DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2023 AND 2022

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Defiance Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of Defiance Silver Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2023 and 2022, 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 incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through other business and financial transactions which would assure continuation of the Company's operations and exploration programs. At June 30, 2023, the Company had cash and cash equivalents of $4,564,187and a working capital surplus of $3,789,513. The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. Although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of Impairment Indicators of Exploration and Evaluation Assets ("E&E Assets")

As described in Note 8 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was $33,167,771 as of June 30, 2023. As more fully described in Note 3 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.

The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Obtaining, through legal counsel, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.
- Confirming with optionors that the option agreements are in good standing, or in instances where agreements have lapsed, are in process of being renewed.

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 Catherine Tai

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 30, 2023

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30,
(Expressed in Canadian dollars)

		2023		2022
ASSETS				
Current assets				
Cash and cash equivalents	$	4,564,187	$	11,783,088
Restricted cash (Note 16)		388,560		388,560
Receivables (Note 4)		2,196		28,089
Prepaid expenses (Note 5)		129,164		164,880
Total current assets		5,084,107		12,364,617
Value added tax (Note 4)		3,375,507		2,130,412
Other assets (Note 6)		45,767		45,351
Property and Equipment (Note 7)		256,998		257,753
Exploration and evaluation assets (Note 8)		33,167,771		26,761,921
Total assets	$	41,930,150	$	41,560,054
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	1,294,594	$	1,405,998
Total current liabilities		1,294,594		1,405,998
Non-current liabilities				
Deferred income tax liabilities		36,000		36,000
Total non-current liabilities		36,000		36,000
Total liabilities		1,330,594		1,441,998
Shareholders' equity				
Share capital (Note 10)		54,272,993		52,145,323
Share-based payment reserve (Note 10)		6,176,340		5,335,982
Deficit		(19,849,777)		(17,363,249)
Total shareholders' equity		40,599,556		40,118,056
Total liabilities and shareholders' equity	$	41,930,150	$	41,560,054

Nature and continuance of operations (Note 1)
Contingencies (Note 16)
Subsequent events (Note 17)

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	YEARS ENDED JUNE 30, 2023	2022
EXPENSES		
Investor relations	$ 479,705	$ 740,579
Legal and audit	332,975	278,503
Management and consulting fees (Note 10,11)	812,421	509,468
Office and administration	241,587	260,674
Property Investigation	140,615	139,596
Share-based compensation (Note 11)	1,003,040	1,832,856
Transfer agent and filing fees	85,386	96,136
Travel	149,290	159,837
Total expenses	(3,245,019)	(4,017,649)
Interest income	213,330	70,239
Gain on foreign exchange	545,161	89,829
	758,491	160,068
Loss and comprehensive loss for the year	$ (2,486,528)	$ (3,857,581)
Basic and diluted loss per common share	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding - Basic and diluted	227,600,478	220,554,520

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	YEARS ENDED JUNE 30, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (2,486,528)	$ (3,857,581)
Items not affecting cash:		
Share-based compensation	1,003,040	1,832,856
Foreign exchange	(416)	(590)
Changes in non-cash working capital items:		
Receivables	25,893	49,817
Value added tax	(1,245,095)	(725,461)
Prepaid expenses	35,716	101,551
Accounts payable and accrued liabilities	211,098	(274,717)
Net cash used in operating activities	(2,456,292)	(2,874,125)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(54,895)	(192,727)
Exploration and evaluation assets expenditures	(6,563,498)	(6,393,064)
Net cash used in investing activities	(6,618,393)	(6,585,791)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,855,784	411,279
Net cash provided by financing activities	1,855,784	411,279
Change in cash during the year	(7,218,901)	(9,048,637)
Cash and cash equivalents, beginning of the year	11,783,088	20,831,725
Cash and cash equivalents, end of the year	**$ 4,564,187**	**$ 11,783,088**
Cash and cash equivalents comprise:		
Cash	1,564,187	11,783,088
Cash equivalents	3,000,000	-
Cash and cash equivalents, end of the year	**$ 4,564,187**	**$ 11,783,088**

Supplemental disclosure with respect to cash flows (Note 12)

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

DEFIANCE SILVER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	ed Payment Reserves	Deficit	Total
Balance at June 30, 2021	220,026,719	$ 51,431,820	$ 3,805,350	$ (13,505,668)	$ 41,731,502
Stock options exercised	350,000	237,747	(107,747)	-	130,000
Warrants exercised	860,250	275,220	-	-	275,220
Compensation units exercised	17,820	13,730	(7,671)	-	6,059
Other compensatory awards settled	461,249	186,806	(186,806)	-	-
Share-based compensation	-	-	1,832,856	-	1,832,856
Net loss for the year	-	-	-	(3,857,581)	(3,857,581)
Balance at June 30, 2022	221,716,038	52,145,323	5,335,982	(17,363,249)	40,118,056
Warrants exercised	5,986,400	1,855,784	-	-	1,855,784
Other compensatory awards settled	777,498	162,682	(162,682)	-	-
Shares issued for debt	522,283	109,204			109,204
Share-based compensation	-	-	1,003,040	-	1,003,040
Net loss for the year	-	-	-	(2,486,528)	(2,486,528)
Balance at June 30, 2023	229,002,219	54,272,993	6,176,340	(19,849,777)	40,599,556

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Defiance Silver Corp ("the Company" or "Defiance") was incorporated on July 19, 2007, under the Business Corporations Act of the Province of British Columbia. The Company's principal business is the acquisition and exploration of exploration and evaluation assets. The Company's registered and records office is at Suite 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. The Company is listed on the TSX Venture Exchange under the symbol "DEF".

