



**Guanajuato**  
**Silver** CO  
LTD

**Condensed Consolidated Interim Financial Statements**

**For the three and six months ended  
June 30, 2022 and 2021  
(Unaudited)**

Condensed consolidated interim statements of financial position  
(Unaudited - Expressed in US dollars)

	Notes	June 30 2022	December 31 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 4,509,396	\$ 8,234,043
Amounts receivable	4	4,371,825	2,620,908
Inventories	5	696,005	1,586,140
Prepaid expenses and deposits		776,732	554,354
Other current assets	6	771,700	1,622,935
		<b>11,125,658</b>	14,618,380
<b>Non-current assets</b>			
Property, plant and equipment	7	16,986,680	18,310,696
Mineral properties	7	12,422,421	13,867,915
Exploration and evaluation assets	7	3,003,489	2,797,365
Other assets	4	1,403,347	1,725,520
		<b>\$ 44,941,595</b>	\$ 51,319,876
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,855,324	\$ 3,467,293
Advance payment	8	868,819	1,293,103
Current portion of loan payable	9	6,680,433	7,285,522
Current portion of lease liabilities		142,898	152,354
Other current liabilities	23(b)	624,445	750,000
		<b>13,171,919</b>	12,948,272
<b>Non-current liabilities</b>			
Loan payable	9	1,717,940	895,827
Lease liabilities		206,073	425,389
Provision for reclamation and rehabilitation	10	6,177,849	6,249,826
		<b>21,273,781</b>	20,519,314
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	61,368,341	60,688,534
Reserves		18,541,287	18,150,184
Accumulated other comprehensive income		1,670,880	1,417,390
Share subscription received		3,395	-
Deficit		(57,916,089)	(49,455,546)
		<b>23,667,814</b>	30,800,562
<b>TOTAL LIABILITIES AND SHAREHOLDERS'</b>		<b>\$ 44,941,595</b>	\$ 51,319,876

Commitments and contingencies (note 23)

Subsequent events (note 24)

"James Anderson"  
Director

"Ramon Davila"  
Director

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

## Condensed consolidated interim statements of loss and comprehensive loss

(Unaudited - Expressed in US dollars, except share and per share amounts)

	Notes	For the three months ended		For the six months ended	
		June 30 2022	June 30 2021	June 30 2022	June 30 2021
			<i>Restated- Note 3</i>		<i>Restated- Note 3</i>
Revenues	14	\$ 6,133,989	\$ -	\$ 12,520,627	\$ -
Cost of sales	15	7,790,285	-	15,914,046	-
<b>Mine operating loss</b>		<b>(1,656,296)</b>	-	<b>(3,393,419)</b>	-
General and administration	16	1,342,039	959,542	2,561,620	1,392,282
Share based compensation	12(b)	231,594	455,182	641,807	1,560,718
Exploration expenses		975,393	265,243	1,592,224	866,526
Foreign exchange loss (gain)		9,152	(232,542)	299,151	312,066
Other operating expense (income)		(3,524)	201,617	(6,520)	201,617
<b>Operating loss</b>		<b>(4,210,950)</b>	(1,649,042)	<b>(8,481,701)</b>	(4,333,209)
Interest and finance costs, net	17	(654,350)	(6,494)	(1,289,155)	(7,313)
Gain on derivative	18	1,220,275	-	977,462	-
Other finance (expense) income, net		123,634	(6,032)	332,851	251
<b>Net loss for the period</b>		<b>\$ (3,521,391)</b>	\$ (1,661,568)	<b>\$ (8,460,543)</b>	\$ (4,340,271)
<b>Other comprehensive income, net of tax</b>					
Foreign currency translation differences		21,814	453,317	253,490	464,993
<b>Total other comprehensive income for the period</b>		<b>21,814</b>	453,317	<b>253,490</b>	464,993
<b>Total comprehensive loss for the period</b>		<b>\$ (3,499,577)</b>	\$ (1,208,251)	<b>\$ (8,207,053)</b>	\$ (3,875,278)
<b>Basic and diluted loss per common share</b>	13	<b>\$ (0.02)</b>	\$ (0.01)	<b>\$ (0.04)</b>	\$ (0.03)
<b>Weighted average number of common shares outstanding (000's)</b>		<b>226,033</b>	195,275	<b>225,300</b>	161,017

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

## Condensed consolidated interim statements of changes in equity

(Unaudited - Expressed in US dollars, except share and per share amounts)

	Notes	Number of Common Shares	Common Shares	Share subscriptions	Equity settled share-based payments	Warrants	Reserves Total	Accumulated deficit	Accumulated OCI	Total shareholders' equity
<b>Balance, December 31, 2020</b>		<b>111,037,351</b>	<b>\$32,300,211</b>	<b>\$1,588,267</b>	<b>\$7,254,070</b>	<b>\$2,529,339</b>	<b>\$9,783,409</b>	<b>\$(37,605,745)</b>	<b>\$1,591,106</b>	<b>\$7,657,251</b>
Private placement	11(b)	56,500,000	9,482,192	(1,588,267)	-	3,932,925	3,932,925	-	-	11,826,850
Share and warrants issued for finders fee		518,139	123,025	-	-	506,472	506,472	-	-	629,492
Share issue cost	11(b)	-	(803,465)	-	-	-	-	-	-	(803,465)
Shares issued on asset acquisition	7	21,331,058	9,835,451	-	-	-	-	-	-	9,835,451
Options exercise for cash	11(b)	1,233,334	218,553	-	(113,473)	-	(113,473)	-	-	105,080
Warrant exercise for cash	11(b)	10,490,590	2,316,990	-	-	(130,891)	(130,891)	-	-	2,186,099
Share-based compensation		-	-	-	1,560,718	-	1,560,718	-	-	1,560,718
Subscriptions received		-	-	43,569	-	-	-	-	-	43,569
Comprehensive loss for the period		-	-	-	-	-	-	(4,340,271)	464,993	(3,875,278)
<b>Balance, June 30, 2021 <sup>(1)</sup></b>		<b>201,110,472</b>	<b>53,472,957</b>	<b>43,569</b>	<b>8,701,315</b>	<b>6,837,845</b>	<b>15,539,160</b>	<b>(41,946,016)</b>	<b>2,056,099</b>	<b>29,165,769</b>
Private placement	11(b)	17,304,306	5,826,280	(43,569)	-	1,624,403	1,624,403	-	-	7,407,114
Share issue cost	11(b)	-	(110,896)	-	-	-	-	-	-	(110,896)
Shares issued on settlement of VAT		901,224	387,487	-	-	-	-	-	-	387,487
Options exercise for cash	11(b)	179,166	42,905	-	-	-	-	-	-	42,905
Warrant exercise for cash	11(b)	4,720,863	1,069,802	-	-	-	-	-	-	1,069,802
Share-based compensation		-	-	-	986,621	-	986,621	-	-	986,621
Comprehensive loss for the period		-	-	-	-	-	-	(7,509,530)	(638,709)	(8,148,239)
<b>Balance, December 31, 2021 <sup>(1)</sup></b>		<b>224,216,031</b>	<b>60,688,534</b>	<b>-</b>	<b>9,687,936</b>	<b>8,462,248</b>	<b>18,150,184</b>	<b>(49,455,546)</b>	<b>1,417,390</b>	<b>30,800,562</b>
Options exercise for cash	11(b)	50,000	31,814	-	(27,853)	-	(27,853)	-	-	3,961
Warrant exercise for cash	11(b)	1,863,248	647,993	-	-	(222,851)	(222,851)	-	-	425,142
Share-based compensation		-	-	-	641,807	-	641,807	-	-	641,807
Subscriptions received		-	-	3,395	-	-	-	-	-	3,395
Comprehensive loss for the period		-	-	-	-	-	-	(8,460,543)	253,490	(8,207,053)
<b>Balance, June 30, 2022</b>		<b>226,129,279</b>	<b>\$61,368,341</b>	<b>\$3,395</b>	<b>\$10,301,895</b>	<b>\$8,239,402</b>	<b>\$18,541,287</b>	<b>\$(57,916,089)</b>	<b>\$1,670,880</b>	<b>\$23,667,814</b>

(1) The figures presented for the period from December 31, 2020 to June 30, 2021 and from June 30, 2021 to December 31, 2021 have been restated to reflect the change in presentation currency (Note 3 (c)).

