Canasil resources inc.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canasil Resources Inc.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had a working capital of $401,795 as at December 31, 2021 which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months and the Company's accumulated deficit was $32,359,182. As stated in Note 1, these events and conditions 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.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

April 26, 2022

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

ASSETS	2021	2020
Current		
Cash and cash equivalents	$ 451,241	$ 926,340
Receivables	18,667	93,519
Prepaid expenses	23,626	24,502
	493,534	1,044,361
Reclamation bonds	47,000	47,000
Right-of-use asset – office *(Note 6)*	-	29,889
Property and equipment *(Note 5)*	63,644	75,065
	$ 604,178	$ 1,196,315
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 64,739	$ 96,413
Current portion of lease liability *(Note 6)*	-	34,254
Deferred flow-through premium liability *(Note 7)*	27,000	-
	91,739	130,667
SHAREHOLDERS' EQUITY		
Share capital *(Note 7)*	25,321,494	23,797,739
Contributed surplus	6,925,297	6,774,331
Accumulated other comprehensive income	624,830	624,830
Deficit	(32,359,182)	(30,131,252)
	512,439	1,065,648
	$ 604,178	$ 1,196,315

Nature and continuance of operations *(Note 1)*
Subsequent event *(Note 13)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares		Share Capital *(Note 7)*		Contributed Surplus *(Note 8)*		Accumulated Other Comprehensive Income		Deficit		Total
Balance – December 31, 2019	104,206,622	$	21,837,835	$	6,484,218	$	624,830	$	(28,073,302)	$	873,581
Private placement - units	5,087,500		407,000		-		-		-		407,000
Private placement - units	7,827,500		1,565,500		-		-		-		1,565,500
Share issuance costs	-		(43,650)		-		-		-		(43,650)
Exercise of stock options	350,000		21,000		-		-		-		21,000
Fair value of stock options exercised	-		10,054		(10,054)		-		-		-
Share-based compensation	-		-		300,167		-		-		300,167
Comprehensive loss for the year	-		-		-		-		(2,057,950)		(2,057,950)
Balance – December 31, 2020	117,471,622		23,797,739		6,774,331		624,830		(30,131,252)		1,065,648
Private placement - units	7,900,000		790,000		-		-		-		790,000
Private placement - units	4,350,000		529,800		13,950		-		-		543,750
Private placement - flow-through shares	1,100,000		165,000		-		-		-		165,000
Flow-through premium	-		(27,000)		-		-		-		(27,000)
Share issuance costs	-		(36,045)		-		-		-		(36,045)
Exercise of warrants	850,000		102,000		-		-		-		102,000
Share-based compensation	-		-		137,016		-		-		137,016
Comprehensive loss for the year	-		-		-		-		(2,227,930)		(2,227,930)
Balance – December 31, 2021	131,671,622	$	25,321,494	$	6,925,297	$	624,830	$	(32,359,182)	$	512,439

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

		2021		2020
Expenses				
Accounting and audit	$	37,609	$	35,180
Consulting		-		765
Depreciation – equipment *(Note 5)*		13,464		8,811
Depreciation – right-of-use asset – office *(Note 6)*		29,889		39,853
Director fees *(Note 9)*		36,000		36,000
Exploration and evaluation *(Note 4)*		1,482,884		1,119,144
Foreign exchange loss		20,803		26,234
Interest – lease liability *(Note 6)*		1,383		6,387
Interest income		(2,467)		(6,956)
Investor relations and promotions		57,562		74,893
Legal fees		33,080		19,736
Listing and filing fees		10,826		8,990
Management fees *(Note 9)*		60,000		87,500
Office rent, services and supplies		47,831		38,244
Salaries *(Note 9)*		227,954		230,352
Shareholder communications		33,667		24,558
Share-based compensation *(Notes 8 and 9)*		137,016		300,167
Transfer agent fees		7,412		7,279
Travel and accommodation		-		813
Loss for the year before other item		2,234,913		2,057,950
Gain on sale of equipment *(Note 5)*		(6,983)		-
Comprehensive loss for the year	$	2,227,930	$	2,057,950
Loss per share – basic and diluted	$	0.02	$	0.02
Weighted-average number of shares outstanding – basic and diluted		123,215,732		111,697,701