The Company's consolidated financial statements are presented in Canadian dollars which is the functional currency.

At the date of these consolidated financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on these exploration and evaluation assets is dependent upon the Company being able to identify a commercial ore body, to finance its exploration costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation asset. To date, the Company has not earned revenues and is considered to be in the exploration stage.

<u>Going Concern of Operations</u>

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through other business and financial transactions which would assure continuation of the Company's operations and exploration programs. At June 30, 2023, the Company had cash and cash equivalents of $4,564,187 (June 30, 2022 - $11,783,088) and a working capital surplus of $3,789,513 (June 30, 2022 - $10,958,619). The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. Although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

<u>Title to exploration and evaluation assets</u>

During the year ended June 30, 2022, the Company became aware that certain mineral concessions from its Tepal Project had been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were authorized for issue by the Audit Committee and Board of Directors on October 30, 2023.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Accounting Estimates

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

1. *Recoverability of receivables and value added tax:* which are included in the consolidated statements of financial position. Management has determined that receivables are recoverable given management's experience in realizing receivables and refunds of value added tax.
2. *Estimating useful life of equipment*: Depreciation of equipment is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors such as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.
3. *Carrying value and the recoverability of exploration and evaluation assets*: Management has determined that exploration, evaluation and related costs incurred which have been capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and prefeasibility studies, accessibility of facilities and existing permits.
4. *Valuation of share-based compensation and brokers' warrants*: Management uses the Black-Scholes Pricing Model for valuation of share-based compensation and brokers' warrants, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

2. BASIS OF PREPARATION *(Cont'd)*

Critical Accounting Estimates (Cont'd)

5. *Income Taxes*: In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operation and cash flows.

Critical Accounting Judgements

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1. *Going concern of operations*: The financial statements have been prepared 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. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).
2. *Impairment of exploration and evaluation assets*: During the year ended June 30, 2022, the Company became aware that certain mineral concessions from its Tepal Project have been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course. The assessment of the Company's ability to regain its rightful ownership involves judgement. Judgements and assumptions are continually evaluated and are based on experience with Mexican Law, advice from legal counsel and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the assumptions regarding our ability to regain the Tepal mineral concessions are incorrect, the carrying value of the Tepal project may need to be impaired.
3. *Determination of functional currency:* The Company determines the functional currency through the analysis of several indicators such as expenses and cash flow, financing activities, and frequency of transactions with the reporting entity.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all years presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. 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 the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

The financial statements include the financial statements of Defiance Silver Corp. and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest	Principal Activity
Minera Santa Remy S.A. de CV	Mexico	100%	Mineral exploration
DefCap (BVI) Inc.	British Virgin Islands	100%	Holding company
Valoro Resources Inc.	Canada	100%	Mineral exploration
Geologix Explorations Mexico S.A. de C.V.	Mexico	100%	Mineral exploration
GEM Servicios S.A. de C.V.	Mexico	100%	Mineral exploration
Geologix (U.S.) Inc.	USA	100%	Mineral exploration

Foreign currencies

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are re-translated at the rate of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Exchange gains and losses arising on translation are included in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term highly liquid investment with original maturity of less than 3 months. At June 30, 2023 the Company had $3,000,000 in cash equivalents (2022 - $nil).

Receivables

Receivables are recorded at face value less any provisions for uncollectible accounts considered necessary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash, restricted cash, receivables and other assets are measured at amortized cost with subsequent impairments recognized in profit or loss.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified and measured at amortized on the statement of financial position.

As at June 30, 2023, the Company does not have any derivative financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation and impairment charges. The cost of an item of includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and for qualifying assets, the associated borrowing costs. Where an item is comprised of major components with different useful lives, the components are accounted for as separate items of property and equipment. Property and equipment is depreciated to its estimated residual value using the straight-line method over the estimated useful lives of the individual assets. Depreciation of an asset begins when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The significant classes of property and equipment and their useful lives are as follows:

Buildings	20 years
Vehicles	5 years
Computers	3-4 years
Equipment	5 years

An item is derecognized upon disposal, when held for sale, or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Exploration and evaluation assets (Mineral properties)

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment at the end of each reporting period or when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Exploration and evaluation assets (Mineral properties) *(Cont'd)*

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Reclamation deposits

Cash which is subject to contractual restrictions on use related to the Company's exploration and evaluation assets is classified separately as reclamation deposits. Reclamation deposits are classified as other assets.