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

## Condensed consolidated interim statements of cash flows (Unaudited - Expressed in US dollars)

	Notes	For the three months ended		For the six months ended	
		June 30 2022	June 30 2021	June 30 2022	June 30 2021
			<i>Restated- Note3</i>		<i>Restated-Note3</i>
Operating activities					
Net loss for the period		\$ (3,521,391)	\$ (1,661,568)	\$ (8,460,543)	\$ (4,340,271)
Items not involving cash and cash equivalents:					
Depreciation and amortization		1,736,333	139,194	3,537,274	155,045
Accretion		140,369	6,045	293,795	6,045
Gain on settlement of debt		(195,910)	6,283	(195,910)	-
Gain on derivatives		(1,220,275)	-	(977,462)	-
Interest		535,721	-	1,017,559	-
Impairment of advance receivable		-	201,616	-	201,616
Share-based compensation		231,594	455,182	641,807	1,560,718
Unrealized foreign exchange		(114,388)	(61,596)	98,067	64,666
Changes in non-cash operating working capital:					
Amounts receivable	4	286,754	(2,229,889)	(1,428,744)	(2,341,045)
Inventories	5	13,013	-	862,538	-
Prepaid expenses and deposits		(88,937)	(552,988)	(222,379)	(481,394)
Purchases of gold and silver bullion		(1,649,690)	-	(3,281,890)	-
Proceeds from sale of gold and silver bullion		-	-	1,643,708	-
Accounts payable and accrued liabilities		(1,719)	392,013	1,252,138	435,199
Other current assets		72,277	-	72,277	-
Settlement of advance payment	8	(304,230)	-	(476,643)	-
Net cash and cash equivalents used in operating activities		(4,080,479)	(3,305,708)	(5,624,408)	(4,739,422)
Investing activities					
Acquisition of property, plant and equipment		(969,814)	(1,444,267)	(1,303,815)	(1,666,153)
Acquisition of the El Cubo Complex		-	(7,553,997)	-	(7,553,997)
Option payments to acquire royalties		-	-	-	(17,962)
Payments to acquire royalties		(206,124)	-	(206,124)	-
Net cash and cash equivalents used in investing activities		(1,175,938)	(8,998,264)	(1,509,939)	(9,238,112)
Financing activities					
Proceeds from issuance of units		-	-	-	11,826,850
Share issuance costs		-	-	-	(268,488)
Net proceeds from OCIM Loan refinancing	9	2,913,610	-	2,913,610	-
Proceeds from the exercise of options and warrants		57,655	1,483,198	429,103	2,227,137
Repayment of loan payable	9	(72,621)	(7,619)	(86,162)	(9,929)
Payments of lease obligations		(39,050)	(19,429)	(103,736)	(19,429)
Share subscriptions received		3,395	(35,238)	3,395	43,305
Net cash and cash equivalents provided by financing activities		2,862,989	1,420,912	3,156,210	13,799,446
Effect on cash and cash equivalents of foreign exchange		16,264	5,596	253,490	399,580
Change in cash and cash equivalents		(2,377,164)	(10,877,464)	(3,724,647)	221,493
Cash and cash equivalents, beginning of period		6,886,559	15,278,919	8,234,043	4,179,962
<b>Cash and cash equivalents, end of period</b>		<b>\$ 4,509,396</b>	<b>\$ 4,401,455</b>	<b>\$ 4,509,396</b>	<b>\$ 4,401,455</b>
Cash and cash equivalents are consisted of:					
Cash		\$ 4,470,594	\$ 4,312,005	\$ 4,470,594	\$ 4,312,005
Redeemable guaranteed investment certificate ("GIC")		38,802	89,449	38,802	89,449
<b>Total cash and cash equivalents, end of period</b>		<b>\$ 4,509,396</b>	<b>\$ 4,401,455</b>	<b>\$ 4,509,396</b>	<b>\$ 4,401,455</b>

Supplemental cash flow information (Note 22)

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Guanajuato Silver Company Ltd. is the parent company of its subsidiary group (collectively, the "Company" or "GSilver") and is a publicly traded corporation, incorporated in Canada, with its head office located at 578 – 999 Canada Place, Vancouver, BC, V6E 3E1. GSilver's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "GSVR" and on the OTCQB under the symbol "GSVR.F".

The Company is a precious metals producer engaged in reactivating past producing silver and gold mines near the city of Guanajuato, Mexico. The Company is currently producing silver and gold at its 100% owned El Cubo mine and mill (the "El Cubo Complex") acquired in April 2021, while simultaneously advancing the nearby El Pinguico and Ample de El Pinguico mineral properties (collectively, the "Pinguico Mine Project"), which terminated production in 1913 due to the Mexican revolution, leaving surface and underground stockpiles.

On August 4, 2022 the Company acquired 100% of Great Panther Mining's Ltd.'s ("Great Panther") Mexican subsidiary, Minera Mexicana Rosario S.A. de C.V. ("MMR"), which holds the Valenciana Mine Complex (formerly known as the Guanajuato Mine Complex or GMC) including the Cata processing plant, the San Ignacio mine, the Topia mine and production facility. (Note 24) .

### *Going concern*

These condensed consolidated interim 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. The Company started producing and selling silver and gold concentrate in the fourth quarter of 2021. For the six months ended June 30, 2022 the Company generated a mine operating loss of \$3,393,419, a net loss of \$8,460,543 and negative cash flows from operating activities of \$5,624,408 and has an accumulated deficit of \$57,916,089 as at June 30, 2022. These factors give rise to material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or to obtain additional financing. Management is of the opinion that sufficient funds will be obtained from operations and/or from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that cash flows from operations or additional financing will not be available on a timely basis or on terms acceptable to the Company.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

## 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 (the "Annual Financial Statements").

The accounting policies and critical judgments and estimates applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the most recent Annual Financial Statements. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the most recent annual consolidated financial statements. The Company's interim results are not necessarily indicative of its results for a full year.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on August 22, 2022.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of consolidation

The accounts of the Company and its subsidiaries, which are controlled by the Company, have been included in these condensed consolidated interim financial statements. Control is achieved when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at June 30, 2022 were as follows:

Subsidiary	Location	Ownership Interest	Accounting	Principal Activity
1352168 B.C. Ltd.	Canada	100%	Consolidated	Holding Company
CanMex Silver S.A. de C.V.	Mexico	98%	Consolidated	Exploration Company
Obras Mineras El Pinguico S.A. de C.V.	Mexico	100%	Consolidated	Mining Company
Compañía Minera Nivel 7 S.A. de C.V.	Mexico	100%	Consolidated	Inactive

All intercompany transactions, balances, revenues and expenses have been eliminated upon consolidation.