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)		2021		2020
Operating activities				
Loss for the year	$	(2,227,930)	$	(2,057,950)
Items not involving cash				
Depreciation – equipment		13,464		8,811
Depreciation – right-of-use asset – office		29,889		39,853
Share-based compensation		137,016		300,167
Gain on sale of equipment		(6,983)		-
Write-off of IVA receivable – exploration and evaluation		35,108		-
Changes in non-cash working capital				
Receivables		39,744		(57,355)
Prepaid expenses		876		(11,751)
Accounts payable and accrued liabilities		(31,674)		22,502
		(2,010,490)		(1,755,723)
Investing activities				
Proceeds on sale of equipment		6,983		-
Purchase of equipment		(2,043)		(45,761)
		4,940		(45,761)
Financing activities				
Shares issued for cash		1,600,750		1,993,500
Share issuance costs		(36,045)		(43,650)
Principal payments – lease liability		(34,254)		(40,041)
		1,530,451		1,909,809
Change in cash and cash equivalents for the year		(475,099)		108,325
Cash and cash equivalents - beginning of year		926,340		818,015
Cash and cash equivalents - end of year	$	451,241	$	926,340

Supplemental schedule of non-cash investing and financing transactions				
Fair value of stock options exercised	$	-	$	10,054
Residual value assigned to warrants	$	13,950	$	-
Flow-through premium liability	$	27,000	$	-

Supplemental cash flow information				
Interest received	$	1,259	$	12,148
Interest paid – lease liability	$	1,383	$	6,796
Income taxes paid	$	-	$	-

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. ("Canasil" or the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 1760 – 750 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interests in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain ore reserves. The Company's continuing operation is dependent upon the confirmation of reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2021 the Company had working capital (current assets less current liabilities) of $401,795 (2020 - $913,694), which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has incurred operating losses since inception and as at December 31, 2021 had an accumulated deficit of $32,359,182 (2020 - $30,131,252).

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future. Additionally, the outbreak of the COVID-19 global pandemic has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date, the Company's operations have not been materially affected by the pandemic, however, it is not possible to predict the duration or magnitude of the adverse results of the outbreak and its future effects on the Company's business or ability to raise funds.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee using those standards in effect for the reporting year ended December 31, 2021. The Company's board of directors approved these consolidated financial statements for issue on April 26, 2022.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for those items classified as fair value through profit and loss or fair value through other comprehensive income, using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES *- continued*

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries, CRD Minerals Corp., Canmine Minerals Inc., Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

Cash and cash equivalents

Cash and cash equivalents include cash balances held through current operating bank accounts and guaranteed investment certificates at major financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in nominal value.

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful lives using the declining balance method at rates ranging from 20% to 45% per annum.

Exploration and evaluation

The Company is currently in the exploration stage in respect of all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing. Expenditure recoveries are recorded in the period that the payments are received.

2. SIGNIFICANT ACCOUNTING POLICIES *– continued*

Financial Instruments

The Company classifies its financial instruments in accordance with IFRS 9 – *Financial Instruments,* based on the Company's business model for managing its financial instruments, including the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics. Financial instruments are classified under three primary measurement categories: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, upon initial recognition the Company can make a one-time irrevocable election to designate them as FVTOCI.

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

FVTOCI

Investments in equity instruments classified as FVTOCI are initially recognized at fair value plus transaction costs. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income with no subsequent reclassification to profit or loss upon derecognition. Realized gains and losses recognized upon derecognition remain within accumulated other comprehensive income.

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL.

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

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Receivables	Amortized cost
Reclamation bonds	Amortized cost
Accounts payable	Amortized cost

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The liability is accreted over time to reflect an interest element in the estimated future cash flows considered in the initial measurement. The Company's estimates of provisions for restoration obligations could change as a result of changes in regulations, the discount rate, the extent of environmental remediation required, the means of reclamation, or the cost estimates. Changes in estimates are recorded in the period in which the estimates are revised. The Company has determined that it has no significant restoration obligations as at December 31, 2020.