Impairment of tangible and intangible assets

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

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

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Share-based payments

The Company operates an incentive plan ("Omnibus Equity Incentive Plan") that allows the Company to grant equity-based compensation to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

The Company recognizes all forms of share-based payments, including stock option grants, deferred share units, performance share units, and restricted share units, at their fair value on the grant date, which are based on the estimated number of awards that are ultimately expected to vest.

Estimating fair value for granted stock options and other compensatory awards requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or award, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Estimating fair value for granted restricted share units, deferred share units and performance share units requires estimating the number of awards likely to vest on grant and at each reporting date up to the vesting date. The estimated forfeiture rate is adjusted for actual forfeitures in the period.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve the issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are valued based on the residual value method. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized on temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for amounts relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect either accounting or taxable loss, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, warrants and conversion of convertible notes, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Recent Accounting Pronouncement

Amendments to IAS 1, Presentation of Financial Statements

In January 2020, the International Accounting Standards Board ("IASB") issued "Classification of Liabilities as Current or Non-current (Amendments to IAS 1)". The amendments clarify that the classification of liabilities as current or noncurrent should be based on rights that exist at the end of the reporting period. The amendments also clarify the definition of a settlement and provide situations that would be considered as a settlement of a liability. In October 2022, the IASB issued "Non-current Liabilities with Covenants (Amendments to IAS 1)". These further amendments clarify how to address the effects on classification and disclosure of covenants that an entity is required to comply with on or before the reporting date and covenants that an entity must comply with only after the reporting date. The amendments are effective for reporting periods beginning on or after January 1, 2024. The Company has not yet determined the impact that these amendments will have on the consolidated financial statements.

(Expressed in Canadian Dollars)

4. RECEIVABLES

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

		June 30, 2023		June 30, 2022
VAT receivable	$	3,375,507	$	2,130,412
GST receivable		-		26,147
Advances receivable		2,151		1,674
Accounts receivable		45		268
	$	2,196	$	28,089

5. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		June 30, 2023		June 30, 2022
Security deposits	$	15,630	$	13,574
Insurance		27,039		29,470
Vendor prepayments		86,495		121,836
	$	129,164	$	164,880

6. OTHER ASSETS

		June 30, 2023		June 30, 2022
Investments	$	30,025	$	30,030
Reclamation bond		15,742		15,321
	$	45,767	$	45,351

Investments

These represent guaranteed investment certificates held with the bank as collateral for the Company's credit cards issued to key personnel.

Reclamation bond

The Company has a deposit in place with a United States bank as security for a reclamation bond on former exploration and evaluation assets located in the United States. The reclamation bond is required by local jurisdictions at the time exploration activities commenced on the properties and do not represent a rehabilitation provision. Interest on the certificates of deposit with the United States bank is paid on a periodic basis to the Company.

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Land	Buildings (2)	Vehicles	Computers	Equipment	Total
Cost						
As at June 30, 2021	$ -	$ -	$ 57,350	$ 64,844	$ -	$ 122,194
Additions	61,180	35,954	-	12,047	83,546	$ 192,727
As at June 30, 2022	61,180	35,954	57,350	76,891	83,546	314,921
Additions	-	3,250	41,218	8,888	1,539	$ 54,895
As at June 30, 2023	61,180	39,204	98,568	85,779	85,085	369,816
Accumulated depreciation						
As at June 30, 2021	$ -	$ -	$ 8,364	$ 9,726	$ -	$ 18,090
Depreciation	-	-	14,338	22,003	2,737	$ 39,078
As at June 30, 2022	-	-	22,702	31,729	2,737	57,168
Depreciation	-	-	22,066	23,435	10,149	$ 55,650
As at June 30, 2023	-	-	44,768	55,164	12,886	112,818
Carrying amounts						
As at June 30, 2022	$ 61,180	$ 35,954	$ 34,648	$ 45,162	$ 80,809	$ 257,753
As at June 30, 2023	$ 61,180	$ 39,204	$ 53,800	$ 30,615	$ 72,199	$ 256,998

(1) During the year ended June 30, 2023, depreciation expense of $55,650 (June 30, 2022 – $39,078) was recorded in exploration and evaluation expenditures (Note 8).

(2) During the year ended June 30, 2023, $3,250 of costs incurred on Buildings was for construction in progress.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets 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 claims. The Company has investigated title to all of its exploration and evaluation assets, and, to the best of its knowledge, all of its interests are in good standing (see Tepal project below).

