LUCA MINING CORPORATION

(Formerly Altaley Mining Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of Canadian dollars)

Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Luca Mining Corporation

Opinion

We have audited the consolidated financial statements of Luca Mining Corporation (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2022, and December 31, 2021 and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements which indicates that the Corporation has an excess of current liabilities over current assets of $46,275,000 and has an accumulated deficit of $76,094,000 as at December 31, 2022. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

Assessment of the recoverable amount of mineral properties and development project

Refer to Note 7 of the consolidated financial statements.

Mineral properties and development project are recorded at $16,893,000 and $38,439,000 as at December 31, 2022. No impairment was recorded during the year.

Management assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If there are indications of impairment, management estimates the recoverable amount of the asset. Impairment is recognized when the carrying amount of the asset exceeds the recoverable amount. The recoverable amount of the mineral properties and development assets are determined based on value in use using a discounted cash flow model. The value in use model requires management to make significant assumptions, including commodity prices, ore quantity remaining, average grade, and discount rate.

Given the significance of management's judgments and the subjectivity in the estimates used in determining the value in use of the mineral properties and development assets, we have identified the assessment of the recoverable amount of these assets as a key audit matter.

Our audit procedures included, amongst other procedures:

- We evaluated management's assessment of indicators of impairment at December 31, 2022 based on our knowledge of the business and industry;
- We evaluated the reasonableness of the inputs and significant assumptions used in management's discounted cash flow model;
- With the assistance of valuation specialists, we evaluated the reasonableness of the discount rate used in management's model;
- We considered the qualifications and objectivity of the expert engaged by the Corporation to prepare the relevant preliminary feasibility studies; and
- We assessed estimation uncertainty by performing a sensitivity analysis on management's significant assumptions including commodity prices, grade, and discount rate.

Information other than the consolidated financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

Grant Thornton LLP

Vancouver, Canada
May 1, 2023

Chartered Professional Accountants
Licensed Public Accountants

Luca Mining Corporation **(Formerly Altaley Mining Corporation)**
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	Notes	As at December 31, 2022	As at December 31, 2021
Assets			
Cash		$ 1,152	$ 3,049
Marketable securities	4	-	3,909
Accounts receivable	5	13,503	8,451
Prepaid expenses and deposits		3,842	3,512
Inventories	6	9,397	9,707
Total current assets		27,894	28,628
Mineral properties, plant and equipment	7	92,696	68,379
Right of use assets	8	9,983	9,975
Taxes receivable long-term	5	1,671	15
Other assets	11	959	1,808
Total non-current assets		105,309	80,177
Total assets		**$ 133,203**	**$ 108,805**
Liabilities			
Accounts payable and accrued liabilities	9	$ 29,223	$ 16,492
Due to Breakwater Resources Ltd	7(b), 10	3,682	3,132
Current portion of lease liabilities	8	1,527	1,271
Short-term debt	11	30,523	10,620
Empress royalty stream	12	333	227
Share subscriptions received in advance	13	8,881	–
Total current liabilities		74,169	31,742
Long-term due to Breakwater Resources Ltd	7(b), 10	-	2,356
Lease liabilities	8	8,535	8,750
Long-term debt	11	8,024	23,926
Long-term Empress royalty stream	12	8,295	6,761
Provision for site reclamation and closure	14	5,817	4,599
Total non-current liabilities		30,671	46,392
Total liabilities		**$ 104,840**	**$ 78,134**
Equity			
Share capital	15	$ 93,891	$ 84,757
Equity reserves	16	9,573	11,803
Accumulated other comprehensive income (loss)		993	(1,402)
Deficit		(76,094)	(64,487)
Total equity		28,363	30,671
Total liabilities and equity		**$ 133,203**	**$ 108,805**

Going concern (Note 1)
Subsequent events (Note 27)

Approved by the Board of Directors on May 1, 2023, and signed on the Company's behalf by:

"David Rhodes"
Director

"Mike Struthers"
Director

The accompanying notes form an integral part of these consolidated financial statements

Luca Mining Corporation (Formerly Altaley Mining Corporation)
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars, except shares and per share amounts)

	Notes		Years ended December 31, 2022		2021
Revenues					
Gross sales		$	89,291	$	98,452
Treatment and selling costs			(30,083)		(28,768)
Net revenue			59,208		69,684
Cost of Sales					
Production cost		$	51,763	$	32,628
Royalties			1,987		2,262
Depletion, depreciation, and amortization	7, 8		2,451		538
Total cost of sales			56,201		35,428
Mine operating profit			3,007		34,256
General Expenses:					
Consulting fees, wages and benefits	21	$	3,223	$	2,402
Legal and professional fees			991		756
Office, rent and administration			988		2,219
Amortization of right-of-use assets	8		139		123
Regulatory, transfer agent and shareholder information			112		131
Travel, promotion and investor relations			846		808
Share-based compensation	7, 16, 21		230		2,018
(Reversal of) impairment of assets	7		–		(16,340)
Total general expenses			6,529		(7,883)
Other (income) expenses:					
Interest income		$	(233)	$	(422)
Change in fair value of financial instruments	4, 10		2,774		2,371
Finance costs	17		4,473		3,215
Other income and expenses, net	18		208		3,429
Foreign exchange loss (gain)			863		(2,719)
Total other (income) expenses			8,085		5,874
Net (loss) income for the year		**$**	**(11,607)**	**$**	**36,265**
Other comprehensive (loss) income					
Items that will be reclassified subsequently to profit or (loss)					
Foreign currency translation adjustment			2,395		465
Total items that will be reclassified subsequently to profit or (loss)			2,395		465
Total net comprehensive (loss) income for the year		**$**	**(9,212)**	**$**	**36,730**
Weighted average number of common shares outstanding					
Basic			34,157,486		29,527,197
Diluted			34,157,486		34,221,504
(Loss) earnings per share ("EPS")					
Basic EPS		$	(0.34)	$	1.23
Diluted EPS		$	(0.34)	$	1.06

The accompanying notes form an integral part of these consolidated financial statements

Luca Mining Corporation **(Formerly Altaley Mining Corporation)**
Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in thousands of Canadian dollars, except for number of common shares)

	Notes	Number of common shares		Share capital		Equity reserves		Accumulated other comprehensive (loss) income		Deficit		Total
Balance as at December 31, 2020		**22,845,828**	**$**	**65,317**	**$**	**10,591**	**$**	**(1,867)**	**$**	**(100,752)**	**$**	**(26,711)**
Shares issued on private placement, net of issuance cost	15	6,300,000		9,573		–		–		–		9,573
Shares issued upon settlement of obligations	10, 15	1,825,000		5,548		–		–		–		5,548
Bonus shares and warrants issued on modification of debt	11, 15	62,500		385		812		–		–		1,197
Stock options exercised	15, 16	375,834		408		–		–		–		408
Fair value of equity instruments allocated to share capital issued on exercise		–		598		(598)		–		–		–
Fair value of equity instruments allocated to share capital issued on expiry or cancellation		–		1,442		(1,442)		–		–		–
Warrants exercised	15, 16	785,907		1,486		–		–		–		1,486
Share-based compensation	16	–		–		2,440		–		–		2,440
Income and comprehensive income for the year		–		–		–		465		36,265		36,730
Balance as at December 31, 2021		**32,195,069**	**$**	**84,757**	**$**	**11,803**	**$**	**(1,402)**	**$**	**(64,487)**	**$**	**30,671**
Shares issued on private placement, net of issuance cost	15	1,790,965		4,836		–		–		–		4,836
Share issue costs in relation to subscriptions received in advance		–		–		–		–		–		–
Warrants issued on modification of debt	11, 16	–		–		119		–		–		119
Warrants exercised	15	882,023		1,659		–		–		–		1,659
Fair value of equity instruments allocated to share capital on exercise		–		6		(6)		–		–		–
Fair value of equity instruments allocated to share capital on expiry or cancellation		–		2,633		(2,633)		–		–		–
Share-based compensation	16	–		–		290		–		–		290
Loss and comprehensive loss for the year		–		–		–		2,395		(11,607)		(9,212)
Balance as at December 31, 2022		**34,868,057**	**$**	**93,891**	**$**	**9,573**	**$**	**993**	**$**	**(76,094)**	**$**	**28,363**

The accompanying notes form an integral part of these consolidated financial statements

Luca Mining Corporation **(Formerly Altaley Mining Corporation)**
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Notes	Years ended December 31, 2022	2021
Cash provided by (used in):			
Operating activities:			
(Loss) income for the year		$ (11,607)	$ 36,265
Items not involving cash:			
Accretion for site reclamation and closure	14	566	464
Depletion, depreciation, and amortization	7	2,451	538
Amortization of right-of-use assets	8	139	123
Share-based compensation	16	284	2,292
Impairment of financial assets	5, 18	–	3,968
(Reversal of) impairment of non-financial assets	7, 8	–	(16,462)
Amortization of deferred financing costs	11	987	(436)
Accretion on Empress Royalty stream	12	1,423	683
Amortization of deferred revenue	12	(305)	–
Revaluation of financial instruments	4, 10	2,774	2,371
Accrued interest on debt	10, 11	1,380	1,108
Gain on modification of loans	10, 11	(86)	(1,551)
Fair value of warrants issued in financing		118	812
Changes in non-cash working capital:			
Restricted funds		–	(3,663)
Accounts receivable and other assets		(5,572)	(3,081)
Prepaid expenses and deposits		66	(1,790)
Inventories		1,364	(3,891)
Accounts payable and accrued liabilities		8,007	(13,679)
Cash provided by operating activities		1,989	4,071
Investing activities:			
Plant and equipment, net	7, 8	(9,387)	(12,591)
Exploration and evaluation assets	7	(3,787)	(5,397)
Redeemed marketable securities	4	1,293	–
Cash used in investing activities		(11,881)	(17,988)
Financing activities:			
Shares issued on financing, net of issuance costs	15	4,836	9,958
Share subscriptions received in advance		8,881	–
Interest paid	8, 10, 11	(3,104)	(3,629)
Proceeds from debt	11(d)	2,985	7,146
Proceeds in connection to warrants and/or stock options exercised		1,659	1,894
Proceeds from Empress Royalty stream, net of transaction costs	12	–	6,227
Repayment of lease liabilities	8	(1,204)	(528)
Repayment of debt	10, 11	(6,433)	(4,086)
Cash provided by financing activities		7,620	16,982
Effect of foreign exchange rate changes on cash		375	(273)
Increase (decrease) in cash		(1,897)	2,792
Cash, beginning of year		3,049	257
Cash, end of year		**$ 1,152**	**$ 3,049**

Supplemental cash flow information (Note 19)

The accompanying notes form an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Luca Mining Corporation (Formerly Altaley Mining Corporation), (the “Company” or “Luca”) was incorporated on April 11, 1986, under the laws of British Columbia, Canada. The Company’s head office address is Suite 1000 - 1111 Melville Street, Vancouver, British Columbia, V6E 3V6, Canada. The registered and records office address is Suite 1008 – 550 Burrard Street, Vancouver, BC V6C 2B5. The Company is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “LUCA”.

