Canasil resources inc.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 balance sheets as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) 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, 2022 and 2021, 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 as at December 31, 2022, the Company had a working capital deficiency of $179,541 which it considers to be inadequate to fund its overhead and exploration activities for the ensuing twelve months. 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.

Key Audit Matters

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

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no other key audit matters to communicate in our auditor's report.

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.

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

June 14, 2023

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

ASSETS		2022		2021
Current				
Cash	$	54,272	$	451,241
Receivables		25,585		18,667
Prepaid expenses		20,051		23,626
		99,908		493,534
Reclamation bonds		47,000		47,000
Property and equipment *(Note 5)*		52,979		63,644
	$	199,887	$	604,178

LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	169,449	$	64,739
Amounts due to related parties *(Note 10)*		110,000		-
Deferred flow-through premium liability *(Note 7)*		-		27,000
		279,449		91,739
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital *(Note 7)*		25,601,822		25,321,494
Contributed surplus *(Note 8)*		6,952,516		6,925,297
Accumulated other comprehensive income		624,830		624,830
Deficit		(33,258,730)		(32,359,182)
		(79,562)		512,439
	$	199,887	$	604,178

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

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

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, 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
Private placement - units	5,350,991	267,550	26,755	-	-	294,305
Share issuance costs	-	(2,222)	-	-	-	(2,222)
Exercise of warrants	125,000	15,000	-	-	-	15,000
Share-based compensation	-	-	464	-	-	464
Comprehensive loss for the year	-	-	-	-	(899,548)	(899,548)
Balance – December 31, 2022	137,147,613	$ 25,601,822	$ 6,952,516	$ 624,830	$ (33,258,730)	$ (79,562)

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

		2022		2021
Expenses				
Accounting and audit	$	44,011	$	37,609
Depreciation – equipment *(Note 5)*		9,535		13,464
Depreciation – right-of-use asset – office *(Note 6)*		-		29,889
Director fees *(Note 10)*		9,000		36,000
Exploration and evaluation *(Note 4)*		468,196		1,482,884
Foreign exchange loss		3,307		20,803
Interest – lease liability *(Note 6)*		-		1,383
Interest income		(1,684)		(2,467)
Investor relations and promotions		9,825		57,562
Legal fees		57,152		33,080
Listing and filing fees		9,405		10,826
Management fees *(Note 10)*		60,000		60,000
Office rent, services and supplies		89,105		47,831
Salaries *(Note 10)*		151,663		227,954
Shareholder communications		10,164		33,667
Share-based compensation *(Notes 8 and 10)*		464		137,016
Transfer agent fees		5,275		7,412
		925,418		2,234,913
Loss (gain) on disposal of equipment *(Note 5)*		1,130		(6,983)
Deferred income tax recovery *(Note 7)*		(27,000)		-
Loss and comprehensive loss for the year	$	899,548	$	2,227,930
Loss per share – basic and diluted	$	0.01	$	0.02
Weighted-average number of shares outstanding – basic and diluted		132,768,353		123,215,732

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

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2022	2021
Operating activities		
Loss for the year	$ (899,548)	$ (2,227,930)
Items not involving cash		
Depreciation – equipment	9,535	13,464
Depreciation – right-of-use asset – office	-	29,889
Share-based compensation	464	137,016
Loss (gain) on disposal of equipment	1,130	(6,983)
Write-off of IVA receivable – exploration and evaluation	-	35,108
Deferred income tax recovery	(27,000)	-
Changes in non-cash working capital		
Receivables	(6,918)	39,744
Prepaid expenses	3,575	876
Accounts payable and accrued liabilities	104,710	(31,674)
Amounts due to related parties	110,000	-
	(704,052)	(2,010,490)
Investing activities		
Proceeds on sale of equipment	-	6,983
Purchase of equipment	-	(2,043)
	-	4,940
Financing activities		
Shares issued for cash	309,305	1,600,750
Share issuance costs	(2,222)	(36,045)
Principal payments – lease liability	-	(34,254)
	307,083	1,530,451
Change in cash for the year	(396,969)	(475,099)
Cash - beginning of year	451,241	926,340
Cash - end of year	$ 54,272	$ 451,241

