and distinct orebodies, rather than from a single orebody.

If the designs of the second and subsequent pits are significantly influenced by opportunities to optimize output from several pits combined, including the co-treatment or blending of the output from the pits, then this would point to treatment as an integrated operation for the purposes of accounting for initial stripping costs. The relative importance of each of the above factors is considered in each case.

In order for production phase stripping costs to qualify for capitalization as a stripping activity asset, three criteria must be met:

- It must be probable that there will be an economic benefit in a future accounting period because the stripping activity has improved access to the orebody;
- It must be possible to identify the “component” of the orebody for which access has been improved; and
- It must be possible to reliably measure the costs that relate to the stripping activity.

A “component” is a specific section of the orebody that is made more accessible by the stripping activity. It will typically be a subset of the larger orebody that is distinguished by a separate useful economic life (for example, a pushback).

Production phase stripping can give rise to two benefits: the extraction of ore in the current period and improved access to ore which will be extracted in future periods. When the cost of stripping which has a future benefit is not distinguishable from the cost of producing current inventories, the stripping cost is allocated to each of these activities based on a relevant production measure using a life-of-component strip ratio. The ratio divides the tonnage of waste mined for the component for the period either by the quantity of ore mined for the component or by the quantity of minerals contained in the ore mined for the component. In some operations, the quantity of ore is a more appropriate basis for allocating costs, particularly where there are significant by-products. Stripping costs for the component are deferred to the extent that the current period ratio exceeds the life of component ratio. The stripping activity asset is depreciated on a units of production basis based on expected production of either ore or minerals contained in the ore over the life of the component unless another method is more appropriate.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Deferred Stripping (continued)

The life-of-component ratios are based on the ore reserves of the mine (and for some mines, other mineral resources) and the annual mine plan; they are a function of the mine design and, therefore, changes to that design will generally result in changes to the ratios. Changes in other technical or economic parameters that impact the ore reserves (and for some mines, other mineral resources) may also have an impact on the life-of-component ratios even if they do not affect the mine design. Changes to the ratios are accounted for prospectively.

It may be the case that subsequent phases of stripping will access additional ore and that these subsequent phases are only possible after the first phase has taken place. Where applicable, the Company considers this on a mine-by-mine basis. Generally, the only ore attributed to the stripping activity asset for the purposes of calculating a life-of-component ratio, and for the purposes of amortization, is the ore to be extracted from the originally identified component.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both current and future periods.

Significant estimates and judgments about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions for the period in which such determination is made.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Asset retirement obligation

Asset retirement obligations have been created based on the estimated settlement amounts. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed quarterly and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to liability on a quarterly basis. Actual rehabilitation costs ultimately depend on actual future settlement amount for rehabilitation costs which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Deferral of stripping costs

Stripping of waste materials takes place throughout the production phase of a surface mine or pit. The identification of components within a mine and of the life of component strip ratios requires judgment and is dependent on an individual mine’s design and the estimates inherent within that. Changes to that design may introduce new components and/or change the life of component strip ratios. Changes in other technical or economic parameters that impact ore reserves may also have an impact on the life of component strip ratios, even if they do not affect the mine’s design. Changes to the life of component strip ratios are accounted for prospectively.

The Company’s judgment as to whether multiple pit mines are considered separate or integrated operations determines whether initial stripping of a pit is deemed to be pre-production or production phase stripping and, therefore, the amortization base for those costs. The analysis depends on each mine’s specific circumstances and requires judgment: another mining company could make a different judgment even when the fact pattern appears to be similar.

Mineral resources

Mineral reserves are estimates of the amount of minable ore that can be economically and legally extracted from the Company’s mining properties. The Company estimates its mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101, Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable resources is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves or resources. Changes in the mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Net investment in foreign operation

The Company has determined that the funding provided to its subsidiary Corex Global S de RL de SV, which is operating the Santana mine, is likely to be repaid in the foreseeable future. Accordingly, the unrealized foreign exchange gains or losses on these intercompany loans are recognized in income (loss).