Going concern

The Company’s principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project (Note 7). Effective May 16, 2018, the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the “Accendo Syndicate”) to provide up to US$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo’s banking license and started its liquidation. The Company has a US$5.8 million balance to be drawn down from its executed Medium Term Loan Facility (“MTLF”) (Note 11 (c)) which is now impaired and was part of the total US$25 million Accendo Syndicate financing. Notwithstanding, subsequent to completing the necessary financing to place Tahuehueto into commercial production, there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company’s current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of development project assets or mineral properties, and the Company’s continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis. As a result of these risks, there are material uncertainties which may cast significant doubt as to the Company’s ability to continue as a going concern. In response to these matters the Company has taken several actions during the first and second quarters of 2023 to improve its financial position (Note 27). These actions include a series of debt settlement agreements settling $10,615 through the issuance of 21,711,450 Common Shares in the Company, and capital raising initiatives resulting gross proceeds of $18,344.

These consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported consolidated statements of financial position classifications that would be necessary if the going concern assumption were inappropriate. No adjustments have been made should the going concern assumption not be appropriate and such adjustments could be material. The Company has an excess of current liabilities over current assets as at December 31, 2022 of $46,275 (December 31, 2021 - $3,114) and an accumulated deficit of $76,094 (December 31, 2021 - $64,487). These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance 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”).

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

2. BASIS OF PRESENTATION (continued)

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 1, 2023.

(b) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The following is a list of subsidiaries and their geographical locations:

Subsidiary	Place of Incorporation	Beneficial Interest
Samarkand de Mexico, S.A. de C.V.	Mexico	100%
Sierra Soleada S.A. de C.V.	Mexico	100%
Real de la Bufa S.A. de C.V.	Mexico	100%
Minas de Campo Morado, S.A. de C.V.	Mexico	100%
Prestadora de Servicios Arcelia, S.A. de C.V.	Mexico	100%
Servicios Corporativos Altaley, S.A. de C.V.	Mexico	100%
Grupo Minero Mexicano Nyrstar, S.A. de C.V.	Mexico	100%
Grupo Minero HD, S.A. de C.V.	Mexico	100%

Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. All intercompany balances and transactions have been eliminated upon consolidation.

(c) Functional and presentation currency

The presentation currency of the Company's financial statements is the Canadian dollar; therefore, references to $ means Canadian dollars, US$ are to United States dollars and MXN$ to Mexican pesos.

The functional currency of Luca Mining Corporation, the parent entity, is the Canadian dollar. The US dollar was determined to be the functional currency of the primary economic environment in which the Mexican subsidiaries Real de la Bufa, S.A. de C.V. and Minas de Campo Morado, S.A. de C.V. operate, as most of the development, operational and sales activities are denominated or are influenced by the US dollar.

(d) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS, requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may 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.

The accounting judgements and estimates which have the most significant effect on these consolidated financial statements and the financial results are as follows:

<u>Judgements</u>

Going concern

These consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

2. BASIS OF PRESENTATION (continued)

Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

Judgement was required in determining that the US dollar is the appropriate functional currency of certain subsidiaries of the Company. This was determined by assessing the currency which influences sales prices for concentrate sales, labour and input costs. If the judgement was altered and a different functional currency was selected for certain subsidiaries of the Company, this could result in material differences in the amounts recorded in the consolidated statements of income (loss) and comprehensive income (loss) pertaining to foreign exchange gains or losses.

Economic recoverability, impairment and probability of future economic benefits of mineral property interests

Management has determined that mining interests, evaluation, development and related costs incurred which have been capitalized as mineral interests and development costs, are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

The Company assesses its mining interest and development assets, property, plant and equipment assets annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential, mineral reserves, and operating performance.

Commencement of commercial production

Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results, which includes the grade and volume of material mined, are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments.

Accounting for streaming arrangements

To qualify for the own use exemption, a contract to buy or sell a non-financial item needs to be entered into and continue to be held to receive or deliver that non-financial item in accordance with the Company's expected purchase, sale or usage requirements. The Company made significant judgments in relation to the ownership of the production facilities, amount and timing of future expected production, options or lack thereof to settle in cash, unit of account, and potential changes to settlement terms. The Company considers its precious metal streaming arrangements as a commodity arrangement in which the fair value of the stream will be recorded as deferred revenue until the payable silver is delivered in line with the terms of the agreement. Management has determined that the streaming arrangement qualifies for the own use exemption in all material aspects.

2. BASIS OF PRESENTATION (continued)

Estimates

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

Mineral reserves and mineral resource estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining interests. The Company estimates its mineral reserves and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data.

The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mining reserve or mineral resource estimates may impact the carrying value of mineral interests and development assets, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

Operating levels intended by management

Depletion of capitalized costs for a mineral property begins when operating levels intended by management have been reached. Management considers several factors in determining when a mineral property has reached the operating levels intended by management. The results of operations of the Company during the year ended December 31, 2022 and 2021, presented in these consolidated financial statements, have been impacted by management's determination that its Tahuehueto property, classified as mineral interest and development assets on the statement of financial position, did not reach the operating levels intended by management. The Company is unable to determine with certainty the extent of project changes and operational modifications that would be required to more fully realize on the potential value of the existing resources and reserves.

Provision for site reclamation and closure costs

The Company's provision for site reclamation and closure costs is based on management's best estimate of the present value of the future cash outflows required to settle the liability. In determining the liability, management makes estimates about the future costs, inflation, foreign exchange rates, risks associated with the cash flows, and the applicable risk-free interest rates for discounting future cash flows. Changes in any of these estimates could result in a change in the provision recognized by the Company. Also, the ultimate costs of environmental disturbance are uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites.

Inventory valuation

Consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and concentrates based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and amortization.

2. BASIS OF PRESENTATION (continued)

Accounts receivable

The recoverability of accounts receivable which is included in the consolidated statements of financial position are initially recorded at fair value and subsequently at amortized cost using the effective interest rate method. Accounts receivable are presented net of allowances and discounts that the Company expects to realize from the sale of concentrate.

Provisions

Provisions recognized in the consolidated financial statements involve estimates on the occurrence of future events, which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

Leases

The right of use assets and liabilities are measured at the present value of future lease payments discounted using the rate implicit in the lease or incremental borrowing rate for the Company if the rate implicit in the lease is not readily determined. These assumptions will impact the valuation of right of use assets and liabilities and finance cost.

Depreciation and amortization rate for property, plant, and equipment

Depreciation and amortization expenses are allocated based on estimated economic lives. Should the economic life, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of income (loss) and comprehensive income (loss) on a prospective basis.

Stock based compensation

The Company grants stock options to certain of its employees, directors, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

The compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. This number is reviewed annually, with any change in estimate recognized immediately in the compensation expense with a corresponding adjustment to equity reserves.

Deferred tax assets and liabilities

Management judgment and estimates are required in assessing whether deferred tax assets and deferred tax liabilities are recognized in the consolidated statements of financial position. Judgements are made as to whether future taxable profits will be available in order to recognize deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, and other capital management transactions. These judgments and estimates are subject to risk and uncertainty and changes in circumstances may alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the consolidated statements of financial position and the benefit of other tax losses and temporary differences not yet recognized. The tax rate expected to be in effect when temporary differences reverse is 30% for Mexico.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the entity at exchange rates in effect at the transaction dates.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate on the reporting date. Non-monetary assets and liabilities measured at fair value are translated using the exchange rates at the date when fair value was determined. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using exchange rates that were in effect at the transaction dates.

Foreign currency gains and losses arising on period-end revaluations are recognized in the consolidated statements of income (loss) and comprehensive income (loss), except for differences arising on translation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income (loss).

For the purpose of the consolidated financial statements, assets and liabilities of entities that have functional currencies other than the Canadian dollar are translated to Canadian dollars at the reporting date using the exchange rate on that date. Revenue and expenses are translated at monthly average exchange rates that approximate those in effect at the transaction dates. Differences arising from these foreign currency translations are recognized in other comprehensive loss and presented within equity as currency translation reserve. When a foreign operation is disposed, the relevant exchange differences accumulated in the foreign currency translation reserve are transferred to the consolidated statements of income (loss) and comprehensive income (loss) as part of the profit or loss on disposal.

(b) Cash

Cash consists of cash on hand and demand deposits.

(c) Inventory

Inventories of consumable parts and supplies are valued at weighted average cost, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Costs allocated to consumable parts and supplies are based on last purchases and include all costs of purchase, conversion, and other costs in bringing these inventories to their existing location and condition. Costs allocated to ore stockpiles and concentrates are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, and mine site overhead. If the carrying value exceeds the net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer to exist.

(d) Mineral interest and development assets

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as mineral interest and development assets. Expenses directly related to pre-commercial production and sales are expensed as incurred.

During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body ("stripping costs") are classified as a mineral interest and development asset and are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to resources that will be producing in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

property interests and depleted on a unit-of-production method over the resources that directly benefit from the stripping activity.

The Company capitalizes all direct costs related to the development of the Tahuehueto project to mineral interest and development assets, under IAS 16, as management determined that the technical feasibility and commercial viability had been established through the positive results associated with the pre-feasibility study, access to financing and board approval to start the development the project, thereby making it a development stage asset under IAS 16.

The Company capitalized all direct costs associated to the rehabilitation and testing of the mine at Campo Morado. Effective May 15, 2018, the Company completed the commissioning and testing of Campo Morado declaring commercial production. Furthermore, the Company used several criteria to assess whether the mine was in the condition necessary for it to be capable of operating in a manner intended by management. These criteria include, but are not limited to:

- Completion of all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management.
- The passage of a reasonable period of rehabilitation and testing of the mine plant which demonstrates the ability to mine and mill consistently and without significant interruption at a pre-determined average rate of designed capacity.
- The mining project's ability to produce mineral concentrate within specifications, this includes the ability to produce concentrate that could be commercialized.
- The mine project has all the necessary permits to be a producing mine; and
- Mineral recoveries are at or near expected production levels.

(e) Property, plant, and equipment

i. Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day to day servicing of property and equipment are expensed in profit or loss as incurred.

The following table outlines the methods used to depreciate property, plant, and equipment:

1) Mine plant and infrastructure – Life of mine (estimated as 11 years)
2) Machinery and equipment – Straight line 4 to 10 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Construction in progress

Construction in progress includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Construction in progress includes advances on long-lived items. Construction in progress is not depreciated. Once the asset is complete and available for use, the costs of construction are transferred to the appropriate category of property, plant and equipment, and depreciation commences.

(f) Borrowing costs

Interest and other financing costs directly related to the acquisition, development and construction, and production of qualifying assets are capitalized in mineral interest and development assets until they are complete and available for use, at which time they are transferred to property, plant and equipment. Borrowing costs incurred after the asset has been placed into service as well as all other borrowing costs are charged to the consolidated statements of income (loss) and comprehensive income (loss) when incurred.