Supplemental schedule of non-cash investing and financing transactions		
Residual value assigned to warrants	$ 26,755	$ 13,950
Flow-through premium liability	$ -	$ 27,000

Supplemental cash flow information		
Interest received	$ 1,684	$ 1,259
Interest paid – lease liability	$ -	$ 1,383
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, 2022 the Company had a working capital deficiency (current assets less current liabilities) of $179,541 (2021 – positive working capital of $401,795), which it considers to be inadequate to fund its overhead and 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, 2022 had an accumulated deficit of $33,258,730 (2021 - $32,359,182).

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 AND BASIS OF PRESENTATION

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, 2022. The Company's board of directors approved these consolidated financial statements for issue on June 14, 2023.

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 AND BASIS OF PRESENTATION *- 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.

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 AND BASIS OF PRESENTATION – *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	Amortized cost
Receivables	Amortized cost
Reclamation bonds	Amortized cost
Accounts payable	Amortized cost
Amounts due to related parties	Amortized cost

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *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 had no significant restoration obligations as at December 31, 2021 or 2022.

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 AND BASIS OF PRESENTATION – *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 AND BASIS OF PRESENTATION – *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:

		2022		2021
Cash				
Cash on deposit	$	54,272	$	451,241
Receivables				
Security deposit receivable	$	5,413	$	-
Goods and services tax and other		20,172		18,667
	$	25,585	$	18,667
Reclamation bonds	$	47,000	$	47,000
Accounts payable	$	137,790	$	33,809
Amounts due to related parties	$	110,000	$	-

Cash, receivables, reclamation bonds, accounts payable, and amounts due to related parties 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, receivables, and reclamation bonds.

The Company's Canadian cash is held in chequing accounts 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. The carrying value of the Company's cash, receivables, and reclamation bonds totals $126,857 and represents the Company's maximum exposure to credit risk as at December 31, 2022 (2021 - $516,908).

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.

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, 2022, a 10% fluctuation in the exchange rates of these currencies would result in a gain or loss of approximately $2,592 (2021 - $1,329). 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.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – *continued*

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 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. The Company pays value-added taxes ("IVA") in Mexico and due to uncertainty surrounding the timing and collection of future refunds of IVA, the Company expenses IVA as incurred. Collections of IVA are 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.

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.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

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.

In addition, the Company has an option to earn a 100% interest in the Nalt project in British Columbia by incurring exploration expenditures of $50,000 in the first year (incurred), $200,000 in the second year, and by paying the owner $250,000 and issuing 2,000,000 shares of the Company by November 5, 2024. The property is subject to a 2% NSR, 0.5% (one quarter) of which can be purchased by the Company for $2,000,000.

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, 2022 are as follows:

	Expenditures 2022	Expenditures 2021	Cumulative 2022
Brenda, Canada	$ -	$ 5,540	$ 2,427,311
- Expenditure recoveries	(1,662)	(7,680)	(235,115)
Vega, Canada	91,926	78,601	553,529
- Expenditure recoveries	(23,580)	(490)	(99,260)
Other, Canada	78,737	2,032	223,593
- Expenditure recoveries	-	-	(22,776)
La Esperanza, Mexico	160,369	651,171	4,724,246
- Expenditure recoveries	-	-	(262,373)
- Option payments received	-	-	(300,000)
Salamandra, Mexico	19,643	42,635	6,439,157
- Expenditure recoveries	-	-	(223,652)
- Option payments received	-	-	(553,989)
Nora, Mexico	102,201	528,504	1,785,553
Sandra-Escobar, Mexico	-	-	2,020,973
- Expenditure recoveries	-	-	(177,486)
- Option payments received	-	-	(500,000)
Other, Mexico	38,875	50,773	3,284,305
- Expenditure recoveries	-	-	(131,346)
- Option payments received	-	-	(133,471)
Write-off of IVA paid, net of recoveries	1,687	131,798	133,485
	$ 468,196	$ 1,482,884	$ 18,952,684