6. MARKETABLE SECURITIES

In June, 2022, the Company sold 590,000 (December 31, 2021 – 1,250,000) common shares of Prime Mining Inc. ("Prime") (formerly ePower Corp.) for net proceeds of $2,056,150 (2021 - $4,532,500).

	Shares **$**
Fair Value Hierarchy	Level 1
Balance, December 31, 2020	3,532,800
Sale of shares	(4,532,500)
Fair value adjustments	3,336,100
Balance, December 31, 2021	2,336,400
Sale of shares	(2,056,150)
Fair value adjustments	(280,250)
Balance, December 31, 2022	**-**

7. DEFERRED REVENUE AND INVENTORIES

In late December 2022, the Company received $5,514,069 in exchange for the sale of gold which had been extracted from the leach pad and was undergoing further refinement. The proceeds are recorded in deferred revenue until the gold has been delivered, in full, to the customer. The carrying value of the respective inventory was $2,377,000 which is included in work-in-process inventory.

IAS 2 requires allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The following is a breakdown of items in inventory:

Inventory		**December 31, 2022**	December 31, 2021
Leach pad ore	**$**	**6,022,716**	5,337,621
Work-in-process		**2,789,558**	1,007,386
Supplies		**335,051**	289,990
Total	**$**	**9,147,324**	6,634,997

8. MINERAL PROPERTIES AND EXPLORATION EXPENSE

	For the years ended December 31,	
	2022	2021
	$	$
Santana, Mexico[(i)]	**-**	34,552
Cerro de Oro, Mexico	**2,073,686**	1,005,948
La Fortuna, Mexico	**295,828**	263,385
Los Verdes, Mexico	**184,708**	156,218
Other	**49,992**	25,986
Total	**2,604,214**	1,486,089

(i) All development costs incurred related to the project are capitalized.

Santana project, State of Sonora, Mexico

The Santana Property consists of nine mining claims and covers approximately 3,100 hectares and is located approximately 200 kilometers east-southeast of Hermosillo, Sonora, Mexico. Additionally, the Company holds a 100% interest in two contiguous mining concessions that cover approximately 350 hectares, referred to as Santa Lucia and Hilda 35 Fraccion 1, located in Sonora State, Mexico. The Hilda 35 Fraccion 1 is also subject to a 1% net smelter return royalty ("NSR").

During the year ended December 31, 2022, the Company continued the advancement of the ramp-up of mining operations towards commercial production levels.

Cerro de Oro, State of Sonora, Mexico

In September 2020 the Company finalized definitive option agreements through its subsidiary Minera Mirlos S. De R.L. DE C.V., and an arm's length party (the "Vendor") to acquire 100% of the Cerro de Oro project comprising the Zacatecas I and Zacatecas II concessions near Concepcion del Oro, Zacatecas, Mexico. The acquisition of the two core claims increases the Company's total claim holdings to approximately 6,500 ha in the Concepcion del Oro district which contains a significant gold prospect.

Upon completion of the option payments, the agreements convey 100% irrevocable ownership to the Company with no underlying royalties subject to meeting a schedule of payments. Failure by the Company to make any of the cash payments or share issuances would result in the property being returned to the vendors with no residual interest being retained by the Company.

The payment schedule is as follows:

Amount (USD)	Installment Due Date
400,000 cash + 2,000,000 shares[(b)]	Paid on Closing
300,000 cash[(a)] + 500,000 shares[(b)]	Paid in 2021
400,000 cash[(a)] + 500,000 shares[(b)]	Paid in 2022
800,000 cash[(a)] + 500,000 shares[(b)]	36 months from Closing
1,000,000 cash[(a)] + 500,000 shares[(b)]	48 months from Closing

8. MINERAL PROPERTIES AND EXPLORATION EXPENSE (Continued)

Cerro de Oro, State of Sonora, Mexico (Continued)

a) Installment payments will be in the form of cash. Alternately, should both parties agree a portion or the entire cash amount can be replaced with the issuance of an equivalent dollar value of shares. Shares, if issued, will be priced at the prior days closing on the TSX Venture Exchange (the “Exchange”), ending on the installment date listed in the table above and in accordance with the rules and requirements of securities laws and the Exchange.

b) The Company paid $400,000 USD on signing of this agreement and the Company issued 2,000,000 shares on September 17, 2020. The fair value of these shares was $1,440,000.