(g) Deferred revenue

Precious metals streaming contracts are subject to variable consideration and contain a significant financing component. As such, the Company recognizes a financing charge at each reporting period and grosses up the deferred revenue balance to recognize the significant financing element that is part of these contracts. Significant judgement was required in determining if the stream transactions were to be accounted for as deferred revenue. Management has determined that these streaming transactions are not derivatives since obligations will be satisfied through the delivery of non-financial items (i.e. silver equivalent credits) rather than cash or financial assets. It is management's intention to settle the obligations under the stream transactions through its own production and if this is not possible, the streaming transactions would be reconsidered for classification as a financial instrument given the potential for a cash settlement. The resulting impact would be a change to the accounting treatment of such deferred revenue, resulting in the revaluation of the fair value of the agreement through the income statement on a recurring basis.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(i) Provision for site reclamation and closure

An obligation to incur rehabilitation and site restoration costs arises when environmental disturbance is caused by the exploration, development, or on-going production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to the consolidated statements of income (loss) and comprehensive income (loss) over the life of the operation through amortization and the unwinding of the discount in the provision. At the end of each period, the provision is remeasured to reflect changes in the estimated future cash flows underlying any initial estimates. Costs for restoration of subsequent site damage, which is created on an on-going basis during exploration and production are provided for at their estimated net present values and charged against earnings as extraction progresses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments are initially recorded at fair value, adjusted for directly attributable transaction costs if not at fair value through profit or loss. The Company determines each financial instrument's classification upon initial recognition. Measurement in subsequent periods depends on the financial instrument's classification.

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Measurement

Financial assets at FVTOCI

Financial assets at FVTOCI are elected investments in equity instruments and are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of income (loss) and comprehensive income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of income (loss) and comprehensive income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of income (loss) and comprehensive income (loss). However, gains and losses on equity instruments held that are classified as FVTOCI remain within OCI and are not reclassified to profit or loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

(l) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Share capital

Common shares are classified as equity (deficiency). Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity (deficiency), net of any tax effect.

(n) Share-based compensation

The Company's stock option plan allows employees, directors, officers, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from equity reserves to share capital.

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

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

If options or warrants issued as share-based compensation expire unexercised, then the historical fair value of the share-based compensation is transferred from equity reserves to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Warrants issued in equity financial transactions

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and was valued at its fair value, as determined by the quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. If the warrants are exercised the related reserves are reclassified from reserves to share capital.

(p) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

(q) Revenue recognition

The Company applies the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company recognizes revenue from contracts with customers for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customers, which occurs upon physical delivery. Revenues are measured based on 1) the market metal prices expected at time of the settlement, and 2) the estimates of the mineral contents (assays) and weights; both are subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivables are marked-to-market using the most up-to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in market prices, assay results and weights. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue. Revenue is also recorded net of treatment, penalties, and refining charges of the counterparties under the terms of the relevant sales agreements.

(r) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has the right to obtain substantially all of the economic benefits from and to direct the use of the identified asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable under a residual value guarantee; and
iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statements of income (loss) and comprehensive income (loss) if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight- line basis over the lease term.

(s) Application of new and revised accounting standards

There have been no new standards and interpretations adopted since the release of the Company's financial statements for the year ended December 31, 2021. The following amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2023 and 2024, however early adoption is permitted:

i. Amendments to IAS 8 – Definition of Accounting Estimates. The amendments introduce a definition of accounting estimates and are intended to help entities distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". This distinction is important because changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. The amendment is effective for annual periods beginning on or after January 1, 2023.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments narrow the scope of the initial recognition exemption to clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is effective for annual periods beginning on or after January 1, 2023.
iii. Amendments to IAS 1 – Classification of Liabilities as Current or Non-current. The amendment clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
iv. Amendments to IFRS 16 – Lease liability in a Sale and Leaseback. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendment is effective for annual periods beginning on or after January 1, 2024.

The Company does not expect these amendments to have a significant impact on its consolidated financial statements.

4. MARKETABLE SECURITIES

		Amount
Balance, December 31, 2020	$	**4,271**
Change in fair value of marketable securities		(223)
Foreign currency movement		(139)
Balance, December 31, 2021	**$**	**3,909**
Change in fair value of marketable securities		(2,716)
Redemption of marketable securities		(1,293)
Foreign currency movement		100
Balance, December 31, 2022	**$**	**-**

The Company previously held senior bond trusts which were classified as FVTPL and recorded at fair value using the quoted market prices until disposition and are therefore classified as level 1 within the fair value hierarchy. The bonds entitled the Company to a coupon at an interest rate of 11% per annum, payable every six months. The investments which were held in Mexico had maturity date of August 2023 and were disposed of in its entirety on August 9, 2022 for proceeds of $1,293.

5. ACCOUNTS RECEIVABLE

		December 31, 2022		December 31, 2021
Trade receivables	$	4,088	$	1,629
Value added taxes and other taxes receivable		9,125		6,655
Other receivables		290		167
Total accounts receivable	**$**	**13,503**	**$**	**8,451**

The Company has a concentrate off-take agreement where the customer will purchase 100% of the metals concentrate produced at the Campo Morado and Tahuehueto mining properties and does not have any significant balances that are past due nor any significant expected credit losses (Note 23(a)).

During the year ended December 31, 2022, the Company disclosed as a long-term receivable, value added taxes generated in Mexico based on the expected timing of realization. As at December 31, 2022 the Company has $1,671 (December 31, 2021 – $15) in value added taxes receivable included in non-current assets.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

6. INVENTORIES

		December 31, 2022		December 31, 2021
Materials and supplies	$	6,470	$	6,146
Concentrates		2,575		1,263
Stockpile ore		352		2,298
Total inventories	**$**	**9,397**	**$**	**9,707**

During the year ended December 31, 2022, the Company recognized $20,383 (December 31, 2021 – $16,780) of inventory as an expense through cost of sales.

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

a) Tahuehueto mining project

In 1997, the Company through a wholly owned subsidiary entered into a share purchase agreement (the “Real Agreement”) to purchase 90% of the issued and outstanding shares of Real de la Bufa, which holds a 100% interest in the Tahuehueto mineral property, located in the state of Durango, Mexico. In 2007, the Company converted into equity a portion of its inter-company debt with Real de la Bufa, thereby increasing its ownership to 99%. A portion of the Tahuehueto mineral property is subject to a 1.6% net smelter return royalty (“NSR”). Pursuant to the Real Agreement, the Company is obligated to make final payments in the amount of $276 (US$200,000) (December 31, 2021 – $234 (US$200,000)) to some of the Real de la Bufa’s shareholders. On April 26, 2016, the Company signed an agreement with the local community and extended the surface access rights for 30 years. Under the terms of the agreement, the Company is obligated to make equal recurring annual payments in the amount of US$46,540 which increase at a rate of 5% compounded annually.

Effective January 1, 2017, the Company commenced capitalization of all direct costs related to the development of the Tahuehueto project to mineral properties, plant and equipment under IAS 16, as management determined that the technical feasibility and commercial viability had been established through the positive results associated with the pre-feasibility study, access to financing and board approval to start developing the project, thereby making it a development stage asset under IFRS.

Included in development project assets for the year ended December 31, 2022 is $4,779, (December 31, 2021 – $2,652) of capitalized borrowing costs based on a capitalization rate of 100%. Borrowing costs capitalized to development project assets include $360 of non-cash accretion for the year ended December 31, 2022 (December 31, 2021 – $317).

b) Campo Morado mine

On June 13, 2017, the Company completed a definitive share purchase agreement (the “Campo Morado Agreement”) with Nyrstar Mining Ltd., and Nyrstar Mexico Resources Corp. (collectively “Nyrstar”) to purchase all the shares of Nyrstar’s Mexican subsidiary companies that make up and own 100% of the Campo Morado mine (“Campo Morado”), located in Guerrero State, Mexico.

The purchase price totalled US$20 million consisting of the following payments:

i. US$0.8 million at signing of the agreement (paid);
ii. US$2.7 million on or before September 12, 2017 (paid); and
iii. US$16.5 million on or before June 13, 2018 of which US$2.7 million remains outstanding as at December 31, 2022 (December 31, 2021 – US$4.3 million)

The Campo Morado project is subject to a royalty between 2% and 3% of the net value of sales over the minerals extracted during the term of existence of the mining concession to the Servicio Geológico Mexicano (“SGM”).

(Expressed in thousands of Canadian dollars, unless otherwise stated)

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT (continued)

As part of the Campo Morado Agreement, the seller retained the right to receive a variable purchase price (“VPP”) on future zinc production on the first 10 million tonnes of ore processed by the Company at the Campo Morado mine when the price of zinc is at or above US$2,100 per tonne. This was accounted for as contingent consideration. Effective April 13, 2021, the Company exercised its option to settle the US$4 million VPP obligation under the Campo Morado Agreement (Note 10). As consideration, it was agreed that the obligation would be settled with 1,825,000 common shares of Luca valued at $3.04 per common share based on the share price at the date of issuance.

c) Mineral properties, plant and equipment (MPP&E)

	Development project	Mineral properties	Land	Mine plant, machinery & equipment	Construction in progress	Total MPP&E
Cost						
Balance, December 31, 2020	$ 16,585	$ -	$ 3,182	$ 12,432	$ 3,405	$ 35,604
Additions	5,653	-	-	1,972	11,426	19,051
Change in estimate	1,574	(2,434)	-	-	-	(860)
Transfers	-	-	-	980	(980)	-
Reversal of impairment	-	16,340	-	-	-	16,340
Foreign currency movement	425	2,556	(12)	(26)	108	3,051
Balance, December 31, 2021	$ 24,237	$ 16,462	$ 3,170	$ 15,358	$ 13,959	$ 73,186
Additions	12,726	-	-	336	9,828	22,890
Transfers	-	-	-	3,601	(3,601)	-
Dispositions	(296)	-	-	-	-	(296)
Foreign currency movement	1,772	1,124	216	1,424	1,327	5,863
Balance December 31, 2022	**$ 38,439**	**$ 17,586**	**$ 3,386**	**$ 20,719**	**$ 21,513**	**$ 101,643**
Accumulated depletion and amortization						
Balance, December 31, 2020	$ -	$ -	$ -	$ 3,078	$ -	$ 3,078
Depletion and amortization	-	-	-	1,723	-	1,723
Foreign currency movement	-	-	-	6	-	6
Balance, December 31, 2021	$ -	$ -	$ -	$ 4,807	$ -	$ 4,807
Depletion and amortization	-	667	-	3,019	-	3,686
Foreign currency movement	-	26	-	428	-	454
Balance December 31, 2022	**$ -**	**$ 693**	**$ -**	**$ 8,254**	**$ -**	**$ 8,947**
Net book value						
Balance, December 31, 2021	**$ 24,237**	**$ 16,462**	**$ 3,170**	**$ 10,551**	**$ 13,959**	**$ 68,379**
Balance December 31, 2022	**$ 38,439**	**$ 16,893**	**$ 3,386**	**$ 12,465**	**$ 21,513**	**$ 92,696**

(Expressed in thousands of Canadian dollars, unless otherwise stated)

