

# **DEFIANCE SILVER CORP.**

*(an exploration stage company)*

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

**DEFIANCE SILVER CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian dollars)

	September 30, 2022	June 30, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 11,373,834	\$ 11,783,088
Restricted Cash (Note 13)	388,560	388,560
Receivables (Note 3)	25,013	28,089
Prepaid expenses (Note 4)	204,377	164,880
Total current assets	11,991,784	12,364,617
Value added tax (Note 3)	2,393,437	2,130,412
Other assets (Note 5)	46,322	45,351
Property and Equipment (Note 6)	291,794	257,753
Exploration and evaluation assets (Note 7)	27,991,838	26,761,921
<b>Total assets</b>	<b>\$ 42,715,175</b>	<b>\$ 41,560,054</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 906,642	\$ 1,405,998
Total current liabilities	906,642	1,405,998
<b>Non-current liabilities</b>		
Deferred income tax liabilities	36,000	36,000
Total non-current liabilities	36,000	36,000
<b>Total liabilities</b>	<b>942,642</b>	<b>1,441,998</b>
<b>Shareholders' equity</b>		
Share capital (Note 9)	54,444,331	52,145,323
Share-based payment reserve (Note 9)	5,074,667	5,335,982
Deficit	(17,746,465)	(17,363,249)
Total shareholders' equity	41,772,533	40,118,056
<b>Total liabilities and shareholders' equity</b>	<b>\$ 42,715,175</b>	<b>\$ 41,560,054</b>

**Nature and continuance of operations** (Note 1)  
**Subsequent events** (Note 14)

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

**DEFIANCE SILVER CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian dollars)

	<b>THREE MONTHS ENDED SEPTEMBER 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>EXPENSES</b>		
Investor relations	\$ 86,950	\$ 146,889
Legal and audit	32,562	105,623
Management and consulting fees (Note 10)	159,559	142,402
Office and administration	73,002	42,023
Property Investigation	39,999	-
Share-based compensation (Note 9)	260,873	324,707
Transfer agent and filing fees	18,232	10,534
Travel	7,096	9,626
Total expenses	<u>(678,273)</u>	<u>(781,804)</u>
Interest income	60,887	8,718
Gain(loss) on foreign exchange	155,206	(10,716)
	<u>216,093</u>	<u>(1,998)</u>
<b>Loss and comprehensive loss for the period</b>	<u>\$ (462,180)</u>	<u>\$ (783,802)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Weighted average number of common shares outstanding - Basic and diluted</b>	<u>225,150,814</u>	<u>220,185,415</u>

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

**DEFIANCE SILVER CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian dollars)

	<b>THREE MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (462,180)	\$ (783,802)
Items not affecting cash:		
Share-based compensation	260,873	324,707
Foreign exchange	(971)	(413)
Changes in non-cash working capital items:		
Receivables	3,076	41,322
Value added tax	(263,025)	(66,486)
Prepaid expenses	(39,497)	85,094
Accounts payable and accrued liabilities	75,799	(162,023)
<b>Net cash used in operating activities</b>	<b>(425,925)</b>	<b>(561,601)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(45,907)	(2,194)
Exploration and evaluation assets expenditures	(1,793,206)	(1,103,472)
<b>Net cash used in investing activities</b>	<b>(1,839,113)</b>	<b>(1,105,666)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	1,855,784	82,000
Share issuance costs	-	(17,683)
<b>Net cash provided by financing activities</b>	<b>1,855,784</b>	<b>64,317</b>
<b>Change in cash during the period</b>	<b>(409,254)</b>	<b>(1,602,950)</b>
<b>Cash, beginning of the period</b>	<b>11,783,088</b>	<b>20,831,725</b>
<b>Cash, end of the period</b>	<b>\$ 11,373,834</b>	<b>\$ 19,228,775</b>

