LUCA Mining Corp.

Consolidated Financial Statements

For the years ended

December 31, 2023 and 2022

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Independent Auditor's Report

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, 2023, and December 31, 2022 and the consolidated statements of loss and comprehensive 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 material accounting policy information.

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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 $50,716,000 and has an accumulated deficit of $91,090,000 as at December 31, 2023. 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 significant 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 matters 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 8 of the consolidated financial statements.

Mineral properties and development project are recorded at $64,078,000 as at December 31, 2023. 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, 2023 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 a valuation specialist, 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 project 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 IFRS Accounting Standards, 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 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 J. Riecken.

Grant Thornton LLP

Vancouver, Canada
April 29, 2024

Chartered Professional Accountants

Mining Corp.

Consolidated statements of financial position

(Expressed in thousands of Canadian dollars)

	Notes		December 31 2023		December 31 2022
ASSETS					
Current assets					
Cash		**$**	2,722	$	1,152
Amounts receivable	5		10,233		13,503
Inventories	6		8,017		9,397
Prepaid expenses and deposits			3,253		3,842
Total current assets			24,225		27,894
Non-current assets					
Property, plant and equipment	7		54,983		47,347
Mineral properties	8		64,078		55,332
Other assets	9		3,770		2,630
Total assets		**$**	147,056	$	133,203
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	10	**$**	32,437	$	29,223
Current portion of lease liabilities	11		1,551		1,527
Current portion of loans payable	13		31,105		34,205
Empress royalty stream	12		9,848		333
Share subscriptions	14		-		8,881
Total current liabilities			74,941		74,169
Non-current liabilities					
Lease liabilities	11		8,232		8,535
Empress royalty stream	12		-		8,295
Loans payable	13		-		8,024
Provision for reclamation and rehabilitation	15		9,006		5,817
Total liabilities			92,179		104,840
SHAREHOLDERS' EQUITY					
Share capital	16		132,453		93,891
Reserves	17		12,765		9,573
Accumulated other comprehensive income			749		993
Deficit			(91,090)		(76,094)
Total equity			54,877		28,363
		$	147,056	$	133,203

Nature of operations and going concern (note 1)

Commitments and contingencies (note 28)

Subsequent events (note 13 and 29)

"David Rhodes"
Director

"Ramon Perez"
Director

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

Mining Corp.

Consolidated statements of loss and comprehensive loss

(Expressed in thousands of Canadian dollars, except share and per share amounts)

	Notes	For the year ended **December 31 2023**	December 31 2022
Revenues		**$** 101,260	$ 89,291
Treatment and selling costs		(32,985)	(30,083)
Net revenue	19	68,275	59,208
Cost of sales	20	66,806	56,201
Mine operating profit		1,469	3,007
General and administration	21	9,021	6,299
Share based compensation	17(b)	1,584	230
Foreign exchange loss		2,504	863
Other operating expense		88	208
Operating loss		(11,728)	(4,385)
Interest and finance costs, net	22	(4,091)	(4,240)
Gain on settlement of debt		823	-
Change in fair value of financial instruments		-	(2,774)
Loss before income taxes		**$** (14,996)	$ (11,607)
Current income tax expense		-	-
Deferred income tax expense		-	-
Net loss for the year		**$** (14,996)	$ (11,607)
Other comprehensive (loss) income, net of tax			
Foreign currency translation differences		(244)	2,395
Total comprehensive loss for the year		**$** (15,240)	$ (9,212)
Basic and diluted loss per common share	18	**$** (0.15)	$ (0.34)
Weighted average number of common shares outstanding (000's)		103,556,634	34,157,486

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

Mining Corp.

Consolidated statements of changes in equity

(Expressed in thousands of Canadian dollars, except share and per share amounts)

	Notes	Number of common shares	Share capital	Equity settled share-based payments	Warrants	Reserves total	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, December 31, 2021		**32,195,069**	**$84,757**	**$8,539**	**$3,264**	**$11,803**	**$(64,487)**	**($1,402)**	**$30,671**
Private placement, net of issue cost	16	1,790,965	4,836	-	-	-	-	-	**4,836**
Warrants issued on debt modification		-	-	-	119	119	-	-	**119**
Warrant exercise for cash	16	882,023	1,665	-	(6)	(6)	-	-	**1,659**
Expiry of stock options and warrants		-	2,633	(1,002)	(1,631)	(2,633)	-	-	**-**
Share-based compensation	17(b)	-	-	290	-	290	-	-	**290**
Comprehensive income (loss)		-	-	-	-	-	(11,607)	2,395	**(9,212)**
Balance, December 31, 2022		**34,868,057**	**93,891**	**7,827**	**1,746**	**9,573**	**(76,094)**	**993**	**28,363**
Private placement, net of issue cost	16	77,528,137	25,324	-	-	-	-	-	**25,324**
Warrants issued for finder's fees	16		(851)	-	851	851	-	-	**-**
Shares issued upon settlement of debt	13, 16	35,711,450	14,089	-	-	-	-	-	**14,089**
Share-based compensation	17(b)	-	-	2,341	-	2,341	-	-	**2,341**
Comprehensive loss		-	-	-	-	-	(14,996)	(244)	**(15,240)**
Balance, December 31, 2023		**148,107,644**	**$132,453**	**$10,168**	**$2,597**	**$12,765**	**$(91,090)**	**$749**	**$54,877**

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

Mining Corp.