Impairment

Non-financial assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets. The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. In situations where options are granted to non-employees and some or all of the services provided cannot be specifically valued, the services are measured at the fair value of the share-based compensation. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. The Company computes the dilutive effect of options, warrants and similar instruments and its effect on earnings per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share due to their anti-dilutive effect.

2. SIGNIFICANT ACCOUNTING POLICIES *– continued*

Share capital

Share capital issued for non-monetary consideration is recorded at the fair value of the non-monetary consideration received, or at the fair value of the shares issued if the fair value of the non-monetary consideration cannot be measured reliably, on the date of issue. The Company uses the residual value approach in respect of unit offerings, whereby the amount assigned to the warrant is the excess, if any, of the unit price over the trading price of the Company's shares at the date of issuance.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities known as flow-through shares, the proceeds of which are used to finance certain exploration expenditures on Canadian resource properties. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. Proceeds from the issuance of flow-through shares are allocated between the offering of the flow-through share and the estimated premium paid for the implied tax benefit received by the investors as a result of acquiring the flow-through share. The premium, if any, is recognized as a liability until such time as the qualifying exploration expenditures are incurred. The Company derecognizes the liability to the extent that the qualifying exploration expenditures have been made and recognizes a deferred tax recovery for the amount of the tax reduction renounced to the shareholders.

Leases

The Company previously leased its office premises under a three-year lease agreement. Under IFRS 16, the Company presented a right-of-use asset representing its office premises, and an offsetting lease liability representing the future cash payments due under the lease agreement.

The Company recorded a lease liability measured at the present value of the remaining lease payments due under its lease agreement using the Company's estimated incremental borrowing rate. The right-of-use asset was measured at an amount equal to the initial lease liability. Payments made under the lease agreement have been recorded as principal and interest due under the lease liability, using the effective interest rate method. The right-of-use asset has been depreciated on a straight-line basis over the remaining term of the lease. Accordingly, in the statement of cash flows, interest expense has been included in operating activities and the principal reduction of the lease liability has been presented as a financing activity.

Subsequent to the date of initial recognition, the carrying amounts of the lease liability and right-of-use asset are subject to remeasurement to reflect any lease modifications or revised in-substance fixed lease payments.

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements – *continued*

The Company's most significant accounting judgements relate to the probability of recognition of the benefit of deferred tax assets, the determination of assumptions used to estimate share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of the following:

		2021		2020
Cash and cash equivalents				
Cash on deposit	$	451,241	$	125,651
Guaranteed investment certificate		-		800,689
	$	451,241	$	926,340
Receivables				
Value-added taxes	$	-	$	78,835
Goods and services tax and other		18,667		14,684
	$	18,667	$	93,519
Reclamation bonds	$	47,000	$	47,000
Accounts payable	$	33,809	$	64,809

The Company's cash is measured at FVTPL using a Level 1 fair value measurement. Receivables, reclamation bonds, and accounts payable are measured at amortized cost. The carrying values of these instruments approximate their fair values due to their short-term nature.

The Company is exposed to various financial risks in respect of its financial instruments as detailed below. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's primary credit risk is associated with its cash and cash equivalents, receivables, and reclamation bonds.

The Company's Canadian cash and cash equivalents are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks with high investment grade ratings. Reclamation bonds are held in short-term guaranteed investment certificates at major Canadian banks or by the government of British Columbia as non-interest-bearing security deposits. The Company also maintains cash balances denominated in pesos and U.S. dollars held through a major bank in Mexico, which also has a high investment grade rating. Management considers the credit risk associated with its cash balances to be low. Historically, the Company has been exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company has recently experienced significant delays in the receipt of its IVA refunds and, accordingly, in 2021 it wrote off its IVA balances and began expensing IVA in the period incurred. The carrying value of the Company's cash, receivables, and reclamation bonds totals $516,908 and represents the Company's maximum exposure to credit risk as at December 31, 2021 (2020 - $1,066,859).