**Supplemental disclosure with respect to cash flows (Note 11)**

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

**DEFIANCE SILVER CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Number of Shares	Share capital	Share-based payment Reserves	Deficit	Total
<b>Balance at June 30, 2021</b>	220,026,719	\$ 51,431,820	\$ 3,805,350	\$ (13,505,668)	\$ 41,731,502
Issuance costs	-	(18,664)	-	-	(18,664)
Stock options exercised	200,000	153,362	(71,362)	-	82,000
Share-based compensation	-	-	324,707	-	324,707
Net loss for the period	-	-	-	(783,802)	(783,802)
<b>Balance at September 30, 2021</b>	220,226,719	51,566,518	4,058,695	(14,289,470)	41,335,743
Issuance costs	-	18,664	-	-	18,664
Stock options exercised	150,000	84,385	(36,385)	-	48,000
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	-	-	1,508,149	-	1,508,149
Net loss for the period	-	-	-	(3,073,779)	(3,073,779)
<b>Balance at June 30, 2022</b>	221,716,038	\$ 52,145,323	\$ 5,335,982	\$ (17,363,249)	\$ 40,118,056
Issuance costs	-	443,224	(443,224)	-	-
Warrants exercised	5,986,400	1,855,784	-	-	1,855,784
Stock options expired	-	-	(78,964)	78,964	-
Share-based compensation	-	-	260,873	-	260,873
Net loss for the period	-	-	-	(462,180)	(462,180)
<b>Balance at September 30, 2022</b>	227,702,438	54,444,331	5,074,667	(17,746,465)	41,772,533

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

## **DEFIANCE SILVER CORP.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021**

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#### **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 condensed consolidated interim financial statements are presented in Canadian dollars which is the functional currency.

At the date of these condensed consolidated interim 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.

#### Going Concern of Operations

These condensed consolidated interim 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 September 30, 2022, the Company had cash of \$11,373,834 (June 30, 2022 - \$11,783,088) and a working capital surplus of \$11,085,142 (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. The Company estimates it has sufficient working capital to continue operations for the upcoming year.

#### Title to exploration and evaluation assets

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. (Note 8)

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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## 2. BASIS OF PREPARATION

### Statement of Compliance

These condensed consolidated interim 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 November 23, 2022.

The condensed consolidated interim 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 condensed consolidated interim 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.



## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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#### 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 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.

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

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#### 3. RECEIVABLES

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

	September 30, 2022		June 30, 2022	
VAT receivable	\$	2,393,437	\$	2,130,412
GST receivable		20,988		26,147
Advances receivable		3,708		1,674
Accounts receivable		317		268
	\$	25,013	\$	28,089

#### 4. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

	September 30, 2022		June 30, 2022	
Security deposits	\$	13,068	\$	13,574
Insurance		50,707		29,470
Vendor prepayments		140,602		121,836
	\$	204,377	\$	164,880

#### 5. OTHER ASSETS

	September 30, 2022		June 30, 2022	
Investments	\$	30,025	\$	30,030
Reclamation bond		16,297		15,321
	\$	46,322	\$	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.

**DEFIANCE SILVER CORP.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

**6. PROPERTY AND EQUIPMENT**

	Land	Buildings (2)	Vehicles	Computers	Equipment	Total
<b>Cost</b>						
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	41,217	1,440	-	\$ 45,907
As at September 30, 2022	61,180	39,204	98,567	78,331	83,546	360,828
<b>Accumulated depreciation</b>						
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	-	-	3,583	5,777	2,506	\$ 11,866
As at September 30, 2022	-	-	26,285	37,506	5,243	69,034
<b>Carrying amounts</b>						
As at June 30, 2022	\$ 61,180	\$ 35,954	\$ 34,648	\$ 45,162	\$ 80,809	\$ 257,753
As at September 30, 2022	\$ 61,180	\$ 39,204	\$ 72,282	\$ 40,825	\$ 78,303	\$ 291,794

- (1) During the period ended September 30, 2022, depreciation expense of \$11,866 (June 30, 2022 – \$39,078) was recorded in exploration and evaluation expenditures (Note 7)
- (2) During the period ended September 30, 2022, \$3,250 of costs incurred on Buildings was for construction in progress