	San Acacio	Lagartos	Lucita	Minerva	Tepal	Other properties	Total
Balance at June 30, 2021	**$ 12,434,425**	**$ 1,684,699**	**$ 165,670**	**$ 23,248**	**$ 5,612,763**	**$ -**	**$ 19,920,805**
Acquisition costs							
Property Acquisition costs	1,437,653	-	156,245	-	837,508	65,613	2,497,019
Exploration costs							
Claim Fees	16,967	18,090	61,421	-	101,110	-	197,588
Consulting Fees	591,005	3,410	452,383	-	16,044	-	1,062,842
Camp	592,814	76,751	372,383	-	23,240	-	1,065,188
Drilling	420,721	-	719,338	-	-	-	1,140,059
Equipment	49,428	1,918	3,244	-	-	-	54,590
Geology and mapping	348,184	-	270,455	-	-	-	618,639
Geophysics	3,657	-	-	-	4,312	-	7,969
Travel and accommodation	180,770	2,872	13,580	-	-	-	197,222
	2,203,546	103,041	1,892,804	-	144,706	-	4,344,097
Balance at June 30, 2022	**16,075,624**	**1,787,740**	**2,214,719**	**23,248**	**6,594,977**	**65,613**	**26,761,921**
Acquisition costs							
Property Acquisition costs	1,014,789	-	687,734	-	135,427	61,095	1,899,045
Exploration costs							
Claim Fees	102,576	22,245	74,703	-	124,332	11,173	335,029
Consulting and Payroll Fees	1,541,944	-	70,480	-	954	16,291	1,629,669
Camp	351,689	21,460	-	-	17,404	9,899	400,452
Drilling	900,098	-	-	-	-	-	900,098
Equipment	78,970	1,536	-	-	-	17	80,523
Geology and mapping	715,061	-	27,050	-	-	42,920	785,031
Professional Fees	72,998	-	-	-	64,369	3,330	140,697
Travel and accommodation	232,305	2,252	676	-	-	73	235,306
	3,995,641	47,493	172,909	-	207,059	83,703	4,506,805
Balance at June 30, 2023	**21,086,054**	**1,835,233**	**3,075,362**	**23,248**	**6,937,463**	**210,411**	**33,167,771**

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

San Acacio Project

The Company entered into an option agreement on October 24, 2011, subsequently the subject of several amendments, with the Mexican owners ("the Vendors") for an option to purchase a 100% interest in the San Acacio property consisting of 10 mining concessions and associated surface rights and tailings. The San Acacio property is located near the city of Zacatecas, Mexico.

During the year ended June 30, 2020, the Company renegotiated and extended the terms of its San Acacio Silver Project option agreement by three years from September 27, 2020 to September 27, 2023. In addition, 80% of the option payments due before March 27 and June 27, 2020 were deferred as a part of this extension. As a result of the amending agreement, the payment terms are as follows:

	Letter Of Intent Payment	Option Payment	Lease Payment	Interest Payment	Total	
By September 27, 2012	USD 25,000	USD -	USD -	USD -	USD 25,000	(paid)
By September 27, 2013	-	250,000			250,000	(paid)
By September 27, 2014	-	-	150,000		150,000	(paid)
By September 27, 2015	-	-	225,000		225,000	(paid)
By September 27, 2016	-	100,000	150,000		250,000	(paid)
By September 27, 2017	-	200,000	150,000		350,000	(paid)
By September 27, 2018	-	600,000	150,000		750,000	(paid)
By September 27, 2019	-	600,000	200,000	107,600	907,600	(paid)
By September 27, 2020	-	500,000	100,000	-	600,000	(paid)
By September 27, 2021	-	400,000	283,334	86,063	769,397	(paid)
By September 27, 2022	-	400,000	283,333	76,063	759,396	(paid)
By September 27, 2023	-	400,000	283,333	66,063	749,396	(paid)
On September 27, 2023	-	2,300,000	-	107,461	2,407,461	
Total	USD 25,000	USD 5,750,000	USD 1,975,000	USD 443,250	USD 8,193,250	

The property is subject to a 2.5% NSR payable to the vendors on production from the property. The Company will have the right to purchase the NSR at any time for US$2,500,000 which will escalate with the official Mexican Inflation Index after a five-year period. Should the agreement be terminated prior to September 27, 2023, a break fee equal to 5% of the outstanding option balance shall be paid to the property vendor.

Following the first anniversary of the purchase of the San Acacio Project, the Company must make minimum annual royalty payments of US$125,000. The minimum royalty commitment terminates in the event that the production royalty paid is equal to or higher than the equivalent to the minimum that would have been due during six consecutive months.

The Company is in the process of renegotiating and extending the terms of its San Acacio Silver Project option agreement. As the result of the negotiations, the scheduled payment due by September 27, 2023 was not paid. There is no guarantee that the parties will formalize such agreement. Failure to formalize an amendment may result in the Company losing its right to the San Acacio Silver Project.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

Lagartos Project

In June 2018, the Company completed its acquisition of a group of assets from MAG Silver Corp ("MAG") by issuing 5,000,000 common shares (valued at $1,600,000) of the Company. The Company received a 100% interest in MAG's Lagartos project along with a regional exploration database and cash of $10,000.