   The Company paid $300,000 USD and issued 500,000 shares on September 17, 2021. The fair value of these shares was $285,000.

   The Company paid $400,000 USD and issued 500,000 shares on August 4, 2022. The fair value of these shares was $242,500.

In addition to the earn-in commitments in the table above, a final bonus payment of $1,000,000 USD will be payable to the Vendor upon the production of 50,000 ounces of gold from the Cerro de Oro project.

La Fortuna project, State of Durango, Mexico

On May 4, 2016, the Company announced the completion of the acquisition, by its subsidiary Minera Alamos de Sonora S.A. de C.V., of 100% of the mineral claims known as the “La Fortuna” gold project located in the State of Durango, Mexico from Argonaut Gold Inc., consisting of 4 claims totaling 994 hectares.

In May 2017, additional rights and options were granted on La Fortuna in connection with a private placement. Osisko Gold Royalties (the “Subscriber”) and the Company entered into an investment agreement (the “Investment Agreement”).

On May 15, 2022, these rights and options under the Investment Agreement expired.

Los Verdes project, State of Sonora, Mexico

The Company holds a 100% interest in a mining property known as Los Verdes, a molybdenum-copper property located in the State of Sonora, Mexico. Included in the Los Verdes project is the Bacanora claim totaling 55 hectares acquired on January 31, 2007. Included in the consideration paid for the Bacanora claim is a 2% Net Smelter Royalty on the gross amount sold, less specific costs, of all or a portion of the ores or concentrate derived from the property. In 2012, the Company acquired title to the Potreritos molybdenum-copper deposit concessions in Sonora, Mexico. The property is situated approximately 2 km to the north of the Los Verdes property and referred to as the North Deposit. The Company is currently considering strategic alternatives for this project based on current industry/market expectations and a resizing of the planned operation.

9. MINERAL PROPERTIES AND PROPERTY PLANT and EQUIPMENT

Cost	Mineral Properties	Plant Equipment	Office Equipment	Vehicles	Right of Use Building	Total
Balance at January 1, 2021	7,141,112	79,838	165,799	161,172	296,037	7,843,958
Additions (disposals)	12,542,179	133,476	19,852	74,456	442,993	13,212,956
Restatement for adoption of IAS 16	(5,970,828)					(5,970,828)
Balance at December 31, 2021*	13,712,463	213,314	185,651	235,628	739,030	15,086,086
Effect of change in functional currency January 1, 2022	(92,436)	68,197	3,992	(31,759)	1	(52,005)
Change in provision asset retirement obligation	442,817	-	-	-	-	442,817
Additions	3,951,449	419,267	-	-	-	4,370,716
Effect of change in functional currency	1,882,727	924	11,579	13,362	-	1,908,592
Balance at December 31, 2022	19,897,020	701,702	201,222	217,231	739,031	**21,756,206**

Accumulated Depreciation and Depletion	Mineral Properties	Plant Equipment	Office Equipment	Vehicles	Right of Use Building	Total
Balance at Janaury 1, 2021	-	50,652	139,324	98,244	202,998	**491,218**
Depreciation		20,266	8,699	26,089	100,423	**155,477**
Depletion	358,835					**358,835**
Balance at December 31, 2021	358,835	70,918	148,023	124,333	303,421	**1,005,530**
Effect of change in functional currency January 1, 2022	-	(9,589)	10,471	(31,022)		**(30,140)**
Depreciation	-	44,598	13,463	38,039	88,600	**184,700**
Depletion	600,613	-	-	-	-	**600,613**
Balance at December 31, 2022	959,448	105,927	171,957	131,350	392,021	**1,760,703**

Carrying amounts						
Balance at January 1, 2021	7,141,112	29,186	26,475	62,928	93,039	**7,352,740**
Balance at December 31, 2021	13,353,628	142,396	37,628	111,295	435,609	**14,080,556**
Balance at December 31, 2022	**18,937,572**	**595,775**	**29,265**	**85,881**	**347,010**	**19,995,503**

(i) Depreciation related to the right-of-use asset is included in office and administration expense.