#### b) Basis of measurement

These condensed consolidated interim financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value (Note 20) at the end of each reporting period. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### c) Foreign currency translation

##### i. Functional currency

The functional currency is the currency of the primary economic environment in which an entity operates. This has been determined within each entity within the Company. The Company considers the functional currency for its Canadian operations to be the Canadian dollar.

For entities with a functional currency other than the presentation currency, foreign currency balances are translated as follows:

- Assets and liabilities are translated at period end exchange rates;
- Revenue and expenses are translated using exchange rates approximating those in effect on the date transactions occurred; and
- Exchange gains and losses arising on translation are recorded to foreign currency translation reserve in other comprehensive income.

Until September 30, 2021, the Company considered the functional currency of its Mexican subsidiaries to be the MXN\$, after which the functional currency changed to the United States dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The factors that caused the change included the currency of sales which are denominated in US\$ upon entering into a concentrate sales agreement and the commencement of sales in the fourth quarter of 2021. The functional currency was changed on a prospective basis.

##### ii. Presentation currency

During the fourth quarter of 2021, the Company changed its presentation currency to the United States dollar ("US\$") from the Canadian dollar ("C\$"). The Company determined that this change in presentation currency better reflects the Company's current activities, increases the comparability to its peers, and better enhances the relevance of the financial statements to users. The Company applied the change in presentation currency retrospectively and restated the comparative financial information as if the presentation currency had always been US\$, in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Error.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Foreign currency translation (continued)

The change in presentation currency has been performed on a retrospective basis with comparative periods translated into US\$ as follows:

- Assets and liabilities previously presented in C\$ were translated into US\$ using the comparative reporting date exchange rate;
- Equity, including reserves and deficit, were translated using the historical exchange rates; and
- The consolidated statements of loss and comprehensive loss and cash flows were translated using the average foreign exchange rates in effect during that period.

The resulting foreign currency exchange differences were recorded to the foreign currency translation reserve.

#### d) Changes in accounting policies and recent accounting pronouncements

The accounting policies applied in the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022, are the same as those applied in the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2021 and 2020. A number of new standards and amendments to standards are effective for annual periods beginning on or after January 1, 2023 and earlier application is permitted; however, we have not early adopted and continue to evaluate the impact of the forthcoming or amended standards in preparing our unaudited condensed consolidated interim financial statements.

### 4. AMOUNTS RECEIVABLE

	June 30 2022	December 31 2021
Trade Receivables	\$ 905,028	\$ 491,731
VAT recoverable	4,641,889	3,809,363
Other receivables	228,255	45,334
	<b>\$ 5,775,172</b>	<b>\$ 4,346,428</b>
Less: non-current portion of VAT recoverable	<b>(1,403,347)</b>	<b>(1,725,520)</b>
	<b>\$ 4,371,825</b>	<b>\$ 2,620,908</b>

At the reporting date, the Company assessed the timing of collection of the total VAT receivable of \$4,641,889 (December 31, 2021 – \$3,809,363) balance and concluded that \$1,403,347 (December 31, 2021 – \$1,725,520) of the VAT recoverable is not expected to be collected within the next 12 months, therefore it was classified as other non-current assets.

### 5. INVENTORIES

	June 30 2022	December 31 2021
Concentrate stockpiles	\$ 237,788	\$ 832,707
Ore stockpiles	15,984	326,997
Materials and supplies	442,233	426,436
Total inventories	<b>\$ 696,005</b>	<b>\$ 1,586,140</b>

During the three and six months ended June 30, 2022, the Company expensed \$7,626,607 and \$15,459,027 respectively of inventories to cost of sales (June 30, 2021 –nil and -nil respectively).



## 6. OTHER CURRENT ASSETS

As at June 30, 2022, other current assets were comprised of 200 ounces of gold and 20,000 ounces of silver valued at \$771,700.

As at December 31, 2021, other current assets were comprised of 400 ounces of gold and 40,000 ounces of silver valued at \$1,622,935.

## 7. MINERAL PROPERTIES, PLANT AND EQUIPMENT, AND EXPLORATION AND EVALUATION ASSETS

	Property, plant and equipment			Total PP&E	Mineral properties	Exploration and evaluation assets	Total
	Machinery and equipment	Land and buildings	Furniture and other equipment				
<b>COST</b>	\$	\$	\$		\$	\$	\$
Balance at December 31, 2021	12,640,237	4,885,684	1,781,997	19,307,919	14,647,607	2,797,365	36,752,891
Additions	429,170	20,190	164,780	614,140	720,202	206,124	1,540,466
Disposals	(166,563)	-	-	(166,563)	-	-	(166,563)
Changes in closure and reclamation	-	-	-	-	(427,612)	-	(427,612)
<b>Balance at June 30, 2022</b>	<b>12,902,845</b>	<b>4,905,874</b>	<b>1,946,777</b>	<b>19,755,496</b>	<b>14,940,197</b>	<b>3,003,489</b>	<b>37,699,182</b>
<b>ACCUMULATED DEPRECIATION</b>							
Balance at December 31, 2021	818,699	43,433	135,090	997,223	779,693	-	1,776,916
Depreciation and depletion	1,536,612	16,421	218,561	1,771,594	1,738,083	-	3,509,677
<b>Balance at June 30, 2022</b>	<b>2,355,311</b>	<b>59,854</b>	<b>353,651</b>	<b>2,768,817</b>	<b>2,517,776</b>	<b>-</b>	<b>5,286,593</b>
<b>Net book value at June 30, 2022</b>	<b>10,547,534</b>	<b>4,846,020</b>	<b>1,593,126</b>	<b>16,986,680</b>	<b>12,422,421</b>	<b>3,003,489</b>	<b>32,412,589</b>
<b>COST</b>							
Balance at December 31, 2020	106,796	-	18,561	125,358	-	2,529,887	2,655,245
Additions	12,533,441	4,885,684	1,763,436	19,182,561	12,422,640	267,478	31,872,680
Changes in closure and reclamation	-	-	-	-	2,224,967	-	2,224,967
Balance at December 31, 2021	12,640,237	4,885,684	1,781,997	19,307,919	14,647,607	2,797,365	36,752,892
<b>ACCUMULATED DEPRECIATION</b>							
Balance at December 31, 2020	1,575	-	5,441	7,016	-	-	7,016
Depreciation and depletion	817,124	43,433	129,650	990,207	779,693	-	1,769,900
Balance at December 31, 2021	818,699	43,433	135,090	997,223	779,693	-	1,776,916
Net book value at December 31, 2021	11,821,538	4,842,251	1,646,907	18,310,696	13,867,914	2,797,365	34,975,976

### Exploration and evaluation assets

	El Pinguico	Other claims	Total
Acquisition Cost:			
Balance, December 31, 2020	\$ 2,264,630	\$ 265,257	2,529,887
Additions	267,478	-	267,478
Balance, December 31, 2021	2,532,108	265,257	2,797,365
Additions	206,124	-	206,124
<b>Balance at June 30, 2022</b>	<b>\$ 2,738,232</b>	<b>\$ 265,257</b>	<b>\$ 3,003,489</b>

#### a) El Pinguico Mine Project

The Pinguico Mine project is comprised of two mining claims, El Pinguico and Ample de El Pinguico, covering 71.7 hectares. It is subject to a 4% net smelter return ("NSR") royalty and a 15% Net Profits Interest ("NPI") on minerals recovered from the existing surface and underground stockpiles of mineralized rock and a 3% NSR and 5% NPI on all newly mined mineralized material.