Lucita Project

In November 2020, the Company entered into a definitive option agreement with Pan American Silver Corp. ("Pan American") to acquire a 100% interest in Pan American's Lucita property consisting of 28 mining concessions, located adjacent to the Company's San Acacio project. The property is subject to a 2% NSR payable to the vendors on production from the property. The payment terms are as follows:

		Option Payment	
November 30, 2020	USD	100,000	(paid)
November 30, 2021		100,000	(paid)
November 30, 2022		500,000	(paid)
November 30, 2023		800,000	
Total		USD 1,500,000	

Minerva property

During the year ended June 30, 2012, the Company applied for a mining claim located in Coahuila State, Mexico, known as the Minerva property. As of June 30, 2023, the application was still pending approval by the Mexican mining authorities.

Other properties

During the year ended June 30, 2023, the Company incurred $83,703 (2022 - $65,613) on the exploration and investigative expenditures related to the prospective mineral properties that could potentially be part of the future option agreements.

8. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

Surface rights agreements

In August 2014, the Company obtained authorization to temporarily occupy and explore certain land holdings on the San Acacio property. In order to keep the agreement in good standing, the Company is required to make semi-annual payments during the exploration phase and the development phase. The agreement will be valid for twenty years with the option to extend in the future. During the year ended June 30, 2022, the Company entered into a land purchase agreement to purchase the certain land holdings on the San Acacio property. The Company acquired the land for $385,057 (6,183,000 Mexican peso).

On February 27, 2015, the Company entered into a Surface Rights Agreement with the Ejido called "Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, for the right to occupy and perform exploration work on common use lands of such Ejido. The Company had the authorization to explore the surface of the property for a term of three years which could be extended for an additional three years at the Company's choice, by making annual advance payments and by paying a one-time fee on the execution of the agreement.

On February 26, 2018, the Company exercised its right to extend the term of the agreement above mentioned for an additional three years by making a one-time payment, and was required to make semi-annual payments. All required payments have been made.

On March 30, 2021, the Company entered into an Agreement to extend the Surface Rights Agreement with the Ejido called "Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, where it was agreed that the Company could continue with its exploration works exclusively in the Ejido's lands for three additional years, being the Surface Rights Agreement valid until March 12, 2024. The Company is able to extend the Surface Rights Agreement for a term of three additional years, at the election of the Company, subject to the previous approval of the Ejido's assembly.

On August 13, 2021, the Company entered into a Temporary Occupancy and Right of Way Agreement in common use lands for exploration with the Rural Fractioning (Fraccionamiento) "Fraccionamiento Sauceda de la Borda", Municipality of Vetagrande, State of Zacatecas, in which the Company is authorized to temporarily use a certain part of its land, exclusively for mining exploration works. This agreement is valid until August 13, 2026.

On March 31, 2023, the Company entered into a Surface Rights Agreement with the Ejido called "Panuco", Municipality of Panuco, State of Zacatecas, for the right to occupy and perform exploration work on common use lands of such Ejido. The Company had the authorization to explore the surface of the property for a term of five years which could be extended for an additional five years at the Company's choice, by making annual advance payments and by paying a one-time fee on the execution of the agreement.

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS *(Cont'd)*

Tepal Project

As a result of the acquisition of Valoro Resources Inc. ("Valoro") in fiscal 2019, the Company acquired a 100% right, title and interest in mining claims located in the state of Michoacán, Mexico (the "Tepal Project")

In 2009, Valoro and Arian Silver Corp. ("Arian") entered into an agreement whereby Valoro was granted the exclusive rights to purchase Arian's 100% interest in the Tepal Gold-Copper Project. Under the terms of the agreement, Valoro completed the purchase of 100% of the property, by delivering to Arian US$3.0 million in staged payments. Valoro also assumed the balance of Arian's obligations under the terms of an underlying property option agreement with Minera Tepal SA de CV ("Minera Tepal") subject to a 2.5% Net Smelter Return royalty ("NSR") and has completed staged payments to the underlying property vendor of US$3,200,000.

During the year ended June 30, 2021, the Company entered into an option agreement to repurchase the existing 2.5% NSR on the Tepal Project from Minera Tepal, S.A. de C.V ("Minera Tepal) over four years for total consideration of USD $4.85 million. During the year ended June 30, 2023, the Company renegotiated and extended the terms of its Tepal NSR repurchase option agreement by a year and a half from December 16, 2024 to June 30, 2026 and an additional option payment of USD 100,000 was paid on January 15, 2023 brining the total consideration over the term of the agreement to USD 4.95 million. As a result of the amending agreement, the payment terms are as follows:

		Option Payment	
January 10, 2021	USD	150,000	(paid)
June 16, 2021		150,000	(paid)
December 16, 2021		300,000	(paid)
June 16, 2022		300,000	(paid)
January 15, 2023		100,000	(paid)
June 30, 2024		550,000	
December 31, 2024		550,000	
June 30, 2025		600,000	
December 31, 2025		600,000	
June 30, 2026		1,650,000	
	Total	USD 4,950,000	

During the year ended June 30, 2021, the Company entered into an option agreement with Minera Tepal to acquire certain claims surrounding the Tepal Gold-Copper Project in Michoacán, Mexico. The Company will pay the annual concession fees on these claims until a production decision has been made, upon which time the Company will pay the vendor USD $2 million for 100% ownership of the mining concessions.