10. LEASE PAYABLE

Maturity Analysis – contractual undiscounted cash flows	**December 31, 2022 $**	December 31 2021 $
Less than one year	**101,864**	101,864
Remaining life	**331,544**	433,408
Total undiscounted lease liabilities	**433,408**	535,272
Effect of discounting	**(61,442)**	(94,528)
Present value of lease payments	**371,966**	440,744
Less current portion	**82,920**	(68,778)
Long-term lease liabilities	**289,046**	371,966

The following table summarizes the lease activity:

	December 31, 2022 $	December 31 2021 $
Balance, beginning of year	**440,744**	101,385
Additions	**-**	442,993
Accretion	**33,086**	6,549
Lease payments	**(101,864)**	(110,183)
Balance, end of year	**371,966**	440,744

11. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized – unlimited number of common shares without par value
Issued and outstanding – 461,883,853 at December 31, 2022, and 446,196,353 at December 31, 2021.

(b) Transactions

(i) On September 17, 2021, the Company issued 500,000 common shares in relation to the Cerro de Oro Project acquisition agreement. The fair value of the shares issued was $285,000 (see note 8).

(ii) On July 15, 2022, the Company issued 7,950,000 common shares of the Company at a price of $0.55 per common share for gross proceeds of $4,372,500.

(iii) On August 4, 2022, the Company issued 500,000 common shares in relation to the Cerro de Oro Project acquisition agreement. The fair value of the shares issued was $242,500 (see note 8).

(iv) During the year ended December 31, 2022, 7,237,500 stock options to acquire common shares at an average price of $0.16 were exercised for gross value of $1,134,000.

12. WARRANTS

A summary of warrant activity during the years ended December 31, 2022 and 2021, is as follows:

	December 31, 2022		December 31, 2021	
	Number of Warrants #	Average Exercise Price $	Number of Warrants #	Average Exercise Price $
Outstanding, beginning of period	-	-	2,621,948	0.24
Exercised (see note 12)	-	-	(1,910,400)	0.10
Expired	-	-	(711,548)	0.63
Outstanding, end of period	-	-	-	-

13. SHARE-BASED PAYMENTS – STOCK OPTION PLAN

The Company has a stock option plan (the "Plan") available to its employees, officers, directors and consultants which has been approved as amended by the shareholders on January 13, 2022. The number of common shares is limited to 10% of the Company's issued and outstanding shares.

During the year ended December 31, 2022, the Company did not issue any stock options (December 31, 2021 – 7,750,000). The grant date fair value of the stock options granted will be recognized as the options achieve the vesting requirements.

At December 31, 2022, the following options were outstanding and available to be exercised:

Grant Date	Number of Stock Options	Exercise Price	Expiration	Remaining Years	Grant Date Fair Value	Number Exercisable Stock Options
October 24, 2018	842,000	$0.15	October 24, 2023	0.81	$0.08	842,000
July 30, 2019	7,650,000	$0.16	July 30, 2024	1.54	$0.09	7,650,000
July 14, 2020	700,000	$0.54	July 14, 2025	2.54	$0.38	700,000
August 10, 2020	600,000	$0.67	August 10, 2025	2.61	$0.47	600,000
March 18, 2021*	7,250,000	$0.72	March 18, 2026	3.21	$0.44	-
July 26, 2021*	500,000	$0.72	July 26, 2026	3.58	$0.36	-
	17,542,000	$0.44		2.33		9,792,000

*Grant date fair value will be recognized as the vesting conditions are met.