### 7. MINERAL PROPERTIES, PLANT AND EQUIPMENT (continued)

#### a) El Pinguico Mine Project (continued)

On August 18, 2020, as amended on November 8, 2020, the Company entered into a royalty purchase option vendor agreement to acquire 3 of the 4 underlying royalties on the El Pinguico Project from the original vendor of the property (the "Option Agreement"), Exploraciones Mineras Del Bajío S.A. de C.V. ("EMBSA"), a company controlled by a director of the Company. Under the Option Agreement, the Company has the option to repurchase the following royalties from EMBSA:

- the 4% NSR on all "broken material" within both the above ground and underground stockpiles;
- the 3% NSR on all newly established in-situ material discovered on the El Pinguico Project; and
- the 5% NPI on all newly established in-situ material discovered on the El Pinguico Project.

Under the terms of the Option Agreement, the Company will pay a total of CAD\$1,675,000 cash and issue 3,750,000 units (each unit comprised of one common share and one non-transferable share purchase warrant, exercisable at CAD\$0.175 per share for a term of 5 years) to EMBSA. On April 7, 2022, the Company and EMBSA amended the Option Agreement whereby the CAD\$525,000 option payment originally due on February 22, 2022, was deferred. The revised payment schedule is as follows:

- CAD\$200,000 cash (paid) and 3,750,000 units on or before November 30, 2020 (issued);
- CAD\$325,000 cash on or before February 22, 2021 (paid)
- CAD\$262,500 (\$206,124) on or before April 10, 2022 (paid)
- CAD\$262,500 on or before October 10, 2022 ("Second Installment").
- CAD\$625,000 cash on or before February 22, 2023.

The Second Installment shall bear interest from February 22, 2022, at an annual rate of 5%, compounded annually, until the date of repayment.

Upon completion of the payments and exercise of the option, the Company will own an undivided 100% interest in the El Pinguico Mine Project with only a 15% NPI on the existing above and underground stockpiles as the remaining royalty.

#### b) Other Mexican claims

The Company has 7,800 hectares of additional mining claims within the Guanajuato and Queretaro regions as follows:

- Patito I and II concessions – located approximately 1.5 km southwest, and 3.0 km due south of the El Pinguico Project.
- The Analy I & Analy II concessions – located 100 km east of the city of Guanajuato, Mexico.
- El Ruso, Ysabela and Camila concessions – located near the northern boundary between the States of Guanajuato and Queretaro in central Mexico.
- Over 7,000 hectares of mining claims south and east of the city of Guanajuato acquired from Endeavour as part of the El Cubo Complex transaction.

A 2.5% NSR exists on seven concessions (i, ii, and iii above) of which, one half (1.25%) may be repurchased for CAD\$500,000.

#### c) Rossland Properties, British Columbia, Canada

As of June 30, 2022, the Company holds certain mineral claims within the historic Rossland gold camp in southeastern British Columbia.

## 8. ADVANCE PAYMENT

In October 2021, the Company received \$1,293,103 (plus \$206,897 of VAT) up-front payment from its customer which was recognized as deferred revenue. The advance payment bears interest at 12-month Libor + 6.75% and is to be repaid in 15 monthly installments of \$100,000 (inclusive of VAT), after a 3-month grace period, against the proceeds from the silver-gold concentrate delivered. On June 6, 2022, the repayment schedule was amended whereby the Company will make monthly installments of \$50,000 (inclusive of VAT) from June 2022 to November 2022 and from December 2022 to March 2023 the monthly payment will be \$175,000 (inclusive of VAT).

For the three and six months ended June 30, 2022 the Company paid \$172,414 and \$431,034 of principal and \$15,422 and \$55,315 of interest respectively (three and six months ended June 30, 2021- nil payment and nil interest respectively).

The advance payment is recognized as revenue upon delivery of the silver-gold concentrate when the customer obtains control of the silver-gold concentrate, and the Company has satisfied its performance obligation.

	<b>Advance payment</b>	
Balance, December 31, 2021	\$	1,293,103
Interest expense		62,066
Loan payments		(486,350)
<b>Balance at June 30, 2022</b>	<b>\$</b>	<b>868,819</b>

## 9. LOANS PAYABLE

	<b>OCIM</b>		<b>Vehicles</b>		<b>Total</b>	
Balance, December 31, 2021	\$	8,007,072	\$	174,277	\$	8,181,349
Additions		2,913,610		-		2,913,610
Interest expense		958,211		6,987		965,198
Accretion expense		15,789		-		15,789
Loan payments		(2,469,121)		(34,181)		(2,503,302)
Effect of change in foreign exchange rates		-		(899)		(899)
Gain on settlement of debt		(195,910)		-		(195,910)
Changes in fair value of derivative on settlement of debt		(263,826)		-		(263,826)
Changes in fair value of derivative		(713,636)		-		(713,636)
<b>Balance at June 30, 2022</b>	<b>\$</b>	<b>8,252,189</b>	<b>\$</b>	<b>146,184</b>	<b>\$</b>	<b>8,398,373</b>
Which consist of:						
Current portion of loans		6,602,658		77,775		6,680,433
Non-current portion of loans		1,649,531		68,409		1,717,940
<b>Balance at June 30, 2022</b>	<b>\$</b>	<b>8,252,189</b>	<b>\$</b>	<b>146,184</b>	<b>\$</b>	<b>8,398,373</b>

	<b>OCIM</b>		<b>Vehicles</b>		<b>Total</b>	
Balance, December 31, 2020	\$	-	\$	21,721	\$	21,721
Additions		7,450,000		183,576		7,633,576
Interest expense		922,365		50,082		972,447
Loan payments		-		(76,478)		(76,478)
Effect of changes in foreign exchange rates		-		(4,624)		(4,624)
Derivative asset		(365,293)		-		(365,293)
Balance at December 31, 2021	\$	8,007,072	\$	174,277	\$	8,181,349
Which consist of:						
Current portion of loan		7,217,403		68,119		7,285,522
Non-current portion of loan		789,669		106,158		895,827
Balance at December 31, 2021	\$	8,007,072	\$	174,277	\$	8,181,349

## 9. LOANS PAYABLE (continued)

### OCIM loan

On May 31, 2021, the Company entered into a definitive agreement for an 18-month gold and silver loan with European based OCIM Group ("OCIM") for \$7,500,000 less \$50,000 of transaction cost ("Initial Loan"). The loan is repayable over the following 12 months commencing February 28, 2022, with the Company delivering 19,076 silver ounces and 178.5 gold ounces per month (an aggregate 228,916 silver and 2,141 gold ounces). The number of silver and gold ounces was fixed at an annualized 15% discount to the spot price on July 26, 2021, the date the Company served notice of drawdown of funds.

The loan is classified as a financial liability and measured at amortized cost using the effective interest rate implicit in the loan. The requirement to deliver gold and silver ounces was determined to be a derivative and is measured at fair value at the end of each reporting period.