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in exchange rates. The Company carries cash, receivables, and accounts payable balances denominated in Mexican pesos and U.S. dollars, which are subject to currency risk due to fluctuations in the exchange rates with the Canadian dollar.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – *continued*

Foreign Currency Risk – *continued*

Due to the volatility of the exchange rates between the Canadian dollar, the peso, and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's net monetary assets denominated in Mexican pesos and U.S. dollars as at December 31, 2021, a 10% fluctuation in the exchange rates of these currencies would result in a gain or loss of approximately $1,329 (2020 - $6,000). To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

Interest Rate Risk

Interest rate risk relates to the effect on the Company's financial instruments due to changes in market rates of interest. The Company holds cash equivalents and reclamation bonds, which include guaranteed investment certificates that earn interest at market rates and are exposed to interest rate risk given the volatility of interest rates over time. Due to the value and nature of the Company's other financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments.

Liquidity Risk

The Company is subject to liquidity risk such that it may not be able to meets its obligations under its financial instruments as they fall due *(Note 1).* The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business. To date, the Company's capital requirements have been met primarily by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

4. EXPLORATION AND EVALUATION

The Company expenses costs relating to the exploration and evaluation of its mineral properties in the period incurred. In 2021, due to uncertainty surrounding the timing and collection of future refunds, the Company wrote off its IVA balances and began expensing IVA as incurred. Future collections of IVA will be recorded as recoveries in the period received. A description of the Company's mineral interests follows:

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in certain claims within the La Esperanza project area, subject to a net smelter returns royalty ("NSR") of up to 1%. The claims are located in Zacatecas State, Mexico. The Company acquired a 100% interest in these claims in May 2011 and purchased the NSR in 2016. From 2006 to 2010, the Company also added further claims, by direct staking, to increase the size of the project area.

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking as well as the purchase of a 100% interest in certain claims comprising the central area of the project, which are subject to a 0.5% NSR that can be purchased from the owner for US$500,000.

Nora project, Mexico

The Company holds a 100% interest in the Nora project, located in Durango State, Mexico, which was acquired through staking.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

Sandra-Escobar project, Mexico

Between 2004 and 2006, the Company acquired, by staking, the Sandra claims located in Durango State, Mexico and in 2012 earned a 40% interest in the contiguous Escobar claims held by Pan American Silver Corp. ("Pan American"). In addition to these claims, the Company also acquired various other claims in the area from third parties, all of which formed the Sandra-Escobar project.

In January 2017, Orex Minerals Inc. earned a 55% interest in the project and in June 2019, the Company sold its interest in the project to Pan American for $2,000,000 plus a 2% net smelter returns royalty interest ("NSR Royalty Interest") payable on Pan American's share of the project; the NSR Royalty Interest can be reduced to 1% upon payment of $4,000,000 to the Company.

Other projects

Mexico

The Company has staked other claims located in Durango State, Mexico, which include the Colibri, Carina, and Vizcaino projects. The Company holds a 100% interest in these projects.

Canada

The Company has staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in these projects.

Mineral title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Expenditures for the years ended December 31 and cumulative expenditures to December 31, 2021 are as follows:

	Expenditures 2021	Expenditures 2020	Cumulative 2021
Brenda, Canada	$ 5,540	$ 25,601	$ 2,427,311
- Expenditure recoveries	(7,680)	(1,200)	(233,453)
Vega, Canada	78,601	1,633	461,603
- Expenditure recoveries	(490)	(28,129)	(75,680)
Other, Canada	2,032	400	144,856
- Expenditure recoveries	-	-	(22,776)
La Esperanza, Mexico	651,171	362,412	4,563,877
- Expenditure recoveries	-	-	(262,373)
- Option payments received	-	-	(300,000)
Salamandra, Mexico	42,635	71,373	6,419,514
- Expenditure recoveries	-	-	(223,652)
- Option payments received	-	-	(553,989)
Nora, Mexico	528,504	581,523	1,683,352
Sandra-Escobar, Mexico	-	-	2,020,973
- Expenditure recoveries	-	-	(177,486)
- Option payments received	-	-	(500,000)
Other, Mexico	50,773	105,531	3,245,430
- Expenditure recoveries	-	-	(131,346)
- Option payments received	-	-	(133,471)
Write-off of IVA paid, net of recoveries	131,798	-	131,798
	$ 1,482,884	$ 1,119,144	$ 18,484,488