13. SHARE-BASED PAYMENTS – STOCK OPTION PLAN (Continued)

A summary of stock option activity during the years ended December 31, 2022, and 2021, is as follows:

	December 31, 2022		December 31, 2021	
	Number of Stock Options #	**Average Exercise Price $**	Number of Stock Options #	Average Exercise Price $
Outstanding beginning of year	**25,219,500**	**0.35**	21,727,500	0.21
Granted	**-**	**-**	7,750,000	0.72
Expired	**(440,000)**	**0.15**	-	-
Exercised	**(7,237,500)**	**0.16**	(4,258,000)	0.16
Outstanding end of year	**17,542,000**	**0.44**	25,219,500	0.35

14. PROVISION FOR ASSET RETIREMENT OBLIGATION

The decommissioning liability is estimated based on the timing of costs to be incurred in future years. The Company made the following changes to its decommissioning liability:

	$
Opening January 1, 2021	48,400
Accretion	-
Closing December 31, 2021	48,400
Change in estimate	442,817
Accretion	-
Closing December 31, 2022	491,217

The provision for site reclamation and closure consists of mine closure costs, reclamation and retirement obligations for mine facilities and infrastructure.

The present value of the Santana Project future rehabilitation liability was estimated at $491,217 as at December 31, 2022 (December 31, 2021 – $48,400).

As at December 31, 2022, estimates include inflation rate of 7.86% and a discount rate of 10.5%.

15. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory tax rate of 26.5% (2021 – 26.5%) to the effective tax rate is as follows:

	2022	2021
	$	$
Net income (loss) before recovery of income taxes	**5,609,393**	(1,753,220)
Expected income tax (recovery) expense	**1,486,490**	(464,600)
Tax rate changes and other adjustments	**278,130**	11,000
Non-deductible expenses	**190,210**	228,760
Adjustments in respect of prior periods	**(2,365,240)**	-
Non-taxable portion of FVTPL adjustments on marketable securities	**-**	(442,030)
Share-based compensation	**192,930**	238,870
Change in tax benefits not realized	**217,480**	428,000
Income tax recovery	**-**	-

Deferred Tax

The following table summarizes the components of deferred tax:

	2022	2021
	$	$
Deferred Tax Assets		
Capital lease obligation	**98,570**	115,440
Reserves	**666,580**	-
Operating tax losses carried forward – Mexico	**372,890**	-
Operating tax losses carried forward – Canada	**184,090**	373,160
Subtotal of Assets	**1,322,130**	488,600
Deferred Tax Liabilities		
Mineral Properties & Property, plant & equipment	**(1,156,970)**	(82,740)
Marketable securities	**-**	(290,420)
Foreign exchange	**(165,160)**	-
ROU Assets	**-**	(115,440)
Subtotal of Liabilities	**(1,322,130)**	(488,600)
Net deferred tax liability	-	-

Deferred tax assets and liabilities have been offset where they related to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

15. INCOME TAXES (Continued)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2022	2021
	$	$
Property, plant and equipment and intangibles	**-**	170,640
Capital lease obligation	**-**	5,130
Share issuance costs	**734,930**	1,275,550
Reserves	**3,293,500**	138,000
Operating tax losses carried forward – Canada	**26,898,150**	24,509,780
Operating tax losses carried forward – Mexico	**5,795,320**	9,610,160
Mineral properties & Property, plant & equipment	**11,329,050**	10,867,790
	48,050,950	46,577,055

The Canadian operating tax losses carry forward expire as noted in the table below. The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

15. INCOME TAXES (Continued)

The Company's Canadian operating tax losses expire as follows:

	Canada	Mexico
Year		
2023	-	738,330
2024	-	148,560
2025	-	246,910
2026	-	1,075,600
2027	907,270	-
2028	2,039,590	210,260
2029	1,790,060	540,520
2030	1,812,000	726,660
2031	2,208,490	1,954,320
2032	1,839,110	-
2033	1,613,170	-
2034	1,390,230	-
2035	1,084,010	-
2036	2,532,990	-
2037	3,044,840	-
2038	3,028,390	-
2039	2,110,040	-
2040	73,420	-
2041	144,580	-
2042	1,279,960	-
	26,898,150	5,795,320

16. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

(a) Credit risk management

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing to the Company. Management's assessment of the Company's credit risk is low as it is primarily attributable to funds held in Canadian banks, sales tax recoverable from the federal government of Canada and value added tax recoverable from the government of Mexico, where taxes are included in amounts receivable.

