



Condensed Interim Consolidated Financial Statements

March 31, 2022 and 2021

(Unaudited)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Minera Alamos Inc. ("Minera Alamos" or the "Company") are the responsibility of management and the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Minera Alamos Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

		March 31, 2022	Restated (Note 2) December 31, 2021
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents		6,106,610	7,042,790
Restricted cash		30,597	30,522
Marketable securities	5	2,070,900	2,336,400
Accounts receivable	16	1,194,450	1,040,965
Inventories	6	8,418,221	6,789,645
Prepaid and other		941,634	1,169,921
Taxes receivable		710,469	57,969
		19,472,881	18,468,212
Taxes receivable		4,442,350	4,326,991
Mineral Properties and Property, Plant and Equipment	7	14,659,760	14,086,358
		38,574,991	36,881,561
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	3,938,885	3,979,235
Current portion of lease payable	9	77,976	68,778
		4,016,861	4,048,013
Lease payable	9	351,770	371,966
Provision for Asset Retirement Obligation	13	137,352	48,400
		4,505,983	4,468,379
Shareholders' Equity			
Share capital	10	98,744,608	98,183,612
Contributed surplus		3,711,913	3,711,913
Options reserve	12	3,270,452	3,243,475
Warrants reserve	11	-	-
Deficit		(71,657,965)	(72,725,818)
		34,151,398	32,413,182
		38,574,991	36,881,561

Basis of Presentation and Going Concern (note 2)
Subsequent Event (note 17)

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)
(Expressed in Canadian dollars)

	Notes	For the three months ended March 31,	
		2022	2021
Revenues		5,160,026	-
Expenses			
Cost of sales (production, processing, royalty)		2,255,305	-
Depreciation	8	19,528	10,589
Exploration and evaluation, net of recoveries	7	325,937	246,233
Insurance		19,825	12,310
Interest on lease liability	9	8,714	1,674
Investor relations		57,538	32,331
Office and administration		163,823	143,521
Professional fees		116,639	150,785
Salaries and compensation	16	278,672	325,839
Share-based compensation	12	295,477	3,190,000
Transfer agent and regulatory fees		40,632	39,257
Travel		48,809	14,200
		3,630,898	4,166,739
Income (loss) from operations		1,529,128	(4,166,739)
Other Items			
FVTPL adjustment on marketable securities	5	265,500	(1,514,400)
Foreign exchange loss		196,450	180,158
Other income		674	(42,145)
		461,276	(1,376,387)
Net income (loss) and comprehensive income (loss) for the period		1,067,853	(2,790,352)
Net Income (loss) per share:			
Basic and Diluted		0.002	(0.01)
Weighted average number of common shares outstanding:			
Basic		444,435,207	439,685,603
Diluted		444,435,207	439,685,603

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Note	Share Capital		Warrants reserve	Contributed surplus	Options reserve	Deficit	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		-	-	-	-	-	-	-
Shares issued on private placements		-	-	-	-	-	-	-
Share issue costs		-	-	-	-	-	-	-
Options issued	12	-	-	-	-	3,190,000	-	3,190,000
Options exercised	10, 12	100,000	23,000	-	-	(8,000)	-	15,000
Warrants issued		-	-	-	-	-	-	-
Warrants exercised	10, 11	1,910,400	305,664	(114,624)	-	-	-	191,040
Warrants expired		-	-	-	-	-	-	-
Net loss for the period		-	-	-	-	-	(2,790,352)	(2,790,352)
Balance, March 31, 2021		441,538,353	96,516,737	156,541	3,711,913	6,183,350	(74,079,940)	32,488,601
Balance, January 1, 2022		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		-	-	-	-	-	-	-
Options issued	12	-	-	-	-	295,477	-	295,477
Options exercised	10, 12	2,287,500	560,996	-	-	(268,500)	-	292,496
Warrants exercised		-	-	-	-	-	-	-
Warrants expired		-	-	-	-	-	-	-
Net loss for the period		-	-	-	-	-	1,167,853	1,067,853
Balance, March 31, 2022		448,483,853	98,744,608	-	3,711,913	3,270,452	(71,575,575)	34,069,008