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	Machinery & equipment	Offices	Vehicles	Total ROU assets
Cost				
Balance, December 31, 2020	$ 998	$ 522	$ 149	$ 1,669
Additions	9,540	14	-	9,554
Change in estimate	-	9	-	9
Dispositions	(200)	-	(49)	(249)
Foreign currency movement	37	(21)	(23)	(7)
Balance, December 31, 2021	$ 10,375	$ 524	$ 77	$ 10,976
Additions	574	-	-	574
Change in estimate	-	15	-	15
Dispositions	-	-	(79)	(79)
Foreign currency movement	731	20	2	753
Balance, December 31, 2022	**$ 11,680**	**$ 559**	**$ -**	**$ 12,239**

Accumulated amortization				
Balance, December 31, 2020	$ 297	$ 159	$ 91	$ 547
Amortization	374	110	33	517
Dispositions	(55)	-	(38)	(93)
Foreign currency movement	65	(17)	(18)	30
Balance, December 31, 2021	$ 681	$ 252	$ 68	$ 1,001
Amortization	1,107	116	9	1,232
Dispositions	-	-	(79)	(79)
Foreign currency movement	91	9	2	102
Balance, December 31, 2022	**$ 1,879**	**$ 377**	**$ -**	**$ 2,256**
Net book value				
Balance, December 31, 2021	**$ 9,694**	**$ 272**	**$ 9**	**$ 9,975**
Balance, December 31, 2022	**$ 9,801**	**$ 182**	**$ -**	**$ 9,983**

Luca's leases consist of machinery and equipment used to support operations at the Campo Morado and Tahuehueto mines. The Company additionally leases office space for its corporate offices located in Vancouver, BC, Canada, and site headquarters located in Mexico City, Mexico. As at December 31, 2022, the Company recorded $10,062 (December 31, 2021 – $10,021) of lease liabilities. The incremental borrowing annual rate for lease liabilities initially recognized as of January 1, 2019, was 8% to 15%.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES (continued)

The continuity of lease liabilities for the years ended December 31, 2022, and 2021 is as follows:

		Amount
Balance lease liabilities, December 31, 2020	$	1,621
Lease additions		9,554
Lease amendments		9
Lease cancelations		(733)
Lease payments		(528)
Interest expense		226
Interest paid		(226)
Foreign currency movement		98
Balance lease liabilities, December 31, 2021	$	10,021
Lease additions		574
Lease amendments		15
Lease payments		(1,204)
Interest expense		1,025
Interest paid		(1,025)
Foreign currency movement		656
Balance, December 31, 2022	**$**	**10,062**

		December 31, 2022		**December 31, 2021**
Current portion	$	1,527	$	1,271
Long-term portion		8,535		8,750
Balance	**$**	**10,062**	**$**	**10,021**

Future minimum lease payments (principal and interest) on the leases are as follows:

		Amount
2023	$	1,523
2024		1,964
2025		1,627
2026		1,584
Thereafter		9,239
Total minimum lease payments		15,937
Present value of minimum lease payments		(5,875)
Lease obligations, December 31, 2022	**$**	**10,062**

The Company does not face a significant liquidity risk with regard to its lease liability. The lease liability is monitored within the Company treasury function and has maturity dates ranging from 2023 to 2032.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2022 and 2021, the Company recorded the following amounts as accounts payable and accrued liabilities:

		December 31, 2022		December 31, 2021
Trade payables	$	12,190	$	5,168
Accrued liabilities, payroll, and tax withholdings		7,143		3,758
Contingent liabilities		6,606		5,720
Royalties and other		3,284		1,846
Total accounts payable and accrued liabilities	**$**	**29,223**	**$**	**16,492**

10. DUE TO BREAKWATER RESOURCES LTD.

As at December 31, 2022 and 2021, the Company recorded the following amounts due to Breakwater Resources Ltd ("Breakwater"):

		Consideration payable due to acquisition		Contingent consideration (Note 7(b))		Total due to Breakwater Resources Ltd.
Balance, December 31, 2020	$	8,891	$	5,094	$	13,985
Interest accrued		706		-		706
Principal paid		(1,452)		-		(1,452)
Interest paid		(2,556)		-		(2,556)
Change in fair value of contingent consideration		-		2,148		2,148
VPP settled with common shares		-		(5,548)		(5,548)
VPP settled with cash		-		(1,629)		(1,629)
Gain on extinguishment		(25)		-		(25)
Foreign currency movement		(76)		(65)		(141)
Balance, December 31, 2021	$	5,488	$	-	$	5,488
Interest accrued		483		-		483
Principal paid		(2,153)		-		(2,153)
Interest paid		(422)		-		(422)
Gain on modification		(3)		-		(3)
Foreign currency movement		289		-		289
Balance, December 31, 2022	**$**	**3,682**	**$**	**-**	**$**	**3,682**

		December 31, 2022		December 31, 2021
Current portion	$	3,682	$	3,132
Long term portion		-		2,356
Balance	**$**	**3,682**	**$**	**5,488**

On June 13, 2017, the Company acquired Campo Morado mine for a total purchase price of US$20 million paid as follows:

i. US$0.8 million at signing of the agreement (paid);
ii. US$2.7 million on or before September 12, 2017 (paid); and
iii. US$16.5 million on or before June 13, 2018 of which US$2.7 million remains outstanding as at December 31, 2022 (December 31, 2021 – US$4.3 million)

10. DUE TO BREAKWATER RESOURCES LTD. (continued)

On June 12, 2018, the Company renegotiated the terms for the remaining US$8.5 million balance on the Campo Morado Agreement and entered into a loan agreement with Nyrstar, a subsidiary of Trafigura ("Campo Morado Loan Agreement").

Effective April 13, 2021, the Company exercised its option to settle the US$4 million VPP obligation under the Campo Morado Agreement. As consideration, it was agreed that the obligation was settled with 1,825,000 common shares of Luca valued at $3.04 per common share. The Company recorded a loss of $2,148 which represents the change in the fair value of common shares issued at $5,548 and the VPP cash settlement of $1,629 contingent consideration settled with Nyrstar.

On June 17, 2021, the Company and Nyrstar agreed to amend the Campo Morado Loan Agreement with the following terms: upon the execution and funding of the Accendo MTLF (Note 11(c)), the Company will repay the interest owing, a portion of the principal of the loan and the incurred VPP for a total of US$3.2 million (paid). The remaining outstanding balance of the loan will be paid in twenty-six equal monthly instalments accruing interest at a rate of 10% per annum.

In addition to the aforementioned monthly principal repayments, Luca will pay at the end of each quarter succeeding the grace period, 70% of any excess cash above US$7 million generated by Luca on the Campo Morado mining project.

The above loan amendments resulted in a substantial modification of terms as outlined above. As a result of the amendment of terms, during the year ended December 31, 2021, the Company recognized a gain on extinguishment in other income and expenses totaling $25 impacting the valuation in relation to the Campo Morado Loan Agreement.

Effective September 30, 2021, Breakwater Resources Ltd., a subsidiary of Trafigura, acquired from Nyrstar the rights and obligations associated with the Campo Morado Loan Agreement. The Deed of Novation between the Company, Nyrstar, and Breakwater effectively releases and discharges the Company and Nyrstar from further obligations to each other with respect to the Campo Morado Loan Agreement and their respective rights against each other thereunder are cancelled. In respect to the Deed of Novation, the Company and Breakwater each undertake liabilities and obligations towards the other and acquire rights against each other effectively replacing Nyrstar with Breakwater as the lender in relation to the Campo Morado Loan Agreement.

Effective May 1, 2022, the Company and Breakwater agreed to amend the terms of the Campo Morado Loan Agreement. As a result of amendment of terms, the maturity date of the Campo Morado Loan Agreement was extended to December 2023, with a three-month grace period between May and July 2022. All other terms remain unchanged from the amending agreement entered into on June 17, 2021. As a result of the amendment of terms, during the year ended December 31, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling $3, impacting the valuation in relation to the Campo Morado Loan Agreement.

As at December 31, 2022, the unamortized balance of the collective fair value discount resulting from amendments related to the loan is $7 (December 31, 2021 – $16).

As at December 31, 2022, principal payments with a carrying value of US$206,749 were overdue and Breakwater is contractually entitled to request for immediate payment of the loan. As such, the outstanding balance of the Campo Morado Loan is presented as a current liability as at December 31, 2022. The Company is actively engaged in negotiations with Breakwater to resolve the matter and is optimistic that a mutually acceptable resolution can be reached. The outcome of these negotiations is uncertain at this time, and there can be no assurance that a resolution will be achieved on terms favourable to the Company.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

11. SHORT AND LONG-TERM DEBT

The continuity of the short and long-term debt balances are as follows:

		LOC a)		Loan Agreement Campo b)		Loan Agreement Real c)		MTLF c)		Calu Loan d)		Total short and long-term debt
Balance, December 31, 2020	$	4,127	$	5,013	$	18,384	$	657	$	-	$	28,181
Disbursements, net of transaction fees		-		-		-		7,146		-		7,146
Interest accrued		483		365		1,485		456		-		2,789
Principal paid		-		(970)		-		(35)		-		(1,005)
Interest paid		-		(124)		(587)		(137)		-		(848)
(Gain) loss on extinguishment		139		(312)		(1,352)		-		-		(1,525)
Foreign currency movement		(13)		(35)		(226)		82		-		(192)
Balance, December 31, 2021	$	4,736	$	3,937	$	17,704	$	8,169	$	-	$	34,546
Disbursements, net of transaction fees		-		-		-		-		2,985		2,985
Interest accrued		482		451		2,624		643		415		4,615
Principal paid		-		(1,411)		(2,869)		-		-		(4,280)
Interest paid		-		(218)		(1,438)		-		-		(1,656)
(Gain) loss on modification		(133)		(10)		37		-		23		(83)
Foreign currency movement		334		221		1,144		583		138		2,420
Balance, December 31, 2022	**$**	**5,419**	**$**	**2,970**	**$**	**17,202**	**$**	**9,395**	**$**	**3,561**	**$**	**38,547**

Less: short-term obligation	$	1,274	$	2,970	$	17,202	$	5,516	$	3,561	$	30,523
Long-term debt		4,145		-		-		3,879		-		8,024
Balance, December 31, 2022	**$**	**5,419**	**$**	**2,970**	**$**	**17,202**	**$**	**9,395**	**$**	**3,561**	**$**	**38,547**

Current portion of debt	$	1,357	$	2,215	$	5,306	$	1,742	$	-	$	10,620
Long-term debt		3,379		1,722		12,398		6,427		-		23,926
Balance, December 31, 2021	**$**	**4,736**	**$**	**3,937**	**$**	**17,704**	**$**	**8,169**	**$**	**-**	**$**	**34,546**

a) Line of Credit

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin"), for a line of credit for up to $9.6 million (MXN$150 million) (the "LOC"). The funds from the LOC were used towards the Company's investment plan established in its completed Internal Scoping Study. The funds drawn down under the LOC accrue interest at a rate of 15% per annum, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in twelve consecutive monthly instalments. Furthermore, the Company is required to pay back any cash advances in twenty-four equal consecutive monthly instalments following a thirty-six month grace period and no later than July 28, 2022. In case of default any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has drawn down from its LOC a total amount of $3.0 million (MXN$46 million) between July 2016 and October 2019, primarily to further its Tahuehueto project.