On June 22, 2022, the Company became aware that certain mineral concessions from its Tepal Project have been transferred to a third-party individual without the Company's knowledge or consent. The Company has commenced legal action and is confident that its rightful ownership will be restored in due course. As of June 30, 2023, the legal case was active and being processed in the Mexican courts system.

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables and accrued liabilities for the Company are comprised as follows:

		June 30, 2023		June 30, 2022
Trade payables	$	1,140,474	$	1,307,722
Accrued liabilities		154,120		98,276
	$	1,294,594	$	1,405,998

All payables and accrued liabilities for the Company fall due within the next 12 months.

10. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value. All issued shares are fully paid.

During the period ended June 30, 2023, the Company:

i) issued 5,986,400 common shares pursuant to exercise of warrants for gross proceeds of $1,855,784.

ii) issued 522,283 common shares to settle debt of $109,204.

iii) issued 440,000 shares pursuant to the settlement of deferred share units.

iv) issued 25,000 shares pursuant to the settlement of performance share units.

v) issued 312,498 shares pursuant to the settlement of restricted share units.

During the year ended June 30, 2022, the Company:

i) issued 350,000 common shares pursuant to the exercise of stock options for gross proceeds of $130,000.

ii) issued 860,250 common shares pursuant to the exercise of warrants for gross proceeds of $275,220.

iii) issued 17,820 common shares for gross proceeds of $6,059 and 8,910 share purchase warrants pursuant to exercise of broker compensation options. The warrants are exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022.

iv) issued 230,000 shares pursuant to the settlement of deferred share units.

v) issued 75,000 shares pursuant to the settlement of performance share units.

vi) issued 156,249 shares pursuant to the settlement of restricted share units.

10. SHARE CAPITAL *(Cont'd)*

Omnibus Equity Incentive Plan

On December 8, 2021, and amended on November 3, 2022 ("Effective date"), the Company adopted an Omnibus Equity Incentive Plan ("Omnibus Plan") to amend and restate the Company's stock option plan ("Predecessor Plan"). Under the terms of the plan the Company may grant share-based compensation to employees, consultants, persons performing investor relations activities and directors.

The maximum aggregate number of Shares issuable under this plan in respect of stock options shall not exceed ten (10%) percent of the Company's issued and outstanding Shares at any point in time. The number of common shares reserved for issuance to consultant or persons performing Investor Relations activities will not exceed two (2%) of the issued and outstanding common shares in any twelve (12) month period. All outstanding stock options granted under the predecessor plan shall continue to be outstanding as stock options granted under and subject to the terms of this Omnibus Plan.

The maximum aggregate number of shares issuable under this plan in respect of deferred share units (DSUs), restricted share units (RSUs) and performance share units (PSUs) shall not exceed 22,801,654 at any point in time, representing 10% of the issued and outstanding shares of the Company at the effective date. The total number of DSUs, RSUs, and PSUs issuable to any participant under this plan shall not exceed one (1%) percent of the issued and outstanding Shares at the time of the award.

The maximum term of an option, DSU, RSU or PSU is 10 years after the date of grant. Vesting terms are under the discretion of the Board of Directors at each grant.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL *(Cont'd)*

Stock options

A summary of the Company's outstanding share purchase options at June 30, 2023 and the changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2021	7,375,125	$0.57
Granted	2,988,750	0.41
Exercised	(350,000)	0.37
Expired / Cancelled	(471,875)	0.70
Balance, June 30, 2022	9,542,000	0.52
Granted	2,826,250	0.16
Expired / Cancelled	(1,605,850)	0.46
Balance, June 30, 2023	10,762,400	$0.44

The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	June 30, 2023	June 30, 2022
Annualized volatility	103.89%	102.38%
Risk-free interest rate	2.96%	1.72%
Dividend rate	0%	0%
Expected life of options	8.21 years	7.94 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.14	$ 0.34

(Expressed in Canadian Dollars)

10. SHARE CAPITAL *(Cont'd)*

Stock options *(Cont'd)*

The following incentive stock options were outstanding to directors, officers and employees at June 30, 2023:

Number of Options Outstanding	Expiry Date	Number of Options Exercisable	Exercise Price ($)
833,400	November 5, 2025	833,400	0.59
1,114,000	June 30, 2026	1,114,000	0.66
1,202,500	January 31, 2027	801,667	0.41
983,750	January 31, 2028	327,917	0.16
550,000	May 29, 2029	550,000	0.20
200,000	July 23, 2029	200,000	0.31
605,000	May 29, 2030	605,000	0.23
1,012,500	November 5, 2030	1,012,500	0.59
1,175,000	June 30, 2031	1,175,000	0.90
1,513,750	January 31, 2032	1,009,167	0.41
1,572,500	January 31, 2033	524,167	0.16
10,762,400		8,152,818	0.50