On May 4, 2022, the Company entered into a definitive agreement for an 18-month gold and silver Pre-payment facility with OCIM for \$7,500,000 (the "Secondary Loan"), and collectively with the Initial Loan, the "OCIM Loan"). Following a six-month grace period, the facility is repayable over a period of 12 months, commencing on November 1 2022, with the Company delivering 20,240 ounces of silver and 163 ounces of gold per month (an aggregate of 242,877 ounces of silver and 1,958 ounces of gold). The number of silver and gold ounces was fixed at an annualized 12% discount to the spot price on May 4, 2022. A portion of the Pre-payment facility was used to repay to OCIM the cash equivalent of six of the Company's remaining nine monthly deliveries of silver and gold ounces due under the Initial Loan and received \$2,913,610 in cash. The Company has three monthly payments remaining under the Initial Loan which are due commencing November, 2022.

The Secondary Loan has been accounted for as a loan extinguishment of the Initial Loan resulting in a gain of \$195,910 in profit and loss.

During the three and six months ended June 30, 2022, the Company recognized a gain of \$ 1,220,275 and \$ 977,462 respectively on revaluation of the derivative in profit or loss (December 31, 2021 - gain of \$289,908).

As at June 30, 2022, the carrying value of the Initial and Secondary Loans are \$9,594,946 and the value of the derivative asset is \$1,342,755 resulting net amount of \$8,252,190. the outstanding principal amount owing on the OCIM Loan is \$9,390,785 as at June 30, 2022. The accrued interest on the loan is \$204,161.

## 10. PROVISION FOR RECLAMATION AND REHABILITATION

The Company recognized a provision for reclamation related to the environmental restoration and closure costs associated with the acquired El Cubo Complex. Significant reclamation and closure activities include land rehabilitation, decommissioning of buildings and mine facilities, ongoing care and maintenance and other costs.

	<b>El Cubo Complex</b>	
Balance at December 31, 2021	\$	6,249,826
Accretion		252,867
Changes in estimate		(427,612)
Effect of changes in foreign exchange rates		102,768
<b>Balance at June 30, 2022</b>	<b>\$</b>	<b>6,177,849</b>

	<b>El Cubo Complex</b>	
Anticipated settlement date		2029
Undiscounted uninflated estimated cash flow	\$	6,885,041
Estimated life of mine (years)		6.0
Discount rate		8.82
Inflation rate		7.68

## 11. SHARE CAPITAL

### a) Authorized share capital

The authorized share capital of the Company is as follows:

- i. unlimited voting common shares without par value
- ii. unlimited preferred shares without par value

### b) Equity offerings

During the six months ended June 30, 2022, the Company issued common shares as follows:

- i. The Company issued 1,863,248 common shares on the exercise of 1,863,248 warrants for net proceeds of \$425,142 (CAD\$540,446).
- ii. The Company issued 50,000 common shares on the exercise of 50,000 options for net proceeds of \$3,961 (CAD\$5,000).

During the year ended December 31, 2021, the Company issued common shares as follows:

- i. On March 11, 2021, the Company completed a non-brokered private placement and issued 56,500,000 units at CAD\$0.30 per unit for gross proceeds of \$13,415,117 (CAD\$16,950,000). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD\$0.45 per share for a period of three years. In connection with the private placement, the Company incurred issuance costs of \$270,565 (CAD\$341,839) paid in cash, issued 518,139 common shares and 1,648,669 finder's warrants with an exercise price of CAD\$0.45 exercisable for three years and a fair value of \$532,915 (CAD\$670,141) as finders fees.
- ii. On April 9, 2021 the Company issued 21,331,058 common shares with a fair value of \$9,835,451 (CAD\$12,372,014) in connection with the acquisition of El Cubo Complex.
- iii. On November 16, 2021, the Company issued a total of 901,224 common shares to settle the VAT payable on the Promissory note with Endeavour in connection with the acquisition of El Cubo Complex, totalling \$387,487 (CAD\$495,673).
- iv. On December 8, 2021, the Company completed a non-brokered private placement and issued 17,304,306 units at CAD\$0.55 per unit for gross proceeds of \$7,450,683 (CAD\$9,517,368). Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at CAD\$.0.75 per share for a period of two years. In connection with the private placement, the Company paid \$73,284 (CAD\$92,928) in cash and issued 352,910 finder's warrants with an exercise price of CAD\$0.75 exercisable for two years and a fair value of \$37,597 (CAD\$47,665) as finders fees.
- v. During the year ended December 31, 2021, the Company issued 15,211,453 common shares on exercise of 15,211,453 warrants for net proceeds of \$3,142,165 (CAD\$3,884,425) and issued 1,412,500 common shares on the exercise of 1,412,500 options for net proceeds of \$197,678 (CAD\$244,375).

## 12. OTHER RESERVES

### a) Warrants

The following summarizes the continuity of common share purchase warrants:

	June 30, 2022		December 31, 2021	
	Number outstanding	Weighted average exercise price CAD\$	Number outstanding	Weighted average exercise price CAD\$
Outstanding, beginning of the period	54,890,334	0.45	32,893,012	0.29
Issued	-	-	38,727,275	0.52
Exercised	(1,863,248)	0.29	(15,211,453)	0.26
Expired and forfeited	(4,504,926)	0.50	(1,518,500)	0.43
Outstanding, end of the period	48,522,160	0.46	54,890,334	0.45

## 12. OTHER RESERVES (continued)

### a) Warrants (continued)

As at June 30, 2022, the following common share purchase warrants were outstanding:

Expiry date	Exercise price CAD\$	Warrants outstanding	Remaining life (years)
August 11, 2022	0.25	6,458,739	0.12
November 30, 2023	0.75	7,627,289	1.42
December 7, 2023	0.75	1,201,317	1.44
March 11, 2024	0.45	29,484,815	1.69
November 30, 2025	0.18	3,750,000	3.42
<b>Balance at June 30, 2022</b>	<b>0.46</b>	<b>48,522,160</b>	<b>1.57</b>

### b) Stock options

The Company has adopted an incentive stock option plan (the "Plan") under the rules of the TSXV pursuant to which the Company's Board of Directors is authorized, from time to time, to grant stock options to employees, consultants, directors and officers. The Plan is a rolling stock option plan whereby the number of stock options issuable under the plan shall not exceed, on a rolling basis, 10% of the Company's issued and outstanding common shares at the time of grant.

Under the plan, the exercise price of each option is equal to the market price of the Company's common shares on the date of grant. The stock options can be granted for a maximum term of 10 years with vesting terms determined by the Board of Directors. No individual may be granted options exceeding 5% and no consultant or individual employed to provide "investor relations activities" may be granted options exceeding 2% of the Company's common shares outstanding in any 12-month period.