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

Expenditures for the years ending December 31, by activity, are as follows:

	2021	2020
Administration	$ 169,793	$ 177,491
Assays	26,504	26,549
Consulting	-	4,054
Drilling	401,235	222,930
Environmental and permitting	6,231	-
Field costs	107,280	51,051
Geological	211,632	194,415
Geophysical	62,842	-
Land holding costs	318,073	385,688
Legal	-	4,436
Mapping and surveying	7,908	18,257
Road building	40,100	46,339
Transportation and rentals	6,383	15,435
Travel and accommodation	1,275	1,828
Expenditure recoveries	(8,170)	(29,329)
Write-off of IVA paid, net of recoveries	131,798	-
	$ 1,482,884	$ 1,119,144

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2019	$ 31,686	$ 63,175	$ 27,036	$ 31,971	$ 34,068	$ 187,936
Additions	-	37,155	2,873	5,733	-	45,761
December 31, 2020	31,686	100,330	29,909	37,704	34,068	233,697
Additions	-	-	-	2,043	-	2,043
Disposals	-	(27,730)	-	-	-	(27,730)
December 31, 2021	31,686	72,600	29,909	39,747	34,068	208,010
Accumulated Depreciation						
December 31, 2019	-	61,210	26,199	31,581	30,831	149,821
Additions	-	6,163	1,023	977	648	8,811
December 31, 2020	-	67,373	27,222	32,558	31,479	158,632
Additions	-	9,887	1,209	1,850	518	13,464
Disposals	-	(27,730)	-	-	-	(27,730)
December 31, 2021	-	49,530	28,431	34,408	31,997	144,366
Net Book Value						
December 31, 2020	$ 31,686	$ 32,957	$ 2,687	$ 5,146	$ 2,589	$ 75,065
December 31, 2021	$ 31,686	$ 23,070	$ 1,478	$ 5,339	$ 2,071	$ 63,644

During 2021, the Company disposed of fully-depreciated automotive equipment for proceeds of $6,983.

Expressed in Canadian Dollars

6. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company had a lease agreement for its office premises that expired September 30, 2021 and which contained no renewal clause. Monthly payments were $3,956 and included basic rent and a pro rata share of common operating costs. On January 1, 2019, the date of initial application under IFRS 16, the Company recorded this agreement as a lease liability with an initial measurement equal to the present value of the remaining lease payments using the Company's estimated incremental borrowing rate of 12%. The lease liability was subsequently measured at amortized cost using the effective interest rate method and adjusted for interest and principal. The right-of-use asset was measured at an amount equal to the initial lease liability and was subsequently depreciated on a straight-line basis over the remaining term of the lease.

Details of the right-of-use asset for the year are as follows:

	2021	2020
Balance – beginning of year	$ 29,889	$ 69,742
Depreciation for the year	(29,889)	(39,853)
Balance – end of year	$ -	$ 29,889

Details of the lease liability for the year are as follows:

	2021	2020
Balance – beginning of year	$ 34,254	$ 74,295
Payments made during year	(35,986)	(46,837)
Interest portion of payments	1,732	6,796
	-	34,254
Less: current portion	-	(34,254)
Balance: long-term portion – end of year	$ -	$ -

Accrued interest payable on the lease liability to December 31, 2021 totalled $nil (2020 - $349).

Effective October 1, 2021, the Company signed a short-term lease for its office premises with monthly lease payments of $4,343 recorded as rent expense.

7. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

In March 2020, the Company completed a non-brokered private placement by issuing 5,087,500 units at a price of $0.08 per unit for gross proceeds of $407,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of $0.12 per share for a period of two years. The warrants are subject to an acceleration clause should the closing price of the Company's shares exceed $0.25 per share for a period of 20 consecutive trading days. The Company paid finders' fees of $3,720 on a portion of the placement as well as legal and filing fees of $5,974.

7. SHARE CAPITAL *- continued*

In July 2020, the Company completed a non-brokered private placement by issuing 7,827,500 units at a price of $0.20 per unit for gross proceeds of $1,565,500. Each unit consisted of one common share and one-half of one two-year share purchase warrant entitling the holder to purchase one additional common share of the Company at a price of $0.25 per share in the first year or $0.30 in the second year. The warrants are subject to an acceleration clause should the closing price of the Company's shares exceed $0.50 per share for a period of 20 consecutive trading days. The Company paid finders' fees of $21,900 on a portion of the placement as well as legal and filing fees of $12,056.

In December 2020, the Company issued 350,000 shares upon the exercise of stock options for proceeds of $21,000. The fair value of the options at the time of grant was estimated at $10,054 and this amount was transferred from contributed surplus to share capital upon exercise of the options.

In May 2021, the Company completed a non-brokered private placement by issuing 7,900,000 units at a price of $0.10 per unit for gross proceeds of $790,000. Each unit consisted of one common share of the Company and one-half of one two-year share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.15 during the first year or $0.20 during the second year following the closing of the offering. The warrants are subject to an acceleration clause should the closing price of the Company's shares exceed $0.25 per share for a period of 20 consecutive trading days. The Company paid finders' fees of $5,700 on a portion of the placement as well as filing fees of $4,700.

In October 2021, the Company issued 850,000 shares for proceeds of $102,000 upon the exercise of warrants.

In November 2021, the Company completed a non-brokered private placement by issuing 4,350,000 units at a price of $0.125 per unit for gross proceeds of $543,750 and 1,100,000 flow-through shares at a price of $0.15 per share for gross proceeds of $165,000. Each unit consisted of one common share of the Company and one-half of one two-year share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.20 during the first year or $0.25 during the second year following the closing of the offering. The Company paid finders' fees of $19,350 on a portion of the placement as well as legal and filing fees of $6,295.

The unit price of this offering exceeded the trading price of the shares on the date of issuance, therefore, $13,950 of the unit proceeds, being the estimated residual value, has been assigned to the warrants and classified as contributed surplus.

The value of the flow-through feature of the flow-through shares was estimated at $27,000 resulting in a deferred flow-through premium liability, which, upon incurring the required qualifying exploration expenditures, will be derecognized and a deferred income tax recovery recorded.

8. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan that complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares. Stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

Expressed in Canadian Dollars

8. STOCK OPTIONS AND WARRANTS *- continued*

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2019	2,309,250	$	0.25	7,240,000	$	0.10
Expired/amended	(2,309,250)	$	0.25	(4,600,000)	$	0.06
Amended	-	$	-	4,600,000	$	0.11
Exercised	-	$	-	(350,000)	$	0.06
Issued/granted	9,001,250	$	0.18	2,000,000	$	0.08
Outstanding, December 31, 2020	9,001,250	$	0.18	8,890,000	$	0.13
Issued/granted	6,125,000	$	0.17	2,100,000	$	0.15
Exercised	(850,000)	$	0.12	-	$	-
Expired	-	$	-	(400,000)	$	0.21
Outstanding, December 31, 2021	14,276,250	$	0.19	10,590,000	$	0.13
Exercisable, December 31, 2021	14,276,250	$	0.19	10,540,000	$	0.13

At December 31, 2021, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	1,890,000	$	0.20	January 2022 – *expired January 2022*
	200,000	$	0.15	March 2023
	1,750,000	$	0.08	May 2025
	250,000	$	0.11	November 2025
	4,600,000	$	0.11	December 2025
	1,900,000	$	0.15	May 2026
	10,590,000			
Warrants	4,237,500	$	0.12	March 2022 – *4,112,500 expired March 2022 (Note 13)*
	3,913,750	$	0.30	July 2022 *(i)*
	3,950,000	$	0.15	May 2023 *(ii)*
	2,175,000	$	0.20	November 2023 *(iii)*
	14,276,250			

(i) Exercise price increased from $0.25 to $0.30 per share in July 2021.
(ii) Exercise price increases to $0.20 per share in May 2022.
(iii) Exercise price increases to $0.25 per share in November 2022.