Deferred share units (DSUs)

A summary of the Company's outstanding DSUs at June 30, 2023 and the changes during the year are presented below:

	Number of DSUs	Weighted Average Grant Date Fair Value per DSU
Balance, June 30, 2021	-	$0.00
Granted	230,000	0.41
Settled	(230,000)	0.41
Balance, June 30, 2022	-	$0.00
Granted	440,000	0.16
Settled	(440,000)	0.16
Balance, June 30, 2023	-	$0.00

(Expressed in Canadian Dollars)

10. SHARE CAPITAL *(Cont'd)*

Performance share units (PSU)

A summary of the Company's outstanding PSUs as at June 30, 2023 and the changes during the year are presented below:

	Number of PSUs	Weighted Average Grant Date Fair Value per PSU
Balance, June 30, 2021	-	$0.00
Granted	75,000	0.41
Settled	(75,000)	0.41
Balance, June 30, 2022	-	$0.00
Granted	25,000	0.16
Settled	(25,000)	0.16
Balance, June 30, 2023	-	$0.00

Restricted share units (RSU)

RSU transactions and the number of RSUs outstanding are summarized as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value per RSU
Balance, June 30, 2021	-	$0.00
Granted	468,750	0.41
Settled	(156,249)	0.41
Balance, June 30, 2022	312,501	$0.41
Granted	468,750	0.16
Settled	(312,498)	0.28
Canceled	(62,501)	0.24
Balance, June 30, 2023	406,252	$0.24

At June 30, 2023, the following RSUs were outstanding:

Number of RSUs Outstanding	Number of RSUs Available for Settlement	Expiry Date
135,418	-	January 31, 2032
270,834	-	January 31, 2033
406,252	-	

(Expressed in Canadian Dollars)

10. SHARE CAPITAL *(Cont'd)*

Share-based compensation

The Company recognizes compensation for all omnibus awards granted using the fair value-based method of accounting. During the year ended June 30, 2023, the Company recognized $1,003,040(June 30, 2022 - $1,832,856) in share-based compensation expense for omnibus awards.

Warrants

A summary of the Company's outstanding warrants at June 30, 2023 and the changes during the year are presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2021	29,470,286	$0.62
Granted	8,910	0.48
Exercised	(860,250)	0.32
Balance, June 30, 2022	28,618,946	0.63
Exercised	(5,986,400)	0.31
Expired / Cancelled	(8,628,697)	1.08
Balance, June 30, 2023	14,003,849	$0.48

At June 30, 2023, the following warrants and agent's warrants were outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
14,003,849	0.48	September 16, 2023
14,003,849	0.48	

(Expressed in Canadian Dollars)

10. SHARE CAPITAL *(Cont'd)*

Compensation Options

A summary of the Company's outstanding broker compensation options at June 30, 2023 and the changes during the year are presented below:

	Number of Compensation Options	Weighted Average Exercise Price
Balance, June 30, 2021	1,719,759	$0.56
Exercised	(17,820)	0.34
Balance, June 30, 2022	1,701,939	0.56
Expired / Cancelled	(1,701,939)	0.56
Balance, June 30, 2023	-	$0.00

11. RELATED PARTY TRANSACTIONS

Related party personnel are those who have the authority and responsibility for planning, directing, and controlling activities of the Company directly or indirectly. Related parties include the board of directors, officers, close family members and entities that are controlled by these individuals.

At June 30, 2023, accounts payable and accrued liabilities included $174,489 (June 30, 2022 - $250,396) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

During the year ended June 30, 2023, related party transactions include the following payments:

	YEAR ENDED JUNE 30, 2023	2022
Management and consulting fees [1]	$ 1,313,489	$ 1,364,262
Share-based payments [2]	784,850	1,387,650
	$ 2,098,339	$ 2,751,912

(1) Included in management and consulting fees was $893,270 (June 30, 2022 - $954,100) capitalized as exploration and evaluation assets.

(2) Share-based compensation expense is the fair value of options, RSUs, DSUs, and PSUs granted which have been calculated as disclosed in Note 10.

(Expressed in Canadian Dollars)

12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

At June 30, 2023, the cash and cash equivalents included $1,564,187 (2022 - $11,783,088) of cash in the bank and $3,000,000 (2022 - $nil) of investment-grade short-term deposit certificates issued by a Canadian bank.

Significant non-cash transactions for the year ended June 30, 2023, included:

a) A balance of $669,389 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.
b) Pursuant to the settlement of other compensatory awards, the Company transferred $162,682 to share capital from share-based payment reserve.
c) Issuance of 354,104 common shares to settle debt of $109,204.
d) Depreciation of $55,650 was capitalized to exploration and evaluation assets.