Continuity of the Company's stock options issued and outstanding was as follows:

	Number of options	Weighted average exercise price CAD\$
Outstanding at December 31, 2020	6,412,500	0.19
Granted	8,325,000	0.50
Expired	(1,412,500)	0.15
Outstanding at December 31, 2021	13,325,000	0.39
Granted	1,100,000	0.63
Exercised	(50,000)	0.10
<b>Outstanding at June 30, 2022</b>	<b>14,375,000</b>	<b>0.41</b>

## 12. OTHER RESERVES (continued)

### b) Stock options (continued)

The following table summarizes the information about stock options outstanding as at June 30, 2022 :

Expiry date	Options outstanding	Weighted average exercise price CAD\$	Options exercisable	Weighted average exercise price CAD\$
August 18, 2022	262,500	0.40	262,500	0.40
March 30, 2023	2,225,000	0.08	2,225,000	0.08
June 27, 2023	550,000	0.20	550,000	0.20
October 12, 2023	2,025,000	0.30	2,025,000	0.30
January 4, 2024	150,000	0.30	150,000	0.30
February 6, 2024	150,000	0.30	150,000	0.30
February 17, 2024	37,500	0.30	37,500	0.30
March 24, 2026	6,450,000	0.51	4,416,667	0.51
April 26, 2026	250,000	0.60	250,000	0.60
May 14, 2026	400,000	0.60	266,666	0.60
July 15, 2026	200,000	0.45	200,000	0.45
September 8, 2026	400,000	0.49	133,333	0.49
October 12, 2026	150,000	0.41	50,000	0.41
November 5, 2026	25,000	0.53	8,333	0.53
September 22, 2023	200,000	0.64	50,000	0.64
March 22, 2027	500,000	0.64	166,667	0.64
April 4, 2027	200,000	0.61	66,667	0.61
April 18, 2027	200,000	0.62	66,667	0.62
<b>June 30, 2022</b>	<b>14,375,000</b>	<b>0.41</b>	<b>11,074,999</b>	<b>0.37</b>

In determining the fair value of the stock options issued, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the period by applying the following assumptions:

	June 30 2022	December 31 2021
Risk-free interest rate	2.31%-2.55%	0.50%-0.67%
Expected life of options (years)	2-5 years	2-5 years
Expected annualized volatility	137.17%-137.68%	149.93%-157.82%
Expected dividend yield	Nil	Nil

## 13. LOSS PER SHARE

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
		<i>Restated- Note 3</i>		<i>Restated- Note 3</i>
Net loss for the period	\$ (3,521,391)	\$ (1,661,568)	\$ (8,460,543)	\$ (4,340,271)
Weighted average number of shares(000's)	226,033	195,275	225,300	161,017
<b>Loss per share-basic and diluted</b>	<b>(0.02)</b>	(0.01)	<b>(0.04)</b>	(0.03)

All of the outstanding warrants and options are anti-dilutive for the three and six months ended June 30, 2022 (three and six months ended June 30, 2021 – all).

## 14. REVENUES

The Company is principally engaged in the business of producing gold-silver concentrate in Mexico. The disaggregated revenue information in respect of the three and six months ended June 30, 2022, and 2021 is as follows:

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Gold-silver concentrate	\$ 6,770,225	\$ -	\$ 13,163,637	\$ -
Provisional pricing adjustments	(636,236)	-	(643,010)	-
<b>Total Revenues</b>	<b>\$ 6,133,989</b>	<b>\$ -</b>	<b>\$ 12,520,627</b>	<b>\$ -</b>

The Company sells 100% of its gold-silver concentrate to one customer.

## 15. COST OF SALES

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Production Costs	\$ 5,767,560	\$ -	\$ 11,350,715	\$ -
Transportation and selling cost	69,022	-	171,667	-
Inventory changes	289,484	-	977,688	-
Depreciation	1,664,219	-	3,413,976	-
<b>Total Cost of sales</b>	<b>\$ 7,790,285</b>	<b>\$ -</b>	<b>\$ 15,914,046</b>	<b>\$ -</b>

## 16. GENERAL AND ADMINISTRATION

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Salaries and employee benefits	\$ 383,577	\$ -	\$ 710,306	\$ -
Professional fees	438,180	426,839	825,246	663,550
Corporate and administration	448,169	394,027	902,770	574,206
Depreciation	72,113	138,676	123,298	154,526
<b>Total General and administration</b>	<b>\$ 1,342,039</b>	<b>\$ 959,542</b>	<b>\$ 2,561,620</b>	<b>\$ 1,392,282</b>

## 17. INTEREST AND FINANCE (COSTS) INCOME

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Interest income	\$ 61	\$ 67	\$ 473	\$ 209
Interest expense	(529,055)	(2,865)	(1,010,938)	(3,826)
Accretion expense	(125,356)	(3,696)	(278,690)	(3,696)
<b>Total Interest and finance costs</b>	<b>\$ (654,350)</b>	<b>\$ (6,494)</b>	<b>\$ (1,289,155)</b>	<b>\$ (7,313)</b>



## 18. GAIN ON DERIVATIVE

The requirement to deliver gold and silver ounces under the OCIM Loan (note 9) was determined to be a derivative and is measured at fair value at the end of each reporting period. On early payment of the Initial Loan, the Company recognized a gain on settlement of the derivative of \$263,826 in profit and loss.

The remaining deliveries of gold and silver ounces for the Initial and Secondary Loans were fixed on July 26, 2021 and May 4, 2022 respectively. Changes in gold and silver prices relative to the fixed payment terms effect the value of the derivative. On June 30, 2022, the company revalued the remaining deliveries of gold and silver ounces and recognized an unrealized gain of \$713,636 in profit and loss.

## 19. RELATED PARTIES

In addition to related party transactions described elsewhere in the notes to the condensed consolidated interim financial statements, the Company had the following related party transactions:

Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management personnel is as follows:

	Three months ended		Six months ended	
	June 30 2022	June 30 2021 <i>Restated- Note 3</i>	June 30 2022	June 30 2021 <i>Restated- Note 3</i>
Salaries, bonus and benefits	\$ 88,633	\$ -	\$ 124,126	\$ -
Consulting fees	87,697	124,619	158,736	204,707
Share-based compensation	89,481	351,386	364,606	980,394
<b>Total</b>	<b>\$ 265,811</b>	<b>\$ 476,005</b>	<b>\$ 647,468</b>	<b>\$ 1,185,101</b>

<sup>(1)</sup> Total consulting fees were paid to Blueberry Capital Corp. a company controlled by the CEO of the Company and Universal Solution Inc. a company controlled by the VP Corporate Development and Corporate Secretary of the Company.

## 20.SEGMENTED INFORMATION

The Company has one operating mining segment which is located in Mexico as well as a corporate segment.

Three months ended June 30, 2022	Mining		Corporate		Total
Revenues from external customers	\$	6,133,989	\$	-	\$ 6,133,989
Cost of sales before depreciation and depletion		(6,126,066)		-	(6,126,066)
Depreciation and depletion in cost of sales		(1,664,219)		-	(1,664,219)
General and administration		(308,098)		(1,033,942)	(1,342,040)
Exploration		(975,393)		-	(975,393)
Other income (expense)		(153,672)		(231,594)	(385,266)
Finance items		508,001		329,603	837,604
<b>Segmented loss</b>	<b>\$</b>	<b>(2,585,458)</b>	<b>\$</b>	<b>(935,933)</b>	<b>\$ (3,521,391)</b>

Three months ended June 30, 2021 (Restated – note 3)						
		Mining		Corporate		Total
Revenues from external customers	\$	-	\$	-	\$	-
Cost of sales before depreciation and depletion		-		-		-
Depreciation and depletion in cost of sales		-		-		-
General and administration		(431,353)		(528,188)		(959,541)
Exploration		(228,059)		(37,184)		(265,243)
Other income (expense)		-		(455,182)		(455,182)
Finance items		218,088		(199,690)		18,398
<b>Segmented loss</b>	<b>\$</b>	<b>(441,324)</b>	<b>\$</b>	<b>(1,220,244)</b>	<b>\$</b>	<b>(1,661,568)</b>

Six months ended June 30, 2022	Mining		Corporate		Total
Revenues from external customers	\$	12,520,627	\$	-	\$ 12,520,627
Cost of sales before depreciation and depletion		(12,500,070)		-	(12,500,070)
Depreciation and depletion in cost of sales		(3,413,976)		-	(3,413,976)
General and administration		(716,749)		(1,844,870)	(2,561,619)
Exploration		(1,586,507)		(5,717)	(1,592,224)
Other income (expense)		-		(641,807)	(641,807)
Finance items		(175,933)		(95,541)	(271,474)
<b>Segmented loss</b>	<b>\$</b>	<b>(5,872,608)</b>	<b>\$</b>	<b>(2,587,935)</b>	<b>\$ (8,460,543)</b>