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement resulting in a substantial modification whereby the outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. To accommodate the amendment, Escorfin has been accepted into the Trust Agreement defined in Note 11(b). The remaining term was extended thirty-six months from the date of amendment with a grace period equal to twelve months on principal and interest. The amended interest rate was decreased to 10% per annum from 15% per annum and as consideration for LOC modification, the Company has agreed to issue Escorfin, 62,500

11. SHORT AND LONG-TERM DEBT (continued)

bonus shares and 187,500 bonus warrants. Each bonus warrant is exercisable within a period of two years at a price of $3.80. The shares issued were valued at the date of issuance, July 30, 2021, and the bonus warrants were fair valued using the Black-Scholes option pricing model, together totaling $1,197 which was recorded as deferred financing costs in other assets. The assumptions used for determining the fair value of these warrants were: risk-free interest rate 0.45%, expected dividend yield $nil, stock price volatility 125%, and expected life of 2 years. The unamortized balance as at December 31, 2022 is $841 (December 31, 2021 – $996).

Effective May 26, 2022, the Company and Escorfin agreed to an additional amendment of terms. As a result of amendment, the maturity dates of the LOC Agreement were extended to September 2025, with thirty-six equal instalments beginning October 2023 with outstanding principal accruing interest at a rate of 10% per annum. As a result of the amendment of terms, during the year ended December 31, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling $133, impacting the fair value in relation to the LOC Agreement. As at December 31, 2022, the unamortized balance of the fair value discount is $128 (December 31, 2021 – $nil).

b) Trafigura Loans

On September 11, 2017, the Company entered into a loan agreement (“Loan Agreement Campo”) with Trafigura in the amount of US$5 million for financing working capital to initiate the restart of continuous mining operations at the Campo Morado mining facility. The loan bears interest at an effective annual rate equivalent to LIBOR (3M) plus 5%, it has a three-year term with nine months grace period followed by thirty monthly repayments. In connection to the loan agreement the Company’s subsidiary, Minas de Campo Morado, S.A. de C.V., also entered into an Offtake agreement with Trafigura, (“Offtake Agreement Campo”) in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term starting October 2017.

On December 7, 2017, the Company entered into an additional loan agreement (“Loan Agreement Real”) with Trafigura Mexico, S.A. de C.V. in the amount of US$15 million for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility was available in three tranches, the first tranche equivalent to US$7.5 million, which was received upon signing of the agreement. The second tranche equal to US$5 million, which was received on November 6, 2018. The third tranche for US$2.5 million was not received and is no longer available. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement, the Company’s subsidiary Real de la Bufa, S.A. de C.V., also entered into an Offtake agreement with Trafigura., (“Offtake Agreement Real”) in which the Company will sell all its zinc and lead concentrates for a sixty-month term, starting January 2018.

On July 1, 2021, the Company and Trafigura agreed to amend the terms of the Loan Agreement Campo and Loan Agreement Real (collectively the “Trafigura Loans”). The loan amendments resulted in a substantial modification whereby the interest rates remain unchanged and unpaid interest was capitalized to the outstanding principal of the loans. The maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to September 30, 2023 and September 30, 2024, respectively, with twenty-six equal instalments beginning August 30, 2021 for the Loan Agreement Campo and thirty-two equal instalments beginning February 1, 2022 for the Loan Agreement Real. As a result of the substantial modification of terms, during the year ended December 31, 2021 the Company recognized a gain on extinguishment in other income and expenses of $312 impacting the fair value of the Loan Agreement Campo and capitalized a gain on extinguishment to development project assets of $1,352 impacting the fair value of the Loan Agreement Real.

11. SHORT AND LONG-TERM DEBT (continued)

In connection to the restructure of the Trafigura Loans and the waiver received on March 26, 2020, to correct previous non-compliance of the Trafigura Loans terms and conditions, the Company agreed to transfer all of its assets in the Campo Morado and Tahuehueto mining projects to a trustee of the Trust Agreement (the "Trust") in order to secure the full repayment of the Loan Agreements. Should the total debt due to Trafigura under the Loan Agreements be fully repaid, the Trust will be terminated, and all assets held within the Trust will return to the Company. On November 12, 2020, the Company executed the Trust with Trafigura.

Effective April 1, 2022, the Company and Trafigura agreed to a subsequent amendment of terms. As a result, the maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to December 2023 and December 2024, respectively, with eighteen equal instalments due for the Loan Agreement Campo and thirty equal instalments due for the Loan Agreement Real, each beginning July 2022. As a result of the amendment of terms, during the year ended December 31, 2022, the Company recognized a gain on the non-substantial modification in other income and expenses totaling $10 impacting the fair value of the Loan Agreement Campo and capitalized a loss on the non-substantial modification to development project assets of $37 impacting the fair value of the Loan Agreement Real. As at December 31, 2022, the unamortized balance of the collective fair value discount on the Loan Agreement Campo and Loan Agreement Real is $53 and $257, respectively (December 31, 2021 – $202 and $1,063).

Principal payments on the Trafigura Loans with a carrying value of US$309,590 for the Loan Agreement Campo and US$965,774 for the Loan Agreement Real, were overdue as at December 31, 2022. As the Tahuehueto mining project nears commercial production, available funds had been allocated to its completion in lieu of debt servicing obligations. Due to the reallocation of funding, principal payments were temporarily suspended, and as a result, Trafigura is contractually entitled to request for immediate payment of the loans. As such, the outstanding balance of the Trafigura Loans are presented as a current liability as at December 31, 2022. Trafigura has not requested early repayment as of the date these consolidated financial statements were approved by the Board of Directors, and management is in the process of renegotiating terms of the Trafigura loans to align with expected completion of the Tahuehueto mining project.

c) Accendo Loan

On July 1, 2021, the Company and Accendo executed a US$12 million Medium Term Loan Facility ("MTLF") for the purpose of funding the construction of Luca's Tahuehueto mining project and working capital purposes. To accommodate the MTLF, Accendo has been accepted into the Trust Agreement defined in Note 11(b). First and second tranches of funding were received in the amount of US$3.2 million and US$2.5 million on July 19, 2021 and August 23, 2021, respectively. Additionally, an amount of US$500,000 was advanced during the year 2020.

The main terms and conditions of Accendo's MTLF are as follows:

- Loan facility amount – US$12 million
- Repayment term – 4 years including a one-year grace period on principal
- Repayable in 36 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum payable quarterly in arrears calculated on the drawn amount
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing

11. SHORT AND LONG-TERM DEBT (continued)

Luca issued 1,875,000 bonus warrants at an exercise price of $0.72 per common share for a period of 48 months. The bonus warrants were issued in lieu of a work fee but subject to cancelation if the loan facility is not fully drawn. The bonus warrants were fair valued using the Black-Scholes option pricing model and the value of $1,628 which was recorded in other assets. The assumptions used for determining the fair value of the warrants were: risk-free interest rate 0.33%, expected dividend yield $nil, stock price volatility 128% and expected life of 4 years. On October 27, 2022, the bonus warrants were cancelled and an expense was recorded in other income and expenses to accelerate the unamortized balance of the deferred financing expense. The unamortized balance as at December 31, 2022 is $nil (December 31, 2021 – $812).

On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo's operating license to organize and operate as a multiple banking institution and started a liquidation process to protect the savings of the bank's clients. The Company has a US$5.8 million balance to be drawn down from the MTLF, however due to recent events the Company anticipates that its ability to draw any future funds is impaired.

d) Calu Loan

On December 29, 2021, the Company executed a loan agreement ("Calu Loan") with Calu Opportunity Fund, LP ("Calu") whereby Calu will provide a US$5 million loan facility to Luca, with proceeds to be used to fund the final costs of construction and working capital at the Company's Tahuehueto project. The Company received US$1.7 million on January 7, 2022 and US$645,000 in February 2022 for a total amount drawn from the facility of US$2.345 million. The loan is unsecured, has a term of 4 years, bears interest at 13.5% per annum, and is payable in twelve quarterly instalments commencing March 10, 2023.

Effective August 31, 2022, the Company and Calu agreed to amend the terms of the Calu Loan whereby US$144,088 of interest accrued as of June 30, 2022 was capitalized to the loan principal. Interest thereafter shall continue to accrue interest at a rate of 13.5% per annum and payment terms the remaining balance is payable in thirty-seven blended principal and interest payments to be made monthly commencing December 21, 2022. As a result of the amendment of terms, during the year ended December 31, 2022, the Company recognized a loss on the non-substantial modification in other income and expenses totaling $23, impacting the valuation in relation to the Calu Loan. As consideration for the amendment, the Company has agreed to issue Calu, 622,272 bonus warrants. Each bonus warrant is exercisable within a period of two and a half years at a price of $2.80. The bonus warrants were fair valued using the Black-Scholes option pricing model, totaling $119 which was recorded as deferred financing costs in other assets. The assumptions used for determining the fair value of these warrants were: risk-free interest rate 3.95%, expected dividend yield $nil, stock price volatility 108%, and expected life of 2.5 years. As at December 31, 2022, the unamortized balance of the fair value discount on the loan and the deferred financing cost is $61 and $118, respectively (December 31, 2021 – $nil and $nil).

As part of the Trust Agreement (Note 11(b)), principal payments made to members of the Trust require settlement of overdue amounts owed to Trafigura prior to servicing debt obligations of other members of the Trust. Due to the temporary suspension of principal payments to Trafigura, principal and interest payments on the Calu Loan with a carrying value of US$239,020 were overdue as at December 31, 2022 and Calu is contractually entitled to request for immediate payment of the loan. As such, the outstanding balance of the Calu Loan is presented as a current liability as at December 31, 2022. In February of 2023, the Company and Calu entered into a second amending agreement to remedy the overdue amounts and subsequently settled the full balance of the Calu Loan through the issuance of shares (Note 27).

(Expressed in thousands of Canadian dollars, unless otherwise stated)

12. EMPRESS ROYALTY STREAM

On April 14, 2021, the Company entered into a silver stream agreement (the "Stream Agreement") with Empress Royalty Corp. ("Empress") in which Luca will deliver to Empress silver credits purchased from a bullion bank in an amount equivalent to 100% of the first 1,250,000 ounces of payable silver contained within produced lead and zinc concentrates from the Tahuehueto mining project; thereafter, the stream percentage of silver credit delivery will step down to 20% of the payable silver from produced lead and zinc concentrates. All streaming obligations will fully terminate after 10 years. To accommodate the arrangement, Empress has been accepted into the Trust Agreement defined in Note 11(b). Empress, to secure the Stream Agreement advanced a total of US$5 million with a first initial payment of US$2 million received on April 29, 2021, and the remaining US$3 million advance payment received on July 22, 2021. The streaming arrangement is subject to variable consideration and contains a significant financing component. As such, the Company recognizes a financing charge at each reporting period and grosses up the deferred revenue balance to recognize the significant financing element that is part of the arrangement.