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

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

	2022	2021
Administration	$ 170,833	$ 169,793
Assays	8,514	26,504
Consulting	6,230	-
Drilling	-	401,235
Environmental and permitting	-	6,231
Field costs	7,326	107,280
Geological	58,880	211,632
Geophysical	168,875	62,842
Land holding costs	65,515	318,073
Legal	161	-
Mapping and surveying	4,676	7,908
Road building	-	40,100
Transportation and rentals	631	6,383
Travel and accommodation	110	1,275
Expenditure recoveries	(25,242)	(8,170)
Write-off of IVA paid, net of recoveries	1,687	131,798
	$ 468,196	$ 1,482,884

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
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
Disposals	-	-	-	-	(22,291)	(22,291)
December 31, 2022	31,686	72,600	29,909	39,747	11,777	185,719
Accumulated Depreciation						
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
Additions	-	6,921	665	1,602	347	9,535
Disposals	-	-	-	-	(21,161)	(21,161)
December 31, 2022	-	56,451	29,096	36,010	11,183	132,740
Net Book Value						
December 31, 2021	$ 31,686	$ 23,070	$ 1,478	$ 5,339	$ 2,071	$ 63,644
December 31, 2022	$ 31,686	$ 16,149	$ 813	$ 3,737	$ 594	$ 52,979

During 2022, the Company disposed of equipment for a loss of $1,130 (2021 – gain of $6,983).

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. In accordance with 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 and which 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.

During the year ended December 31, 2021, the Company recorded depreciation of $29,889, principal repayments of $34,254, and interest expense of $1,383.

7. SHARE CAPITAL

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

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 entitled 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 entitled 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, was 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 in 2022, was derecognized and a deferred income tax recovery was recorded through the statement of loss.

In March 2022, the Company issued 125,000 shares upon the exercise of warrants for proceeds of $15,000.

Expressed in Canadian Dollars

7. SHARE CAPITAL *- continued*

In October 2022, the Company completed a non-brokered private placement by issuing 5,350,991 units at a price of $0.055 per unit for proceeds of $294,305. Each unit consisted of one common share of the Company and one three-year share purchase warrant entitling the holder to purchase one additional common share at a price of $0.08 for three years following the closing of the offering. The Company paid $2,222 in legal and filing fees in respect of the placement.

The unit price of this offering exceeded the trading price of the shares on the date of issuance, therefore, $26,755 of the unit proceeds, being the estimated residual value, has been assigned to the warrants and classified as contributed surplus.

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.

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, 2020	9,001,250	$	0.18	8,890,000	$	0.12
Expired	-	$	-	(400,000)	$	0.21
Exercised	(850,000)	$	0.12	-	$	-
Issued/granted	6,125,000	$	0.17	2,100,000	$	0.15
Outstanding, December 31, 2021	14,276,250	$	0.19	10,590,000	$	0.13
Expired	(8,026,250)	$	0.21	(2,115,000)	$	0.19
Issued	5,350,991	$	0.08	-	$	-
Exercised	(125,000)	$	0.12	-	$	-
Outstanding, December 31, 2022	11,475,991	$	0.14	8,475,000	$	0.11
Exercisable, December 31, 2022	11,475,991	$	0.14	8,475,000	$	0.11

At December 31, 2022, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry
Options	1,725,000	$	0.08	May 2025
	250,000	$	0.11	November 2025
	4,600,000	$	0.11	December 2025
	1,900,000	$	0.15	May 2026
	8,475,000			

Expressed in Canadian Dollars

8. STOCK OPTIONS AND WARRANTS - *continued*

	Number of Shares	Exercise Price	Expiry
Warrants	3,950,000	$ 0.20	May 2023 *(i)*
	2,175,000	$ 0.25	November 2023 *(ii)*
	5,350,991	$ 0.08	October 2025
	11,475,991		

(i) Exercise price increased from $0.15 per share to $0.20 per share in May 2022. These warrants expired on May 16, 2023.
(ii) Exercise price increased from $0.20 per share to $0.25 per share in November 2022.