Six months ended June 30, 2021 (Restated – note 3)						
		Mining		Corporate		Total
Revenues from external customers	\$	-	\$	-	\$	-
Cost of sales before depreciation and depletion		-		-		-
Depreciation and depletion in cost of sales		-		-		-
General and administration		(540,962)		(851,319)		(1,392,281)
Exploration		(666,511)		(200,016)		(866,526)
Other income (expense)		-		(1,560,718)		(1,560,718)
Finance items		52,983		(573,728)		(520,746)
<b>Segmented loss</b>	<b>\$</b>	<b>(1,154,490)</b>	<b>\$</b>	<b>(3,185,781)</b>	<b>\$</b>	<b>(4,340,271)</b>

## 20. SEGMENTED INFORMATION (continued)

June 30, 2022	Mining		Corporate		Total
Total assets	\$	37,808,922	\$	7,132,673	\$ 44,941,595
Total liabilities	\$	(12,544,037)	\$	(8,729,744)	\$ (21,273,781)
Capital expenditures	\$	1,358,366	\$	38,356	\$ 1,396,722

  

December 31, 2021	Mining		Corporate		Total
Total assets	\$	39,847,235	\$	11,472,641	\$ 51,319,876
Total liabilities	\$	(12,001,292)	\$	(8,518,022)	\$ (20,519,314)
Capital expenditures	\$	6,936,659	\$	334,442	\$ 7,271,101

## 21. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurement and valuation techniques

Financial instruments included in the consolidated statements of financial position are measured either at fair value or amortized cost. Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in an arm's-length transaction between knowledgeable and willing parties.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The table below summarizes the valuation methods used to determine the fair value of each financial instrument:

Financial asset or liability	Methods and assumptions used to estimate fair value
Silver and gold bullion (other assets)	Valued at the lower of cost or net realizable value. Net realizable value is based on the estimated sale price of the silver and gold, generally determined using the spot price at the period end.
Trade receivables	Trade receivables arising from the sales of metal concentrates are subject to provisional pricing, and the final selling price is adjusted at the end of a quotational period. These are marked to market at each reporting date based on the forward price corresponding to the expected settlement date.
OCIM loan	The fair value of the loan was estimated using the discounted cash flow method at a rate that equates to a comparable current market interest rate.
Derivative	Valued using inputs derived from observable market data, including quoted commodity forward prices.
Vehicle loans	The carrying values of vehicle loans approximate their fair values as a result of relatively unchanged interest rates since inception of the loans.
Other current liabilities	The fair value of the contingent liability was based on the Monte-Carlo averaging simulation technique on simulated gold prices. The paths of the gold prices are simulated as geometric Brownian motions which is an industry standard approach for simulating the expected future paths of gold prices.

## 21. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (continued)

The carrying value of cash and cash equivalents, accounts payable, and accrued liabilities, all of which are carried at amortized cost, approximate their fair value given their short-term nature. Trade receivables, loans, contingent liability and the derivative are classified within Level 2 of the fair value hierarchy.

During the three and six months ended June 30, 2022, and 2021, there were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy.

June 30, 2022	Fair value through profit or loss	Amortized cost	Total	Level 1	Level 2	Carrying value approximates Fair Value
<b>Financial assets measured at Fair Value</b>						
Trade receivables from sale of concentrate	\$ 905,028	\$ -	\$ 905,028	\$ -	\$ 905,028	\$ -
Derivative	1,342,755	-	1,342,755	-	1,342,755	-
	<b>\$ 2,247,783</b>	<b>\$ -</b>	<b>\$ 2,247,783</b>	<b>\$ -</b>	<b>\$ 2,247,783</b>	<b>\$ -</b>
<b>Financial assets not measured at Fair Value</b>						
Cash and cash equivalents	\$ -	\$ 4,509,396	\$ 4,509,396	\$ -	\$ -	\$ 4,509,396
Other assets - silver and gold bullion	-	771,700	771,700	-	-	771,700
Other receivables	-	4,641,889	4,641,889	-	-	4,641,889
	<b>\$ -</b>	<b>\$ 9,922,985</b>	<b>\$ 9,922,985</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,922,985</b>
<b>Financial liabilities measured at Fair Value</b>						
Other current liabilities	\$ (624,445)	\$ -	\$ (624,445)	\$ -	\$ (624,445)	\$ -
	<b>\$ (624,445)</b>	<b>\$ -</b>	<b>\$ (624,445)</b>	<b>\$ -</b>	<b>\$ (624,445)</b>	<b>\$ -</b>
<b>Financial liabilities not measured at Fair Value</b>						
Accounts payable and accrued liabilities	\$ -	\$ (4,855,324)	\$ (4,855,324)	\$ -	\$ -	\$ (4,855,324)
Vehicle loan	-	(146,183)	(146,183)	-	-	(146,183)
OCIM Loan	-	(9,594,946)	(9,594,946)	-	-	(9,594,946)
	<b>\$ -</b>	<b>\$ (14,596,453)</b>	<b>\$ (14,596,453)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (14,596,453)</b>
<b>Fair value</b>						
December 31, 2021	Fair value through profit or loss	Amortized cost	Total	Level 1	Level 2	Carrying value approximates Fair Value
<b>Financial assets measured at Fair Value</b>						
Trade receivables from sale of concentrate	\$ 491,731	\$ -	\$ 491,731	\$ -	\$ 491,731	\$ -
Derivative	365,293	-	365,293	-	365,293	-
	<b>\$ 857,024</b>	<b>\$ -</b>	<b>\$ 857,024</b>	<b>\$ -</b>	<b>\$ 857,024</b>	<b>\$ -</b>
<b>Financial assets not measured at Fair Value</b>						
Cash and cash equivalents	\$ -	\$ 8,234,043	\$ 8,234,043	\$ -	\$ -	\$ 8,234,043
Other assets - silver and gold bullion	-	1,622,935	1,622,935	-	-	1,622,935
Other receivables	-	2,129,178	2,129,178	-	-	2,129,178
	<b>\$ -</b>	<b>\$ 11,986,156</b>	<b>\$ 11,986,156</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,986,156</b>
<b>Financial liabilities measured at Fair Value</b>						
Other current liabilities	\$ (750,000)	\$ -	\$ (750,000)	\$ -	\$ (750,000)	\$ -
	<b>\$ (750,000)</b>	<b>\$ -</b>	<b>\$ (750,000)</b>	<b>\$ -</b>	<b>\$ (750,000)</b>	<b>\$ -</b>
<b>Financial liabilities not measured at Fair Value</b>						
Accounts payable and accrued liabilities	\$ -	\$ (3,467,293)	\$ (3,467,293)	\$ -	\$ -	\$ (3,467,293)
Vehicle loan	-	(174,277)	(174,277)	-	-	(174,277)
OCIM Loan	-	(8,372,366)	(8,372,366)	-	-	(8,372,366)
	<b>\$ -</b>	<b>\$ (12,013,936)</b>	<b>\$ (12,013,936)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12,013,936)</b>

## 22. SUPPLEMENTAL CASHFLOW INFORMATION

The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes for the periods as set out below are as follows:

	Loans	Leases	Other current liabilities	Promissory note
As at December 31, 2020	\$ 21,756	\$ -	\$ -	\$ -
Additions	7,655,980	686,398	750,000	2,212,389
Interest	-	-	-	-
Payments	972,447	70,586	-	180,221
Transaction costs	(76,478)	(174,384)	-	(2,475,000)
Equity component	(4,659)	(4,857)	-	-
Foreign exchange	-	-	-	82,390
Changes in fair value	(387,697)	-	-	-
As at December 31, 2021	8,181,349	577,743	750,000	-
Additions	2,913,610	20,191	-	-
Terminations	-	(166,564)	-	-
Interest	965,200	25,138	-	-
Accretion	15,789	-	-	-
Payments in cash	(86,162)	(103,736)	-	-
Payments in gold and silver	(2,417,140)	-	-	-
Foreign exchange	(901)	(3,801)	-	-
Gain on settlement of debt	(195,910)	-	-	-
Changes in fair value of contingent payment	-	-	(125,555)	-
Changes in fair value of derivative on settlement of debt	(263,826)	-	-	-
Changes in fair value of derivative	(713,636)	-	-	-
<b>As at June 30, 2022</b>	<b>\$ 8,398,373</b>	<b>\$ 348,971</b>	<b>\$ 624,445</b>	<b>\$ -</b>

The significant non-cash financing and investing transactions during the three and six months ended June 30, 2022 and 2021, are as follows:

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
		<i>Restated- Note 3</i>		<i>Restated- Note 3</i>
Payment for OCIM loan in gold and silver ounces	\$ 805,713	\$ -	\$ 2,417,140	\$ -
Closure and reclamation provision	\$ (427,612)	\$ 4,600,000	\$ (427,612)	\$ 4,600,000
Changes in contingent liability	\$ (125,555)	\$ 1,000,000	\$ (125,555)	\$ 1,000,000
Shares and warrants issued for finders' fees	\$ -	\$ -	\$ -	\$ 977
Shares issued on El Cubo Complex acquisition	\$ -	\$ 9,835,451	\$ -	\$ 9,835,451
Promissory note on El Cubo Complex acquisition	\$ -	\$ 2,212,389	\$ -	\$ 2,212,389

## 23. COMMITMENTS AND CONTINGENCIES

### a) Commitments

As at June 30, 2022, the Company had commitments of \$98,715 for equipment purchases and \$355,093 of drilling services which are expected to be expended within one year.

### b) Contingencies

The Company has certain contingent payments in relation to the acquisition of El Cubo Complex in 2021 as follows:

- i. \$1,000,000 upon the Company producing 3,000,000 ounces of silver equivalent from the Combined Project (Contingent Payment #1). At the Company's option, the Company can issue common shares for up to 50% of Contingent Payment #1, based on the volume weighted average trading price of the Company's common shares for the 10 trading days immediately preceding the date of such payment.
- ii. \$1,000,000 if the London Bullion Market Association ("LBMA") spot price of gold closes at or above \$2,000 per ounce for 20 consecutive trading days within two years after closing ("Contingent Payment #2").
- iii. \$1,000,000 if the LBMA spot price of gold closes at or above \$2,200 per ounce for 20 consecutive trading days within three years after closing ("Contingent Payment #3").

The Company has accrued a total of \$624,445 for contingent payment #2 and contingent payment #3 as other current liabilities on the statement of financial position.

## 24. SUBSEQUENT EVENTS

### i. Acquisitions of the Topia Mine, San Ignacio Mine and Valenciana Mine Complex

On August 4, 2022 the Company completed the acquisition of MMR from Great Panther including the producing Topia mine and production facility, the San Ignacio mine, the Valenciana Mines Complex (formerly know as the Guanajuato Mines Complex or GMC) and the Cata processing plant under a binding definitive agreement the Company signed with Great Panther on June 29, 2022.

Under the terms of the transaction, the Company acquired 100% of the shares of Great Panther's Mexican subsidiary, MMR, including three mines, two floatation processing facilities, and 25,000 hectares of mineral claims for total consideration paid to Great Panther as follows:

- \$8,000,000 in cash
- \$1,350,000 in cash for working capital in MMR in excess of the target working capital per the Sale and Purchase Agreement (subject to adjustment)
- 25,787,200 GSilver common shares at a deemed price of C\$0.335 per share, for a total of \$6,700,000, which had a fair value of \$8,976,524 based on the closing price of the Company's shares on August 4, 2022.

In addition, GSilver has agreed to pay Great Panther up to an additional \$2,000,000 in contingent payments based on the following:

- \$500,000 upon GSilver producing 2,500,000 ounces of silver from the purchased MMR assets.
- \$750,000 if the price of silver closes at or above US\$27.50 per ounce for 30 consecutive days within two years after closing.
- \$750,000 if the price of silver closes at or above US\$30.00 per ounce for 30 consecutive days within three years after closing.

The Company has determined that this transaction represents a business combination, with the Company identified as the acquirer. The Company began consolidating the operating results, cash flows and net assets of MMR from August 4, 2022 onwards.

As the acquisition of MMR was recently completed, the initial allocation of the purchase price to the assets acquired and liabilities assumed is not complete. The main areas under consideration are the fair values attributable to the assets and liabilities assumed. The Company will disclose a preliminary purchase price allocation in its September 30, 2022 interim condensed consolidated financial statements.

## Notes to the condensed consolidated interim financial statements

(Unaudited - Expressed in US dollars, unless otherwise indicated)

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### ii. Stock options granted

On July 18, 2022, The Company also announced that its Board of Directors has approved the granting of 5,875,000 stock options, including 3,450,000 options to officers and directors of the Company. The options, which shall vest over a two-year period, are exercisable up to five years from the grant date and have a strike price of \$0.33 CAD.

### iii. Equity financing:

On July 21, 2022, the Company closed an equity financing of subscription receipts ("Subscription Receipts") at a price of C\$0.33 (equivalent to approximately US\$0.256) per Subscription Receipt (the "Equity Financing") for gross proceeds of \$10,722,659 (C\$13,822,178.04). The funds were released from escrow upon completion of the MMR acquisition on August 4, 2022.

Upon closing of the MMR acquisition, each Subscription Receipt automatically converted into one unit of the Company consisting of one common share and one common share purchase warrant for a total of 41,885,388 common shares issued. Each warrant is exercisable for one common share of the Company at a price of C\$0.50 until August 4, 2025.

The Company has paid the Agents a cash commission (the "Agency Fee") equal to 6% (2% for arm's length purchasers and 0% for non-arm's length purchasers on the Company's president's list (the "President's List")) of the gross proceeds from the Equity Financing and issued agents' warrants ("Agents' Warrants") equal to 6% (2% for arm's length purchasers and 0% for non-arm's length purchasers on the President's List) of the total number of Subscription Receipts sold. The Agents will also be paid an advisory fee equal to C\$298,000 and 905,695 Agents' Warrants. Each Agents' Warrant entitles the holder to purchase one common share of the Company at a price of C\$0.33 for a period of three years following completion of the MMR acquisition.

### iv. Credit facility

On August 22, 2022, the Company entered into a credit facility (the "OP Facility") with Ocean Partners (UK), a metals off-take and trading firm, for \$5,000,000. The OP Facility will be for a term of 24 months, secured by a share pledge over MMR and repayable over a period of 21 months following a three-month grace period. Interest on the OP Facility will be calculated at 12-month LIBOR + 7.5%.