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

#### 7. 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
<b>Balance at June 30, 2021</b>	<b>\$ 12,434,425</b>	<b>\$ 1,684,699</b>	<b>\$ 165,670</b>	<b>\$ 23,248</b>	<b>\$ 5,612,763</b>	<b>\$ -</b>	<b>\$ 19,920,805</b>
<b>Acquisition costs</b>							
Property Acquisition costs	1,437,653	-	156,245	-	837,508	65,613	2,497,019
<b>Exploration costs</b>							
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
	<b>2,203,546</b>	<b>103,041</b>	<b>1,892,804</b>	<b>-</b>	<b>144,706</b>	<b>-</b>	<b>4,344,097</b>
<b>Balance at June 30, 2022</b>	<b>16,075,624</b>	<b>1,787,740</b>	<b>2,214,719</b>	<b>23,248</b>	<b>6,594,977</b>	<b>65,613</b>	<b>26,761,921</b>
<b>Acquisition costs</b>							
Property Acquisition costs	252,888	-	-	-	-	15,173	268,061
<b>Exploration costs</b>							
Claim Fees	30,587	9,780	32,850	-	54,662	4,912	132,791
Consulting and Payroll Fees	315,905	-	27,519	-	-	-	343,424
Camp	91,788	8,899	-	-	2,764	289	103,740
Drilling	5,942	-	-	-	-	-	5,942
Equipment	13,327	208	-	-	-	1,395	14,930
Geology and mapping	160,320	-	-	-	-	-	160,320
Professional Fees	13,787	-	-	-	130,782	3,042	147,611
Travel and accommodation	51,572	1,526	-	-	-	-	53,098
	<b>683,228</b>	<b>20,413</b>	<b>60,369</b>	<b>-</b>	<b>188,208</b>	<b>9,638</b>	<b>961,856</b>
<b>Balance at September 30, 2022</b>	<b>17,011,740</b>	<b>1,808,153</b>	<b>2,275,088</b>	<b>23,248</b>	<b>6,783,185</b>	<b>90,424</b>	<b>27,991,838</b>

## DEFIANCE SILVER CORP.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

#### 7. 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 approximately 6.5 km north of 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 (188,429 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.

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 7. 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:

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

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##### 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 September 30, 2022, the application was still pending approval by the Mexican mining authorities.

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#### **7. 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.

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#### 7. 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. 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)
December 16, 2022		550,000
June 16, 2023		550,000
December 16, 2023		600,000
June 16, 2024		600,000
December 16, 2024		1,650,000
	Total	USD 4,850,000

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.



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#### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2022		June 30, 2022	
Trade payables	\$	806,817	\$	1,307,722
Accrued liabilities		99,825		98,276
	\$	906,642	\$	1,405,998

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

#### 9. SHARE CAPITAL

##### Authorized

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

During the period ended September 30, 2022 the Company issued 5,986,400 common shares pursuant to exercise of warrants for gross proceeds of \$1,855,784.

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

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#### **9. SHARE CAPITAL (Cont'd)**

##### **Omnibus Equity Incentive Plan**

On December 8, 2021 (“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 Corporation'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 22,022,672 at any point in time, representing 10% of the issued and outstanding Shares of the Corporation 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 at each grant.

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#### 9. SHARE CAPITAL (Cont'd)

##### Stock options

During the year ended June 30, 2022, the Company received proceeds of \$130,000 (June 30, 2021 - \$315,427) from the exercise of 350,000 (June 30, 2021 – 736,694) stock options. The Company transferred \$107,747 (June 30, 2021 - \$168,867) to share capital from share-based payment reserve.

A summary of the Company's outstanding share purchase options as at September 30, 2022 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 and September 30, 2022	9,542,000	\$0.52

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

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

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#### 9. SHARE CAPITAL (Cont'd)

##### Stock options (Cont'd)

The following incentive stock options were outstanding to directors, officers and employees at September 30, 2022:

Number of Options Outstanding	Expiry Date	Number of Options Exercisable	Exercise Price (\$)
135,000	February 15, 2023	135,000	0.35
273,350	March 16, 2023	273,350	0.70
833,400	November 5, 2025	553,400	0.59
1,144,000	June 30, 2026	762,667	0.66
1,232,500	January 31, 2027	585,417	0.41
850,000	May 29, 2029	850,000	0.20
200,000	July 23, 2029	200,000	0.31
605,000	May 29, 2030	605,000	0.23
1,087,500	November 5, 2030	725,000	0.59
1,425,000	June 30, 2031	950,000	0.90
1,756,250	January 31, 2032	410,833	0.41
9,542,000		6,050,667	0.52

##### Deferred share units (DSUs)

A summary of the Company's outstanding DSUs as at September 30, 2022 and the changes during the period 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 and September 30, 2022	-	\$0.00

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#### 9. SHARE CAPITAL (Cont'd)

##### Performance share units (PSU)

A summary of the Company's outstanding PSUs as at September 30, 2022 and the changes during the period 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 and September 30, 2022	-	\$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 and September 30, 2022	312,501	\$0.41

At September 30, 2022, the following RSUs were outstanding:

Number of RSUs Outstanding	Number of RSUs Available for Settlement	Expiry Date
312,501	-	January 31, 2032
312,501	-	

##### Share-based compensation

The Company recognizes compensation for all omnibus awards granted using the fair value based method of accounting. During the period ended September 30, 2022, the Company recognized \$260,873 (June 30, 2022 - \$1,832,856) in share-based compensation expense for omnibus awards issued in the current and previous years.

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**9. SHARE CAPITAL (Cont'd)****Warrants**

During the period ended September 30, 2022, the Company extended the expiry date of the 14,003,849 Warrants from September 16, 2022 to September 16, 2023.

A summary of the Company's outstanding warrants as at September 30, 2022 and the changes during the period 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	(2,239,808)	0.33
Balance, September 30, 2022	20,392,738	\$0.75

At September 30, 2022, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price (\$)	Expiry Date
6,388,889	1.35	June 10, 2023
14,003,849	0.48	September 16, 2023
20,392,738	0.75	

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**9. SHARE CAPITAL (Cont'd)****Compensation Options**

A summary of the Company's outstanding broker compensation options as at September 30, 2022 and the changes during the period are presented below:

	<b>Number of Compensation Options</b>	<b>Weighted Average Exercise Price</b>
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	(1,029,548)	0.34
Balance, September 30, 2022	672,391	\$0.90

At September 30, 2022, the following broker compensation options were outstanding:

<b>Number of Compensation Options</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
672,391	0.90	June 10, 2023

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#### 10. 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.

As at September 30, 2022, accounts payable and accrued liabilities included \$190,192 (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 period ended September 30, 2022, related party transactions include the following payments:

	PERIOD ENDED SEPTEMBER 30,	
	2022	2021
Management and consulting fees <sup>(1)</sup>	\$ 273,663	\$ 272,303
Share-based payments <sup>(2)</sup>	201,570	231,446
	<u>\$ 475,233</u>	<u>\$ 503,749</u>

(1) Included in management and consulting fees was \$163,900 (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 9.

#### 11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended September 30, 2022 included:

- A balance of \$307,531 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.
- Pursuant to the expiry of stock options, the Company transferred \$78,964 to retained earnings from share-based payment reserve.
- Pursuant to the expiry of compensation option units, the Company transferred \$443,224 to share capital from share-based payment reserve.
- Depreciation of \$11,866 was capitalized to exploration and evaluation assets.

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

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



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#### 12. 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, 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 is 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. As at September 30, 2022, the Company had cash of \$11,373,834 (June 30, 2022 - \$11,783,088) to settle current liabilities of \$906,642 (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.

##### a) Interest rate risk

The Company has cash balances and interest-bearing investments and has no debt instruments that bear variable interest rates. The interest earned on the investments 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 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.

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#### 12. FINANCIAL AND CAPITAL RISK MANAGEMENT (Cont'd)

##### 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 as at September 30, 2022 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 \$43,309 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 \$249,747 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.

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#### **13. CONTINGENCY**

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. The claim 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 7.

#### **14. SUBSEQUENT EVENT**

Subsequent to September 30, 2022 the Company issued 50,000 common shares to settle debt of \$19,750.