Significant non-cash transactions for the year ended June 30, 2022, included:

a) A balance of $882,687 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.
b) Pursuant to the exercise of stock options, the Company transferred $107,747 to share capital from share-based payment reserve.
c) Pursuant to the exercise of compensation option units, the Company transferred $7,670 to share capital from share-based payment reserve.
d) Pursuant to the settlement of other compensatory awards, the Company transferred $186,806 to share capital from share-based payment reserve.
e) Depreciation of $39,078 was capitalized to exploration and evaluation assets.

13. INCOME TAXES

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

		2023		**2022**
Loss before income taxes for the year	$	(2,486,528)	$	(3,857,581)
Expected income tax (recovery)	$	(672,000)	$	(1,042,000)
Change in statutory, foreign tax, foreign exchange rates and other		(4,619,000)		(793,000)
Permanent differences		3,509,000		1,250,000
Adjustment of prior year tax attributes		415,000		(519,000)
Change in unrecognized deductible temporary differences and other		1,367,000		1,104,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

In 2013, the Mexican government enacted tax reform to introduce a mining royalty effective January 1, 2014. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year.

(Expressed in Canadian Dollars)

The Company has taken the position that the 7.5% mining royalty is an income tax in accordance with IAS-12 for financial reporting purposes, as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as exploration and evaluation assets have a book basis but no tax basis for purposes of the royalty. The Company recognized a deferred tax liability of $36,000 in respect of this royalty.

The significant components of the Company's deferred tax assets and liabilities are as follows:

		2023		2022
Deferred Tax Assets (Liabilities)				
Exploration and evaluation assets	$	(1,283,000)	$	(1,300,000)
Non-capital losses		1,247,000		1,264,000
Net deferred tax liability	**$**	**(36,000)**	**$**	**(36,000)**

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

		2023	Expiry Date Range		2022	Expiry Date Range
Temporary Differences						
Exploration and evaluation assets	$	36,000	No expiry	$	229,000	No expiry
Property and equipment		1,432,000	No expiry		1,092,000	No expiry
Share issue costs and other		624,000	2044 to 2045		968,000	2043 to 2046
Other assets		23,000	No expiry		16,000	No expiry
Non-capital losses available for future periods						
Canada	$	12,494,000	2027 to 2043	$	10,556,000	2026 to 2042
USA		-	No expiry		-	No expiry
Mexico		4,769,000	2024 to 2033		2,025,000	2023 to 2032

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

14. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets in Mexico. All of the long-lived assets at June 30, 2023 and June 30, 2022 were for exploration and evaluation assets in Mexico.

15. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

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

The fair value of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities, approximates carrying value, due to their short-term nature. Fair value of other assets approximates the carrying value as they are recorded at market interest rate. The Company is exposed to varying degrees to a variety of financial instrument related risks:

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 cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of GST/VAT due from the governments of Canada and Mexico. As such, the Company does not believe it is subject to significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At June 30, 2023, the Company had cash and cash equivalents of $4,564,187 (June 30, 2022 - $11,783,088) to settle current liabilities of $1,294,594 (June 30, 2022 - $1,405,998). The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

Market risk

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

15. FINANCIAL AND CAPITAL RISK MANAGEMENT (Cont'd)

a) Interest rate risk

The Company has cash and cash equivalents balances and has no debt instruments that bear variable interest rates. The interest earned on the cash and cash equivalents approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash and cash equivalents in investment-grade short-term deposit certificates issued by its financial institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

b) Foreign currency risk

The Company's operations are in Canada, the United States and Mexico. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Based on the Company's net exposures at June 30, 2023 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of approximately $49,300 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican peso would result in a decrease/increase of approximately $366,000 in the Company's net earnings.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals, and the stock market to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, currency risk and credit risk.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its exploration and evaluation assets, acquire additional exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management.

16. CONTINGENCIES

The Company was named in a lawsuit filed in October 2020 (the "Action") by Avalos y Abogados, S.C. ("Avalos"), former legal counsel for Minera Santa Remy S.A. de C.V. ("Santa Remy"), which resigned as legal counsel in January 2020. Avalos seeks to recover an alleged debt owing under invoices issued to Santa Remy. In conjunction with the lawsuit, a prejudgment garnish order was served on the Company which resulted in $388,560 being held by the BC Supreme Court pending the outcome of the lawsuit. The total claim made by Avalos is $388,480. This amount has been recorded in the records of the Company. In October 2023, the Company recovered funds held by court in the amount of $79,238. The lawsuit is pending final settlement.

During the year ended June 30, 2022, the Company had certain mineral concession from its Tepal Project transferred to a third-party individual without the Company's knowledge or consent (see Note 8).

17. SUBSEQUENT EVENT

Subsequent to June 30, 2023, the following events occurred:

i) 14,003,849 warrants expired on September 16, 2023.
ii) Issued 354,594 common shares to settle debt of $65,600.