The continuity of the stream is as follows:

		Amount
Balance, December 31, 2020	$	-
Upfront deposit, net of transaction fees		6,227
Accretion on streaming arrangements		683
Foreign currency movement		78
Balance, December 31, 2021		6,988
Amortization of deferred revenue		(305)
Accretion on streaming arrangements		1,423
Foreign currency movement		522
Balance, December 31, 2022	**$**	**8,628**

		December 31, 2022		December 31, 2021
Current portion	$	333	$	227
Long-term portion		8,295		6,761
Balance	**$**	**8,628**	**$**	**6,988**

13. SHARE SUBSCRIPTIONS RECEIVED IN ADVANCE

On December 6, 2022, the Company announced it is planning to conduct a Rights Offering for gross proceeds of up to $16,000. In connection with the proposed Rights Offering, the Company received, in advance, proceeds of $9,210 (US$6.8 million) as a standby guarantee under the Company's proposed but no longer proceeding Rights Offering. As at December 31, 2022, no shares or securities in the Company have been issued in that regard and as a result, the total amount, net of transaction costs associated with the terms of the agreement, has been recorded as a current liability.

14. PROVISION FOR SITE RECLAMATION AND CLOSURE

The Company recognizes a provision for site reclamation and closure, which reflects the present value of the estimated amount of cash flows required to satisfy the site reclamation and closure costs. The components of this obligation are mainly the costs associated with the reclamation of the infrastructure and buildings, roads and work sites on the property. The estimate of future site reclamation and closure obligations is subject to change based on amendments to applicable laws, management's intentions, mine life and mining concessions renewals.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

14. PROVISION FOR SITE RECLAMATION AND CLOSURE (continued)

a) Tahuehueto mining project

The total present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at $2,469 (December 31, 2021 – $1,952). A provision for site reclamation and closure has been recognized in respect of the Tahuehueto mining project. The key assumptions on which this estimate was based on are:

- Undiscounted cash flow for site reclamation of $4,788 (MXN $68.9 million), (December 31, 2021 - $4,412 (MXN $68.9 million);
- Expected timing of future cash flows is based on estimated mine life of 11 years (December 31, 2021 – 11 years) with reclamation occurring equally in years 12 and 13 (December 31, 2021 – years 12 and 13);
- Annual inflation rate 4.99% (December 31, 2021 – 4.99%); and
- Risk free interest rate 11.75% (December 31, 2021 – 11.75%)

b) Campo Morado mine

On acquisition of Campo Morado a provision for site reclamation and closure has been recognized in respect of the Campo Morado mining operations. The key assumptions on which this estimate was based on are:

- Undiscounted cash flow for site reclamation of $11,543 (MXN $166.1 million), (December 31, 2021 – $10,638 (MXN $166.1 million);
- Expected timing of future cash flows is based on estimated mine life of 20 years (December 31, 2021 – 20 years) with reclamation occurring in years 21 to 25 (December 31, 2021 – years 21 to 25);
- Annual inflation rate 4.99% (December 31, 2021 – 4.99%); and
- Risk free interest rate 11.75% (December 31, 2021 – 11.75%).

The present value of future estimated cash flows required to settle the site reclamation and closure obligation was estimated at $3,348 (December 31, 2021 – $2,647).

The following is a continuity of the obligation for site reclamation and closure:

		December 31, 2022		December 31, 2021
Balance, beginning of the year	$	4,599	$	5,638
Accretion expense		566		464
Change in estimate		-		(1,320)
Foreign currency movement		652		(183)
Balance, end of the year	**$**	**5,817**	**$**	**4,599**

15. SHARE CAPITAL

On December 20, 2022, the Company completed a consolidation of its common shares on the basis of one new common share for eight old common shares (1:8). All share and per share numbers in these consolidated financial statements are presented on a post consolidation basis.

Common share transactions:

For the year ended December 31, 2022

i. On April 20, 2022, the Company closed the first tranche of a non-brokered private placement for gross proceeds of $4,241. The Company issued 1,514,537 units (each, a "Unit") of the Company at a price of $2.80 per Unit. Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of $4.40 per Common Share within twenty-four months from April 20, 2022 (the "Closing Date"). All securities issued under the private placement were subject to a hold period expiring four months and one day after the Closing Date.

   On May 12, 2022, the Company closed the second and final tranche of a non-brokered private placement, whereby gross proceeds of $759 were raised through the issuance of 271,178 Units.

   In connection with the above private placement, the Company incurred $179 of share issue costs consisting of finders' fees of $68, issuance of 5,250 finders' Units with a fair value of $15, and legal fees of $96. The entirety of the fair value net of share issuance costs have been allocated to share capital with $nil residual value being allocated to equity reserves.

ii. During the year ended December 31, 2022, the Company issued 882,023 common shares for gross proceeds of $1,659 in connection with share purchase warrants exercised. The fair value of the warrants exercised was $6 and was transferred from equity reserves and recorded against share capital. As a result of the share purchase warrants exercised, Escorfin, a related party to the Company, was issued 454,137 common shares.

For the year ended December 31, 2021

i. On March 30, 2021, the Company closed a non-brokered private placement for gross proceeds of $10,080. The Company issued 6,300,000 units (each, a "Unit") of the Company at a price of $1.60 per Unit. Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of $2.40 per Common Share within twenty-four months from March 29, 2021 (the "Closing Date"). All securities issued under the private placement were subject to a hold period expiring four months and one day after the Closing Date.

   Escorfin, a related party to the Company, acquired 62,500 Units.

   In connection with the above private placement, the Company incurred in $478 of finders' fees and $28 of legal fees.

ii. Effective April 13, 2021, the Company exercised its option to settle the US$4 million VPP obligation under the Campo Morado Agreement (Note 10). As consideration, it was agreed that the obligation was settled with 1,825,000 common shares of Luca valued at $3.04 per common share.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

15. SHARE CAPITAL (continued)

iii. On July 30, 2021, the Company issued 62,500 common shares to Escorfin, a related party to the Company, in part for its efforts in amending the terms of the LOC (Note 11(a)).

iv. During the year ended December 31, 2021, the Company issued 375,834 common shares for gross proceeds of $408 in connection with stock options exercised. The fair value of the options exercised was $390 and was transferred from the equity reserves and recorded against share capital. An additional fair

value of $497 was reclassified to share capital from the equity reserves upon cancellation or expiry of stock options.

v. During the year ended December 31, 2021, the Company issued 785,907 common shares for gross proceeds of $1,486 in connection with share purchase warrants exercised. There was no fair value allocated to 660,907 of these share purchase warrants. The fair value of the remaining 125,000 warrants exercised was $208 and was transferred from the equity reserves and recorded against share capital.

16. EQUITY RESERVES

a) Share-based compensation

The Company has a stock option plan (the “Plan”) providing for the issuance of stock options to directors, officers, employees and other service providers enabling them to acquire up to 10% of the issued and outstanding common shares of the Company, on a rolling basis. Options may be granted at an exercise price of not less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the Board of Directors. Stock options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the Board of Directors. The stock options granted vest as to one third on the date of the grant, one third after six months and one third on the first-year anniversary; this represents a total vesting period of 12 months.

The continuity of the number of stock options issued and outstanding is as follows:

	Number of stock options		Weighted average exercise price
Outstanding, December 31, 2020	1,086,520	$	2.22
Granted	1,165,625		2.75
Exercised	(375,834)		1.09
Cancelled	(433,007)		3.50
Expired	(123,513)		1.04
Outstanding, December 31, 2021	**1,319,791**	$	2.70
Granted	112,500		0.72
Cancelled	(33,333)		2.94
Expired	(172,916)		2.40
Outstanding, December 31, 2022	**1,226,042**	**$**	**2.55**

(Expressed in thousands of Canadian dollars, unless otherwise stated)

16. EQUITY RESERVES (continued)

As at December 31, 2022, and 2021, the number of stock options outstanding and exercisable were:

	Outstanding			Exercisable
Expiry date	**Number of options**	**Exercise price**	**Remaining contractual life (years)**	**Number of options**
March 16, 2023	37,500	2.40	0.2	37,500
April 16, 2023	50,000	2.40	0.3	50,000
December 3, 2023	37,500	3.04	0.9	37,500
January 29, 2025	25,000	1.60	2.1	25,000
February 8, 2025	31,250	1.60	2.1	31,250
August 6, 2025	12,500	1.28	2.6	12,500
December 5, 2025	112,500	0.72	2.9	37,500
February 25, 2026	635,417	2.40	3.2	635,417
May 11, 2026	9,375	3.64	3.4	9,375
May 19, 2026	250,000	3.81	3.4	250,000
August 9, 2026	12,500	4.24	3.6	12,500
August 23, 2026	12,500	4.40	3.6	12,500
Outstanding, December 31, 2022	**1,226,042**			**1,151,042**

	Outstanding			Exercisable
Expiry date	**Number of options**	**Exercise price**	**Remaining contractual life (years)**	**Number of options**
November 11, 2022	172,917	$ 2.40	0.86	172,917
March 16, 2023	37,500	2.40	1.21	25,000
April 16, 2023	50,000	2.40	1.29	50,000
December 3, 2023	37,500	3.04	1.92	12,500
January 29, 2025	25,000	1.60	3.08	16,667
February 8, 2025	31,250	1.60	3.11	20,833
August 6, 2025	12,500	1.28	3.60	12,500
February 25, 2026	656,250	2.40	4.16	437,500
May 11, 2026	9,375	3.64	4.36	6,250
May 19, 2026	250,000	3.81	4.38	166,667
August 9, 2026	12,500	4.24	4.61	4,167
August 23, 2026	12,500	4.40	4.65	4,167
September 20, 2026	12,500	3.84	4.72	4,167
Outstanding, December 31, 2021	**1,319,792**			**933,333**

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees, and others providing similar services. During the year ended December 31, 2022, an amount of $290 was expensed as share-based payments (December 31, 2021 – $2,292). Included in share-based payments are amounts expensed through mine operations of $8 (December 31, 2021 – $161) and business promotion of $45 (December 31, 2021 – $112), for the year ended December 31, 2022. Additionally, during the year ended December 31, 2022, $6 (December 31, 2021 – $148) was capitalized to the Tahuehueto development project asset. The portion of share-based compensation recorded is commensurate with the vesting terms of the options.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

16. EQUITY RESERVES (continued)

During the year ended December 31, 2022, the Company granted a total of 112,500 options (December 31, 2021 – 1,165,625) with a weighted average fair value of $0.53 (December 31, 2021 – $2.31). The fair value of the stock options granted during the year ended December 31, 2022 and 2021, were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	2022	2021
Risk-free interest rate	3.77%	0.67%
Expected forfeiture rate	Nil	Nil
Stock price volatility	124%	119%
Expected life (in years)	3.00	3.94
Weighted average fair value	$ 0.53	$ 2.31