The maximum credit risk exposure of the financial assets is their carrying value.

16. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable of the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interest. The Company intends on fulfilling its obligations.

As of December 31, 2022, the Company had a cash and cash equivalents balance of 13,153,828 and other current assets of $14,426,421 (December 31, 2021 – $7,042,790 and $11,270,774 respectively) to settle current accounts payable, accrued liabilities of $3,699,024 (December 31, 2021 – $4,048,013).

The following table details the Company's anticipated repayment schedule for its financial liabilities as at December 31, 2022:

	Contractual cash flows $	Less than 1 year $	1 -3 years $	4 – 5 years $	After 5 years $
Accounts payable	3,699,024	3,699,024	-	-	-
Lease payable	433,408	101,864	305,592	25,952	-
	4,132,432	**3,800,888**	**305,592**	**25,952**	**-**

© Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

Price risk

The Company is exposed to price risk with respect to commodity prices as the Company earns revenue from the sale of gold at market prices.

Sensitivity analysis

Based on managem'nt's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

A 10% change in the price of gold during the year would have resulted in a change in the value of revenue recognized by approximately $2,100,000 (2021 – $800,000).

16. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Foreign exchange risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures in US dollars. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

Sensitivity analysis

Based on managem’nt's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

As at December 31, 2022, the Company has monetary assets denominated in US dollars of approximately USD $5,850,000 (2021 – USD $12,000). A 10% change in the value of the US dollar relative to the functional currency of the respective entity would result in a corresponding change in net income of approximately $800,000 (2021 – $1,000).

Additionally, the Company has intercompany loans that do not form part of its net investment in foreign operations (see note 5). A 10% change between the Canadian dollar and the Mexican Peso would result in unrealized foreign exchange gains or losses of approximately $5,000,000.

(d) Fair values

Financial assets include cash and cash equivalents, restricted cash, marketable securities, and accounts receivable. Financial liabilities include accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities is considered representative of their respective fair values due the to the short-term period to maturity.

IFRS 13, Fair value measurement (“IFRS 13”) establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – valuation based on quotes prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents, restricted cash, and marketable securities (shares) are classified as Level 1 and marketable securities (warrants) were classified as Level 3.

17. CAPITAL RISK MANAGEMENT

The Company's objectives for managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to add value to its projects, acquire additional projects with potential for resources and provide returns for shareholders;

- to provide an adequate return to shareholders by increasing the value of underlying assets through exploration and development of economic resources; and

- to generate an adequate return to shareholders by constructing and operating economically viable mineral deposits.

The Company considers its capital structure to consist of capital stock and contributed surplus. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration, development and operation of mineral properties; in relation to the risk it faces; and in consideration of changes in economic conditions. 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. In order to maintain or adjust the capital structure, the Company may issue new shares, undertake debt, sell its ownership or an interest in its assets or joint venture its projects.

The Company has interest in properties in both, development and exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There are no externally imposed capital requirements for the Company.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or 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.

There were no changes in the Company's approach to capital management during the year ended December 31, 2022.

18. RELATED PARTY TRANSACTIONS AND BALANCES

Details of transactions between the Company and other related parties are disclosed below.

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company for the years ended December 31, 2022 and 2021 was as follows:

	2022 $	2021 $
Aggregate compensation	490,000	459,000
Stock-based compensation	403,939	489,988
	893,939	948,988

Included in accounts payable and accrued liabilities at December 31, 2022, payable to key management of the Company was $135,600 (December 31, 2021 – $246,706) in relation to outstanding compensation.

Included in accounts receivable as at December 31, 2022, is an amount of $281,837 (December 31, 2021 – $245,600) due from key management of the Company.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company granted 2,250,000 stock options to acquire common shares at a price of $0.51 per share and 6,900,000 stock options to acquire common shares at a price of $0.45. The shares are for five years and vest 50% on the first anniversary and 50% on the second anniversary of the grant date.