At December 31, 2021, the weighted-average remaining life for the outstanding stock options was 3.20 years and 0.88 years for the outstanding warrants.

Expressed in Canadian Dollars

8. STOCK OPTIONS AND WARRANTS - *continued*

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers, employees, and consultants of the Company. During 2020, the Company granted 2,000,000 new options and amended the terms of 4,600,000 existing options all of which vested immediately. During 2021, the Company granted 1,900,000 options that vested immediately and 200,000 options that vest over twelve months. Share-based compensation is recorded over the vesting period.

		2021		2020
Total options granted and amended		2,100,000		6,600,000
Average exercise price	$	0.15	$	0.10
Estimated fair value of options granted	$	137,480	$	113,908
Estimated fair value of options amended	$	-	$	186,259
Estimated fair value per option	$	0.07	$	0.05

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions for options granted and amended during the year:

	2021	2020
Risk-free interest rate	0.88 %	0.44%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	86%	112%
Expected forfeiture rate	0.00%	0.00%
Expected option life in years	4.71	5.06

The Company has recorded share-based compensation as follows:

		2021		2020
Number of options vested in year		2,050,000		6,600,000
Compensation recognized in year	$	137,016	$	300,167

9. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes officers and directors. The compensation paid or payable to key management for the years ended December 31 is as follows:

		2021		2020
Salaries	$	225,000	$	225,000
Management fees		60,000		87,500
Director fees		36,000		36,000
	$	321,000	$	348,500

In addition, the Company recorded share-based compensation of $77,913 (2020 - $214,218) relating to stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 8.

Expressed in Canadian Dollars

10. INCOME TAXES

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	2021	2020
Loss before income taxes for accounting purposes	$ 2,227,930	$ 2,057,950
Expected tax recovery for the year	(602,000)	(556,000)
Effect of different tax rate on foreign losses	(38,000)	(21,000)
Non-deductible expenses, non-taxable items and other	(50,000)	4,000
Change in unrecognized deductible temporary differences	690,000	573,000
Tax expense for the year	$ -	$ -

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities as at December 31 are as follows:

	2021	2020
Non-capital losses	$ 3,222,000	$ 3,009,000
Exploration expenditures	5,197,000	4,855,000
Equipment	49,000	52,000
Share issuance costs	15,000	9,000
Investment tax credits	40,000	40,000
Capital losses	-	2,000
Unrecognized deferred tax assets	$ 8,523,000	$ 7,967,000

The Company's deferred tax assets expire as follows:

	2021	Expiry Date Range	2020
Non-capital losses	$ 11,602,000	2021 to 2041	$ 10,808,000
Exploration expenditures	$ 17,716,000	2024 to 2040	$ 16,579,000
Equipment	$ 174,000	Not applicable	$ 184,000
Share issuance costs	$ 55,000	2042 to 2045	$ 35,000
Investment tax credits	$ 55,000	2027 to 2033	$ 55,000
Capital losses	$ -	Not applicable	$ 15,000

Expressed in Canadian Dollars

11. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and typically finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest-bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the current year.

12. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry. The Company's assets are located in the following geographical locations:

2021	Canada	Mexico	Total
Property and equipment	$ 2,423	$ 61,221	$ 63,644
Right-of-use asset – office	$ -	$ -	$ -

2020	Canada	Mexico	Total
Property and equipment	$ 3,584	$ 71,481	$ 75,065
Right-of-use asset – office	$ 29,889	$ -	$ 29,889

13. SUBSEQUENT EVENT

Subsequent to December 31, 2021, the Company received cash proceeds of $15,000 upon the exercise of 125,000 warrants.