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Government of Canada benchmark bond yields and treasury bills with a remaining term that approximates the expected life of the stock options.

b) Share purchase warrants

The continuity of the number of share purchase warrants outstanding is as follows:

	Warrants outstanding	Weighted average exercise price
Outstanding, December 31, 2020	5,611,366	$ 1.29
Issued	3,337,510	2.48
Exercised	(785,907)	1.89
Outstanding, December 31, 2021	8,162,969	$ 1.72
Issued	1,517,758	3.74
Exercised	(882,023)	1.88
Cancelled	(1,875,000)	0.72
Expired	(754,374)	1.26
Outstanding, December 31, 2022	**6,169,330**	**$ 2.55**

	Outstanding		
Expiry date	**Granted**	**Exercise price**	**Remaining contractual life (years)**
March 29, 2023	3,089,072	2.40	0.2
July 1, 2023	187,500	3.80	0.5
October 16, 2023	1,375,000	1.40	0.8
April 20, 2024	757,273	4.40	1.3
May 12, 2024	43,750	4.40	1.4
May 30, 2024	94,463	4.40	1.4
June 30, 2025	622,272	2.80	2.5
	6,169,330		

(Expressed in thousands of Canadian dollars, unless otherwise stated)

17. FINANCE COSTS

Finance costs are primarily related to interest and accretion on the Company's debt facilities, lease liabilities, and provisions for site reclamation and closure. The Company's finance costs during the years ended December 31, 2022 and 2021 are summarized as follows:

	Notes	December 31, 2022	December 31, 2021
Interest on debt*	9, 10	$ 1,349	$ 1,071
Amortization of deferred finance costs	10	1,105	761
Accretion on streaming arrangements	11	1,423	683
Accretion of provision for site reclamation and closure	12	566	464
Interest on lease liabilities	8	32	37
Bank fees, penalties, and other		(2)	199
Total finance costs		**$ 4,473**	**$ 3,215**

*Finance costs for interest on debt include $184 of non-cash accretion for the year ended December 31, 2022 (December 31, 2021 – $125).

18 OTHER INCOME AND EXPENSES

Other income and expenses are related to expected credit losses as a result of credit risks related to other receivables, gains and losses recognized on the modification or extinguishment of debt terms, changes in estimates related to the provisions for reclamation and closure, and impairment of financial assets related to the inability to access funds held within Accendo.

The Company's other income and expenses during the years ended December 31, 2022 and 2021 are summarized as follows:

	Notes	December 31, 2022	December 31, 2021
Expected credit loss	5	$ -	$ 305
(Gain) loss on modification or extinguishment of debt, net	9, 10	36	(198)
Change of provision for site reclamation and closure	12	-	(460)
Impairment of financial assets		-	3,663
Expense recovery			
Other		172	119
Total other expenses		**$ 208**	**$ 3,429**

19. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2022	December 31, 2021
Accounts payable and accrued liabilities included in:		
i) exploration and evaluation assets	$ 1,569	$ (700)
ii) plant and equipment, net	777	1,385
Interest on long-term debt capitalized as exploration and evaluation assets	3,749	2,652
Depreciation capitalized as exploration and evaluation assets	1,230	1,188
Right of use of assets amortization capitalized	1,094	394
Change in estimate for site reclamation and closure	-	(1,320)
Fair value of stock options exercised	-	408

(Expressed in thousands of Canadian dollars, unless otherwise stated)

20. EARNINGS PER SHARE

Basic (loss) earnings per share amounts are calculated by dividing the net (loss) income for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share adjusts basic net earnings per share for the effects of potential dilutive common shares.

		December 31, 2022		December 31, 2021
(Loss) income attributable to common shareholders	$	(11,607)	$	36,265
Weighted average number of shares basic		34,157,486		29,527,197
Weighted average number of shares diluted		34,157,486		34,221,504
Basic (loss) earnings per share	$	(0.34)	$	1.23
Diluted (loss) earnings per share	$	(0.34)	$	1.06

For the year ended December 31, 2022, the Company incurred a net loss, therefore all outstanding stock options and share purchase warrants have been excluded from the diluted weighted average number of shares since the effect would be anti-dilutive. For the year ended December 31, 2021, diluted weighted average number of shares excluded 287,500 stock options and 187,500 share purchase warrants that were anti-dilutive.

21. RELATED PARTY BALANCES AND TRANSACTIONS

a) Compensation of key management personnel

Key management personnel include members of the Board of Directors and officers of the Company. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

		December 31, 2022		December 31, 2021
Short-term benefits	$	1,746	$	850
Share-based compensation		186		1,479
	$	1,932	$	2,329

b) Related party balances

As at December 31, 2022, directors and officers or their related companies were owed $732 (December 31, 2021 – $168) included in accounts payable and accrued liabilities mainly in respect to directors' fees payable and reimbursement of expenses and labour obligations. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

c) Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. ("Escorfin")

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin (Note 11(a)). Escorfin is a private equity fund that specializes in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at December 31, 2022 and 2021:

		December 31, 2022		December 31, 2021
Debt current portion	$	1,274	$	1,357
Debt long term portion		4,145		3,379
Balance	**$**	**5,419**	**$**	**4,736**

During the year ended December 31, 2022, the Company incurred interest in the amount of $469 (December 31, 2021 –$483) of which $nil was paid (December 31, 2021 – $nil).

(Expressed in thousands of Canadian dollars, unless otherwise stated)

21. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

During the year ended December 31, 2022, the Company issued 454,137 common shares to Escorfin as a result of share purchase warrants exercised (December 31, 2021 – nil) and no Units were acquired by the related party via private placement (December 31, 2021 – 62,500 Units).

d) Bursametrica Casa de Bolsa, S.A. de C.V. ("Bursametrica")

On April 4, 2021, the Company entered into a service agreement with Bursametrica whereby the financial institution would provide foreign exchange services primarily for the exchange of funds denominated in US dollars for funds denominated in the Mexican Peso. A director of the Company was deemed to have economic influence in the financial institution. During the year ended December 31, 2022, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was $26,974 (US$20.72 million) (December 31, 2021 - $28,912 (US$23.1 million)). As at December 31, 2022, the amount owed to Bursametrica was $nil (December 31, 2021 - $nil).

22. INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is:

		December 31, 2022		December 31, 2021
Income (Loss) before income taxes	$	(11,607)	$	36,265
		27.00%		27.00%
Expected income tax expense (recovery)		(3,134)		9,792
Increase (decrease) in taxes resulting from:				
Change in statutory, foreign tax, foreign exchange rates, and other		(13,414)		3,663
Permanent differences		3,515		2,273
Share issuance costs		(23)		(27)
Share-based compensation		78		659
Change in deferred tax assets		4,193		1,462
Adjustment to prior years' provision versus statutory tax returns and inflationary adjustments		(6,882)		(7,755)
Change in unrecognized deductible		15,501		(10,067)
Income tax expense (recovery)	**$**	**(166)**	**$**	**-**

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

		December 31, 2022		December 31, 2021
Exploration and evaluation assets	$	2,142	$	4,362
Equipment		24,180		19,937
Share issue costs		59		40
Allowable capital losses		569		609
Non-capital losses available for future periods		74,836		61,529
Total	$	101,786	$	86,477
Unrecognized deferred tax assets		(101,786)		(86,477)
Total deferred tax assets	**$**	**-**	**$**	**-**

(Expressed in thousands of Canadian dollars, unless otherwise stated)

22. INCOME TAXES (continued)

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

		December 31, 2022	Expiry date range		December 31, 2021	Expiry date range
Mineral interest and equipment	$	88,208	No expiry date	$	81,458	No expiry date
Share issue costs		217	No expiry date		150	No expiry date
Allowable capital losses		2,107	No expiry date		2,255	No expiry date
Non-capital losses available for future periods		252,397	2023 to 2042		207,714	2022 to 2041
Canada	$	29,396	2026 to 2042	$	26,174	2026 to 2041
Mexico	$	223,001	2023 to 2032	$	181,540	2022 to 2031

23. FINANCIAL INSTRUMENTS

Fair value of financial instruments:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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.

Marketable securities are classified as Level 1 and recorded at fair value using quoted market prices. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, and short-term debt approximated their fair value because of the short-term nature of these instruments. The fair values of the Company's long-term debt approximated their carrying value as their interest rates are comparable to market interest rates.

Trade receivables from provisional sales of metals concentrates include provisional pricing, and final price and assay adjustments. Derivative instruments are forward arrangements that were valued using pricing models, which require a variety of inputs, such as expected zinc and lead prices, and foreign exchange rates. The trade receivables from sales of concentrate are derivative instruments and are valued using observable market commodity prices and thereby classified within Level 2 of the fair value hierarchy.

The Company's activities expose it to financial risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

23. FINANCIAL INSTRUMENTS (continued)

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and marketable securities are held through large Canadian, international, and foreign national financial institutions. The Company's accounts receivable consists of trade receivables from concentrate sales and taxes receivable from federal government agencies. Trade receivables are held with one large international metals trading company. The Company mitigates this risk by transacting only with reputable financial institutions and requiring provisional payments of 90% of the value of the concentrate shipped to a single well-known buyer. For other receivables, the Company recognizes expected credit losses when there has been a significant increase in credit risk since initial recognition, which is determined by a review of overdue amounts, comparing the risk of default at the reporting date and at the date of initial recognition, and an assessment of relevant historical and forward-looking quantitative and qualitative information. For those balances that are beyond 90 days overdue it is presumed to be an indicator of a significant increase in credit risk. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from equity offerings or debt financings to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. See Note 1 for further discussion.

c) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Significant market risks to which the Company is exposed are as follows:

i) Foreign currency risk

The Company is exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. The Company operates in foreign jurisdictions, which use both the Mexican peso (MXN$) and United States dollar (US$). The Company does not use derivative instruments to reduce upward, and downward risk associated with foreign currency fluctuations.

		Amounts US Dollars		**Amounts Mexican Peso**
Financial assets denominated in foreign currencies	US$	5,363,848	MXN$	185,592,058
Financial liabilities denominated in foreign currencies		(49,001,312)		(394,393,570)
Net exposure	US$	(43,637,464)	MXN$	(208,801,512)

A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss by $884.

A 10% change in the Mexican peso relative to the Canadian dollar would change the Company's profit or loss by $324.

23. FINANCIAL INSTRUMENTS (continued)

ii) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in floating interest rates applicable to the Company's financial instruments. At December 31, 2022 and 2021, the Company's long-term debts are at fixed and floating rates and the Company has not entered into any financial derivatives or other financial instruments to hedge against this risk. The Company's loan agreements bear interest at variable and fixed rates. Interest risk exposure is in relation to variable interest rates such as LIBOR (3M) and (1 year) rates and a variation of 1% on the interest rate would change net income by approximately $199 (December 31, 2021 – $212). Also, the Company is exposed to interest rate fluctuations on the interest rate offered on cash balances held at chartered financial institutions, however this risk is considered to be minimal.

d) Commodity price risk

The Company is exposed to commodity and equity price risk given its revenue is derived from the sale of metal concentrates, the prices for which have been historically volatile. Consequently, the economic viability of the Company's development project assets or mineral properties may be adversely affected by fluctuations in metals prices. For concentrate shipped and provisionally invoiced at the year ended December 31, 2022, a 10% change in zinc, copper, or lead prices would result in an increase/decrease of approximately $357, 129, and $98, respectively in revenues (December 31, 2021 – $71, $nil, and $20).