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Notes	For the three months ended	
		2022	2021
		\$	\$
Cash flows from operating activities			
Net income (loss) for the period		1,067,853	(2,790,352)
Adjustments to reconcile net loss to net cash flows:			
Non-cash adjustments:			
Depreciation	8	41,678	35,698
Interest on lease liability	9	8,714	1,674
Share based compensation		295,477	3,190,000
FVTPL adjustment on marketable securities	5	265,500	(1,514,400)
		1,679,222	(1,077,380)
Changes in non-cash operating adjustments:			
Accounts receivable		(153,485)	121,989
Prepaid expenses		228,287	(26,418)
Inventory		(1,628,576)	-
Taxes receivable		(767,859)	(473,138)
Accounts payable and accrued liabilities		(39,866)	(234,038)
Net cash flows (used in) operating activities		(682,278)	(1,688,985)
Cash flows from investing activities			
Acquisition of property plant and equipment	8	(526,128)	(2,066,066)
Proceeds on sale of marketable securities		-	547,500
Restricted cash		75	22
Net cash flows from (used in) investing activities		(526,053)	(1,518,544)
Cash flows from financing activities			
Lease payments		(20,345)	(28,640)
Exercise of options	12	292,496	21,000
Exercise of warrants		-	185,040
Net cash flows from financing activities		272,151	177,400
Net (decrease) / increase in cash and cash equivalents		(936,180)	(3,030,129)
Cash and cash equivalents, beginning of period		7,042,790	19,910,804
Cash and cash equivalents, end of period		6,106,610	16,880,675

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the period ended March 31, 2022 and 2021

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 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 condensed interim 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.

As at March 31, 2022, the Company had negative cash flows from operations, an accumulated deficit, and expects to incur further losses. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These condensed interim 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.

The global outbreak of COVID-19 (coronavirus), has had a significant impact on businesses through restrictions put in place by the Canadian and Mexican governments regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and quarantine/isolation measures that are currently, or may be put, in place by Canada, Mexico and other countries to fight the virus. While the extent of the impact is unknown, we anticipate that this outbreak may cause supply chain disruptions, staff shortages and increased government regulations, all of which may negatively impact the Company’s business and financial condition.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021. Subject to certain transition elections disclosed below, the Company has consistently applied the same accounting policies in the opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 30, 2022, the date the Board of Directors approved these condensed interim consolidated financial statements.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2021 except as noted and clarified below.

b) Adoption of New Accounting Policy and Restatement

During the first quarter of 2022, the Company adopted Amendments to International Accounting Standard (“IAS”) 16, Property, Plant & Equipment, Proceeds Before Intended Use. 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”.

There is no impact of this adoption on the comparative financial information presented for the March 31, 2021.

		Amount previously disclosed for the year ended December 31, 2021		Effect of adoption of an amendment to IAS 16 at		Restated balance for the year ended December 31, 2021 following the adoption of IAS 16 Amendments
Inventories	\$	-	\$	6,789,645	\$	6,789,645
Mineral Properties and Property, Plant and Equipment		20,410,219		(6,323,861)		14,086,358
Retained Earnings		(73,191,602)		465,784		(72,725,818)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue recognition

Revenue from the sale of gold is measured based on the agreed gold price related to the spot gold price specified in a contract with a customer. The Company recognizes revenue when the Company transfers control of its gold over to a customer, either in the form of refined gold or gold doré bars, and no further performance obligation is required from the Company.

d) Inventory

Inventory classifications include ore in process, finished goods inventory and supplies. 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. General and administrative costs for the corporate office are not included in any inventories. 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.

e) 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.

(f) 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, or 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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, Plant, and Equipment (continued)

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

(g) 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 and it credits all revenues received against the exploration expenditures. 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 their judgement of the stage of the project and prospectively, began to capitalize expenditures incurred on the Santana project.

(h) Provisions

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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed interim consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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.

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.

Minera Alamos Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the period ended March 31, 2022 and 2021

5. MARKETABLE SECURITIES

The Company holds 590,000 (December 31, 2021 - 590,000) common shares of Prime Mining Inc. (“Prime”) (formerly ePower Corp.) pursuant to an option agreement. The Prime shares are valued at \$2,070,900 as at March 31, 2022 (December 31, 2021 - \$2,336,400) based on their quoted market price. (See *Subsequent Events Note*)

	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	-
Fair value adjustments	(265,500)
Balance, March 31, 2022	2,070,900

6. INVENTORIES

Inventory consists of ore in process, finished goods and supplies consumed during the course of exploration, development and production from its operations. 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:

	March 31, 2022	December 31, 2021
Leach pad ore	\$ 6,732,919	\$ 5,495,875
Finished metal inventory	1,351,613	1,004,144
Supplies	333,659	289,626
Total	\$ 8,418,221	\$ 6,789,645

7. MINERAL PROPERTIES AND EXPLORATION EXPENSE

	For the three months ended March 31,	
	2022	2021
	\$	\$
Santana, Mexico ⁽ⁱ⁾	-	10,869
Cerro de Oro, Mexico	137,386	72,824
La Fortuna, Mexico	72,956	60,605
Los Verdes, Mexico	93,922	83,075
Other	21,673	18,860
Total	325,937	246,233

(i) Subsequent to June 30, 2020 all development costs incurred related to the project are capitalized.