At December 31, 2022, the weighted-average remaining life for the outstanding stock options was 2.95 years and 1.61 years for the outstanding warrants.

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers, employees, and consultants of the Company. During 2021, the Company granted 1,900,000 options that vested immediately and 200,000 options that vested over twelve months. No options were granted during 2022. Share-based compensation is recorded over the vesting period.

	2022	2021
Total options granted	-	2,100,000
Average exercise price	$ -	$ 0.15
Estimated fair value of options granted	$ -	$ 137,480
Estimated fair value per option	$ -	$ 0.07

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:

	2022	2021
Risk-free interest rate	-	0.88 %
Expected dividend yield	-	0.00%
Expected stock price volatility	-	86%
Expected forfeiture rate	-	0.00%
Expected option life in years	-	4.71

The Company has recorded share-based compensation as follows:

	2022	2021
Number of options vested in year	50,000	2,050,000
Compensation recognized in year	$ 464	$ 137,016

Expressed in Canadian Dollars

9. 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:

		2022		2021
Loss before income taxes for accounting purposes	$	899,548	$	2,227,930
Expected tax recovery for the year		(243,000)		(602,000)
Effect of different tax rate on foreign losses		(29,000)		(38,000)
Non-deductible expenses, non-taxable items and other		245,000		(50,000)
Change in unrecognized deductible temporary differences		27,000		690,000
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:

		2022		2021
Non-capital losses	$	3,217,000	$	3,222,000
Exploration expenditures		5,787,000		5,197,000
Equipment		41,000		49,000
Share issuance costs		11,000		15,000
Investment tax credits		40,000		40,000
Capital losses		-		-
Unrecognized deferred tax assets	$	9,096,000	$	8,523,000

The Company's deferred tax assets expire as follows:

		2022	Expiry Date Range		2021
Non-capital losses	$	11,626,000	2024 to 2042	$	11,602,000
Exploration expenditures	$	19,693,000	2024 to 2041	$	17,716,000
Equipment	$	148,000	Not applicable	$	174,000
Share issuance costs	$	41,000	2043 to 2046	$	55,000
Investment tax credits	$	55,000	2027 to 2033	$	55,000
Capital losses	$	-	Not applicable	$	-

Expressed in Canadian Dollars

10. 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:

	2022	2021
Salaries	$ 150,000	$ 225,000
Management fees	60,000	60,000
Director fees	9,000	36,000
	$ 219,000	$ 321,000

In addition, the Company recorded share-based compensation of $nil (2021 - $77,913) 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.

As at December 31, 2022, amounts due to related parties includes $75,000 due to the chief executive officer and $35,000 due to the chief financial officer for services rendered during the year ended December 31, 2022 (2021 - $nil).

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:

2022	Canada	Mexico	Total
Property and equipment	$ 628	$ 52,351	$ 52,979

2021	Canada	Mexico	Total
Property and equipment	$ 2,423	$ 61,221	$ 63,644

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company:

- signed an option agreement with Silver Dollar Resources Inc. ("Silver Dollar") granting Silver Dollar the option to earn a 100% interest in the Company's Nora project by making payments to the Company of $375,000 and incurring exploration expenditures on the property of $3,000,000 over five years. Should Silver Dollar earn its interest, the Company would retain a 3% NSR of which 1% (one-third) could be purchased by Silver Dollar for $3,000,000;
- signed an exclusivity agreement with Silver Dollar that provided Silver Dollar with a period of two months to conduct due diligence on the assets of the Company and consider a corporate merger. Silver Dollar terminated the exclusivity period on June 12, 2023. The agreement provided the Company with a $200,000 non-interest-bearing loan that is repayable in cash or units of the Company, at the Company's option, on August 11, 2023, being 60 days after the termination of the exclusivity period. Each unit will consist of one common share and one share purchase warrant entitling Silver Dollar to purchase one additional common share for up to two years.