24. CAPITAL RISK MANAGEMENT

The Company manages common shares, stock options, and share purchase warrants as capital. 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 development of its mineral interest and development assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The amounts managed as capital by the Company as at December 31, 2022 is $103,464 (December 31, 2021 – $96,560).

The Company manages its 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 on hand. The Company is subject to certain covenants on its short and long-term debt obligations. As a result of overdue principal payments related to the Campo Morado Loan, Trafigura Loans, and Calu Loan, as at December 31, 2022, the Company is in breach of terms (Note 11). As at the date these consolidated financial statements were approved by the Board of Directors, management has remedied the default on the Calu Loan and negotiations to remedy the default on the Campo Morado Loan and Trafigura Loans are ongoing (Note 27).

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian or Mexican chartered bank account. Cash consists of cash on hand with banks.

The Company expects its current capital resources will be sufficient to carry its current operations. Nevertheless, any additional development and exploration is subject to acquiring new financing through loans, the issue of new shares through equity offerings, or sale of assets.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

24. CAPITAL RISK MANAGEMENT (continued)

There has been no change to the Company's approach to capital management during the years ended December 31, 2022, and 2021.

The Company is not subject to externally imposed capital requirements.

25. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico. The Company operates in one industry and has four operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consists of the Campo Morado mine, which is currently operational and producing, and development stage asset for the Tahuehueto mining project.

Information by geographical areas is as follows:

		Canada		Mexico		Total
Current assets	$	745	$	27,149	$	27,894
Non-current assets						
Mineral properties, plant, and equipment, net		-		92,696		92,696
Right of use assets		32		9,951		9,983
Other assets and long term accounts receivable		959		1,671		2,630
Total assets, December 31, 2022	**$**	**1,736**	**$**	**131,467**	**$**	**133,203**
Current liabilities	$	18,101	$	56,068	$	74,169
Non-current liabilities		-		30,671		30,671
Total liabilities, December 31, 2022	**$**	**18,101**	**$**	**86,739**	**$**	**104,840**

		Canada		Mexico		Total
Current assets	$	714	$	27,914	$	28,628
Non-current assets						
Mineral properties, plant, and equipment, net		-		68,379		68,379
Right of use assets		87		9,888		9,975
Other assets and long term accounts receivable		1,808		15		1,823
Total assets, December 31, 2021	**$**	**2,609**	**$**	**106,196**	**$**	**108,805**
Current liabilities	$	4,280	$	27,462	$	31,742
Non-current liabilities		9,156		37,236		46,392
Total liabilities, December 31, 2021	**$**	**13,436**	**$**	**64,698**	**$**	**78,134**

During the year ended December 31, 2022, and 2021, the Company sold its commercial and pre-commercial production to one customer accounting for 100% of revenues and pre-commercial sales. As at December 31, 2022 trade receivables of $4,088 (December 31, 2021 – $1,629) were receivable entirely from this one customer. Revenues and pre-commercial sales if any, all were earned within Mexico.

(Expressed in thousands of Canadian dollars, unless otherwise stated)

25. SEGMENTED INFORMATION (continued)

Operating segments are as follows:

December 31, 2022	Campo Morado	Real de la Bufa	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	$ 54,547	$ 4,661	$ -	$ -	$ 59,208
Production costs and royalties	(46,912)	(6,221)	(617)	-	(53,750)
Depletion and amortization	(2,451)	-	-	-	(2,451)
Mine operating earnings	$ 5,184	$ (1,560)	$ (617)	$ -	$ 3,007
General expenses	(1,417)	(754)	-	(4,358)	(6,529)
Other income (expenses)	(1,275)	(1,959)	(913)	(3,938)	(8,085)
Net income (loss) for the year	**$ 2,492**	**$ (4,273)**	**$ (1,530)**	**$ (8,296)**	**$ (11,607)**

December 31, 2021	Campo Morado	Real de la Bufa	Other	Altaley Mining	Total
	Mexico	Mexico	Mexico	Canada	
Revenue, net	$ 69,684	$ -	$ -	$ -	$ 69,684
Production costs and royalties	(34,728)	-	-	(162)	(34,890)
Depletion and amortization	(538)	-	-	-	(538)
Mine operating earnings	$ 34,418	$ -	$ -	$ (162)	$ 34,256
General expenses	14,191	(1,147)	-	(5,161)	7,883
Other income (expenses)	1,903	(3,442)	(245)	(4,090)	(5,874)
Net income (loss) for the year	**$ 50,512**	**$ (4,589)**	**$ (245)**	**$ (9,413)**	**$ 36,265**

26. CONTINGENCIES

In the normal course of business, the Company is aware of certain claims and potential claims. The outcome of these claims and potential claims is not determinable at this time, although the Company does not believe these claims and potential claims will have a material adverse effect on the Company's results of operations or financial position.

Servicio de Administracion Tributaria Vs Minas de Campo Morado, S.A. de C.V.

During the 2019 fiscal year, the Servicio de Administracion Tributaria (SAT) performed an audit on the Company's subsidiary, Minas de Campo Morado, S. A. de C. V., in relation to value added tax ("VAT") and Impuesto Sobre la Renta ("ISR") claimed for the years 2014 and 2015. As a result of the audit, the SAT determined a difference in taxes payable of approximately $1,825 (MXN$29 million) and possible reduction of accumulated tax losses for $10,090 (MXN$158 million), which the Company is challenging through a legal process. As at December 31, 2022, Minas de Campo Morado, S.A. de C.V. has non-capital losses available for future periods in excess of the claimed amount (Note 22), thus no additional accrual has been recorded on a contingent basis.

Servicio de Administracion Tributaria Vs Prestadora de Servicios Arcelia, S.A. de C.V.

During the 2015 fiscal year, the Servicio de Administracion Tributaria (SAT) performed an audit on the Company's subsidiary, Prestadora de Servicios Arcelia, S. A. de C. V. (PSA), in relation to value added tax ("VAT") and Impuesto Empresarial Tasa Unica ("IETU") claimed. As a result of the audit, the SAT determined a difference in taxes payable of approximately $2,399 (MXN$34 million), as a result the Company has accrued the full amount of the claim, which is included in accounts payable and accrued liabilities.

26. CONTINGENCIES (continued)

Reynaldo D. Mac Allister Vs Minas de Campo Morado, S.A. de C.V. and Prestadora de Servicios Arcelia, S.A. de C.V.

In July of 2013, Reynaldo D. Mac Allister ("Reynaldo") commenced a legal procedure against Minas de Campo Morado, S.A. de C.V. and Prestadora de Servicios Arcelia, S.A. de C.V. claiming Reynaldo was dismissed without cause. Reynaldo is suing for damages caused by the dismissal and other related labour obligations owing to him for a total amount of approximately US$950,000. The Company is challenging this claim through a legal process and believes this case is without merit. An accrual of $104 has been made for this case, which is included in accounts payable and accrued liabilities.

Size Solutions, S.A. de C.V.

In March 2020, the Company terminated its business relationship with Size Solutions S.A. de C.V. ("Size"), a payroll service provider for Minas de Campo Morado, S.A. de C.V., and corporate offices in Mexico City. The Company received notice from Size of outstanding amounts payable by the Company as at December 31, 2019 in the amount of $5,962 (MXN$85.8 million). The Company has accrued $3.648 (MXN$52.1 million) in accounts payable and accrued liabilities as at December 31, 2022 and is disputing the difference. The Company believes Size's demand is without merit.

27. SUBSEQUENT EVENTS

Between January 1, 2023 and the date these consolidated financial statements were approved by the Board of Directors, the Company granted stock options to certain directors, officers, and insiders of up to an aggregate 527,778 shares in the capital stock of the Company. The options are exercisable on or before April 25, 2028 at a price of $0.45 per share. During this period, 87,500 stock options expired without being exercised. The Company also repriced 1,076,042 stock options originally granted and exercisable between $1.92 and $5.76, with expiry dates between April 16, 2023 and August 23, 2026. These stock options have been repriced to $0.50 per share and expiry dates remain unchanged.

On January 3, 2023, the Company entered into a debt settlement agreement with an arms' length mining contractor (the "Creditor") to settle $1,176 which is owing to the Creditor as a result of underground mine development work. The Company and the Creditor have agreed that the issuance to the Creditor of 735,186 common shares of the Company at a deemed price of $1.60 per common share will extinguish and settle the debt.

On January 5, 2023, the Company was unable to deliver silver credits to Empress in connection with the Stream Agreement (Note 12), which triggered a contractual default. As of the date these consolidated financial statements were approved by the Board of Directors, no action has been taken by the lender. On May 1, 2023, the Company entered into an amended Stream Agreement with Empress to remedy the default. The terms of the amendment defer silver delivery obligations until June 30 (the "Deferral Period"), and extend the terms nine months, commensurate with the Deferral Period. To accommodate for the waiver on overdue deliveries and the Deferral Period, the Company has agreed to provide Empress with cash consideration of US$150,000 due June 30, 2023.

On February 10, 2023, the Company granted Peak Investor Marketing ("Peak") a total of 100,000 incentive stock options (the "Peak Options") exercisable at $0.40 per share. The Peak Options are issued in accordance with the terms of the Company's Incentive Stock Option Plan (the "Plan") and vest in four stages over a period of 12 months, with one quarter vesting three months after the grant date and every three months thereafter. The Peak Options expire two years following the grant date.

27. SUBSEQUENT EVENTS (continued)

On February 28, 2023, the Company entered into a series of debt settlement agreements in respect of $9,439 of loan debts owed to various creditors (the “Debt Settlements”). Pursuant to the Debt Settlements, the Company will issue an aggregate of 20,976,264 Shares, at a deemed price of $0.45 per Share. As at the date these consolidated financial statements were approved by the Board of Directors, 12,721,310 Shares have been issued and the remaining are subject to the acceptance of the TSX Venture Exchange.

On March 29, 2023, the Company recognized the expiry of 3,089,072 share purchase warrants.

On April 27, 2023, the Company closed the first tranche of its non-brokered private placement (the “Private Placement”) announced by news release dated March 31, 2023. The Company has sold 52,412,064 units of the Company (each, a “Unit”) at a price of CAD$0.35 per Unit for gross proceeds of $18,344. Each Unit consists of one common share in the Company (a “Share”) and one half of one Share purchase warrant (each whole, a “Warrant”) entitling the holder to purchase an additional Share at a price of $0.50 per Share until April 25, 2025. Finder’s fees are to be paid in cash and securities (6% cash and 6% in warrants) in connection with the Private Placement to various finders. A Director and a related party to a Director of the Company acquired 1,728,500 Units under the first tranche for an aggregate purchase price of $605.