7. MINERAL PROPERTIES AND EXPLORATION EXPENSE (Continued)

Santana project, State of Sonora, Mexico

The Santana Property consists of 9 mining claims and covers approximately 3,100 hectares and is located approximately 200 kilometres 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, pursuant to two property option agreements dated December 11, 2007, and amending agreement dated January 20, 2012, between the Company and private vendors. The Hilda 35 Fraccion 1 is also subject to a 2% net smelter return royalty (“NSR”).

During the period ended March 31, 2022, the Santana Project remained in the development stage. During the period ended March 31, 2022, the Company continued the advancement of the ramp-up 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)	24 months from Closing
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

7. MINERAL PROPERTIES AND EXPLORATION EXPENSE (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.

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 (see note 12 (iii)).

The Company paid \$300,000 USD and issued 500,000 shares on September 17, 2021. The fair value of these shares was \$285,000. (See note 12 (vi)).

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 of 100% of the mineral claims known as the "La Fortuna" gold project located in the State of Durango, Mexico from Argonaut Gold Inc. and its wholly owned subsidiary Durango Fern Mines, S.A. de C.V., 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") which provides for the following:

- *Royalty Option:* The Subscriber will be granted an option to purchase up to a 4.0% NSR in the La Fortuna Property for total consideration of \$9 million. The Company has extended the option period of the La Fortuna royalty agreement until May 15, 2022.
- *Royalty/Stream Right:* As long as the Subscriber holds common shares equal to at least 10% of the issued and outstanding common shares of the Company, on a non-diluted basis, the Subscriber will have a participation right on any and all royalties, streams, or similar interests granted on properties belonging to the Company.
- *Additional Rights:* The Subscriber has (i) the right to participate in half of any buybacks of existing La Fortuna royalties, and (ii) the right to acquire a 2.0% NSR on any property acquired within a 250-km radius of La Fortuna.

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7. MINERAL PROPERTIES AND EXPLORATION EXPENSE (Continued)

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 totalling 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.

8. MINERAL PROPERTIES AND PROPERTY PLANT and EQUIPMENT

Cost	Mining Equipment	Construction in progress	Office Equipment	Vehicles	Right of Use Building	Total
Balance at January 1, 2021	5,938,370	1,282,580	165,799	161,172	296,037	7,843,958
Additions (disposals)	5,345,896	1,005,898	19,852	74,456	442,993	6,889,095
Balance at December 31, 2021	11,284,266	2,288,478	185,651	235,628	739,030	14,733,053
Additions (disposals)	41,263	570,267	3,550	-	-	615,080
Balance at March 31, 2022	\$ 11,325,529	\$ 2,858,745	\$ 189,201	\$ 235,628	\$ 739,030	\$ 15,348,133

Accumulated Depreciation	Mining Equipment	Construction in progress	Office Equipment	Vehicles	Right of Use Building	Total
Balance at January 1, 2021	50,652	-	139,324	98,244	202,998	491,218
Additions (disposals)	20,266	-	8,699	26,089	100,423	155,477
Balance at December 31, 2021	70,918	-	148,023	124,333	303,421	646,695
Additions	6,607	-	3,238	9,683	22,150	41,678
Balance at March 31, 2022	\$ 77,525	\$ -	\$ 151,261	\$ 134,016	\$ 325,571	\$ 688,373

Carrying amounts

Balance at January 1, 2021	\$ 5,887,718	\$ 1,282,580	\$ 26,475	\$ 62,928	\$ 93,039	\$ 7,352,740
Balance at December 31, 2021	\$ 11,213,348	\$ 2,288,478	\$ 37,628	\$ 111,295	\$ 435,609	\$ 14,086,358
Balance at March 31, 2022	\$ 11,248,004	\$ 2,858,745	\$ 37,940	\$ 101,612	\$ 413,459	\$ 14,659,760

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

9. LEASE PAYABLE

	March 31, 2022	December 31, 2021
Maturity Analysis – contractual undiscounted cash flows	\$	\$
Less than one year	79,653	101,864
Remaining life	435,907	433,408
Total undiscounted lease liabilities	515,560	535,272
Effect of discounting	(85,814)	(94,528)
Present value of lease payments	429,746	440,744
Less current portion	(77,976)	(68,778)
Long-term lease liabilities	351,770	371,966

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9. LEASE PAYABLE (Continued)

The following table summarizes the lease activity:

	March 31, 2022 \$	December 31, 2021 \$
Balance, beginning of year	440,744	101,385
Additions	-	442,993
Accretion	8,714	6,549
Lease payments	(19,712)	(110,183)
Balance, end of year	429,746	440,744

10. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized - unlimited number of common shares without par value

Issued and outstanding – 448,483,853 at March 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) During the period ended March 31, 2022, 2,287,500 stock options to acquire common shares at an average price of \$0.13 were exercised for gross value of \$292,496.

11. WARRANTS

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

	March 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
Granted (see note 12)	-	-	-	-
Exercised (see note 12)	-	-	(1,910,400)	0.10
Expired	-	-	(711,548)	0.63
Outstanding, end of period	-	-	-	-

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12. 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 period ended March 31, 2022, the Company issued 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 March 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
June 28, 2017	750,000	\$0.17	June 28, 2022	0.24	\$0.15	750,000
October 26, 2017	190,000	\$0.13	October 26, 2022	0.57	\$0.12	190,000
December 7, 2017	4,450,000	\$0.17	December 7, 2022	0.69	\$0.14	4,450,000
October 24, 2018	842,000	\$0.15	October 24, 2023	1.57	\$0.08	842,000
July 30, 2019	7,650,000	\$0.16	July 30, 2024	2.33	\$0.09	7,650,000
July 14, 2020	700,000	\$0.54	July 14, 2025	3.29	\$0.38	700,000
August 10, 2020	600,000	\$0.67	August 10, 2025	3.36	\$0.47	600,000
March 18, 2021*	7,250,000	\$0.72	March 18, 2026	3.92	\$0.44	-
July 26, 2021*	500,000	\$0.72	July 26, 2026	4.33	\$0.36	-
	22,932,000	\$0.38		2.50		15,182,000

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

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

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

	March 31, 2023		December 31, 2021	
	Number of Stock Options #	Average Exercise Price \$	Number of Stock Options #	Average Exercise Price \$
Outstanding beginning of period	25,219,500	0.21	21,727,500	0.21
Granted	-	-	7,750,000	0.72
Exercised	(2,287,500)	0.13	(4,258,000)	0.16
Outstanding end of period	22,932,000	0.38	25,219,500	0.35

13. 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	88,952
Accretion	-
Closing March 31, 2022	137,352

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 \$137,352 as at March 31, 2022 (December 31, 2021 - \$48,400.)

As at March 31, 2022, assumptions include inflation rate of 7.45% and a discount rate of 0.65% .

14. 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.

(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 favourable. 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.

(b) Liquidity risk (continued)

As of March 31, 2022, the Company had a cash and cash equivalents balance of \$6,106,610 and other current assets of \$9,349,410 (December 31, 2021 - \$7,042,790 and \$7,377,409 respectively) to settle current accounts payable, accrued liabilities of \$4,016,861 (December 31, 2021 - \$4,048,013).

The following table details the Company’s anticipated repayment schedule for its financial liabilities as at December 31, 2021:

	Contractual cash flows	Less than 1 year	1 -3 years	4 – 5 years	After 5 years
	\$	\$	\$	\$	\$
Accounts payable	3,938,885	3,938,885	-	-	-
Lease payable	77,976	77,976	-	-	-
	4,016,861	4,016,861	-	-	-

14. FINANCIAL RISK MANAGEMENT (Continued)

(c) 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.

(i) Price risk

The Company is exposed to price risk with respect to commodity prices. Price risk is remote since the Company is not a producing entity.

Sensitivity analysis

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

The Company is exposed to market price risk on its marketable securities. A 10% change in the price of the underlying shares would result in a change in the fair value of the marketable securities by approximately \$207,000 (December 31, 2021 - \$234,000).

(ii) Foreign exchange risk

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

(c) Market risk

Sensitivity analysis

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

As at March 31, 2022, the Company has monetary assets denominated in Mexican Pesos of approximately MXN \$124,000,000 (December 31, 2021 –MXN \$124,000,000). A 10% change in the value of the Canadian dollar relative to the Mexican Pesos would result in a corresponding change in net income approximately \$756,000 (December 31, 2021 – \$770,000) based on the balance of these amounts held in Mexican Pesos as at March 31, 2022. As at March 31, 2022, the Company's exposure to changes in the value of the US dollar is insignificant.

14. FINANCIAL RISK MANAGEMENT (Continued)

(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 to the short-term period to maturity.

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 quoted 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.

15. 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.

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15. CAPITAL RISK MANAGEMENT (Continued)

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 period ended March 31, 2022.

16. 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 three month period ended March 31, 2022 and 2021 was as follows:

	2022	2021
	\$	\$
Aggregate compensation	120,000	141,000
Stock-based compensation	150,008	1,804,000
	<u>270,008</u>	<u>1,945,000</u>

Included in accounts payable and accrued liabilities at March 31, 2022, payable to key management of the Company was \$237,535 (December 31, 2020 - \$138,000) in relation to outstanding compensation.

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

17. SUBSEQUENT EVENTS

On April 6, 2022, the Company sold its remaining 590,000 shares of Prime Mining Inc. for a value of \$3.50 per share for total gross proceeds of \$2,065,000.