Consolidated statements of cash flows

(Expressed in thousands of Canadian dollars)

	Notes	For the year ended December 31 2023	December 31 2022
Operating activities			
Net loss for the year		$ (14,996)	$ (11,607)
Items not involving cash:			
Accretion relating to reclamation and rehabilitation		697	566
Depreciation and amortization		4,028	2,451
Amortization of right of use assets		451	139
Share-based compensation	17	2,007	284
Amortization of deferred financing costs		888	987
Accretion and change in estimate relating to stream agreement	12	2,006	1,423
Amortization of deferred revenue	12	(355)	(305)
Change in fair value of financial instruments		-	2,774
Accrued interest on debt		770	1,380
Gain on settlement of debt		(823)	-
Loss (gain) on modification of loans	13	296	(86)
Fair value of warrants issued in financing		-	118
Changes in non-cash operating working capital:			
Amounts receivable		2,354	(5,572)
Prepaid expenses and deposits		1,021	66
Inventories		2,487	1,364
Accounts payable and accrued liabilities		(1,472)	8,007
Net cash (used in) provided by operating activities		(641)	1,989
Investing activities			
Acquisition of property, plant and equipment		(11,471)	(9,387)
Investment in mineral properties		(1,317)	(3,787)
Redeemed marketable securities		-	1,293
Net cash used in investing activities		(12,788)	(11,881)
Financing activities			
Shares issued on financing, net of issuance costs	16	20,777	4,836
Share subscriptions received in advance		-	8,881
Interest paid on loans payable		(3,874)	(3,104)
Proceeds from debt		-	2,985
Proceeds from warrants and/or stock options exercised		-	1,659
Repayment of lease liabilities		(545)	(1,204)
Repayment of debt		(2,641)	(6,433)
Net cash provided by financing activities		13,717	7,620
Effect on cash on foreign exchange		1,282	375
Change in cash		1,570	(1,897)
Cash, beginning of the year		1,152	3,049
Cash, end of the year		**$ 2,722**	**$ 1,152**

Supplemental cash flow information (Note 27)
The accompanying notes are an integral part of these consolidated financial statements.

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Luca Mining Corp. is the parent company of its subsidiary group (collectively, the "Company" or "Luca") and is a publicly traded corporation incorporated in Canada, with its head office located at 410 – 1111 Melville Street , Vancouver, BC, V6E 3V6 and its registered and records office at 2501 – 550 Burrard Street, Vancouver, BC V6C 2B5. Luca's common shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "LUCA".

The Company is a producer of base and precious metals and is engaged in the acquisition, exploration and development of resource properties in Mexico. The Company is currently producing a zinc and a bulk concentrate, comprised mainly of copper and lead, at the Campo Morado mine and mill ("Campo Morado") located in Guerrero, Mexico. Additionally, the Company is producing zinc and lead concentrates at its Tahuehueto mine and mill ("Tahuehueto") in the state of Durango and is currently upgrading its plant to increase the production output from 500 tonnes per day to 1000 tons per day.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2023, the Company generated a mine operating profit of $1,469, a net loss of $14,996 and negative cash flows from operating activities of $641 and has an accumulated deficit of $91,090 and current liabilities that exceed its current assets by $50,716 as at December 31, 2023. These factors give rise to material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or to obtain additional financing. Management is of the opinion that sufficient funds will be obtained from operations and/or from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that cash flows from operations or additional financing will not be available on a timely basis or on terms acceptable to the Company.

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with IFRS Accounting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's year ended December 31, 2023.

These consolidated financial statements were approved by the Company's Board of Directors on April 29, 2024.

3. MATERIAL ACCOUNTING POLICIES

a) Basis of consolidation

The accounts of the Company and its subsidiaries, which are controlled by the Company, have been included in these consolidated financial statements. Control is achieved when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. The principal subsidiaries of the Company and their geographic locations at December 31, 2023 were as follows:

Subsidiary	Location	Ownership Interest	Accounting	Principal Activity
Samarkand de Mexico, S.A. de C.V.	Canada	99.00%	Consolidated	Holding Company
Sierra Soleada, S.A. de C.V.	Canada	100.00%	Consolidated	Holding Company
Real de la Bufa, S.A. de C.V.	Mexico	99.00%	Consolidated	Mining Company
Minas de Campo Morado, S.A. de C.V.	Mexico	100.00%	Consolidated	Mining Company
Prestadora de Servicios Arcelia, S.A de C.V.	Mexico	99.98%	Consolidated	Inactive
Servicios Corporativos Altaley, S.A. de C.V.	Mexico	99.98%	Consolidated	Administrative Company
Grupo Minero Mexicano Nyrstar, S.A. de C.V.	Mexico	99.98%	Consolidated	Holding Company
Grupo Minero HD, S.A. de C.V.	Mexico	99.98%	Consolidated	Holding Company

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

3. MATERIAL ACCOUNTING POLICIES (continued)

b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value (Note 26) at the end of each reporting period. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Foreign currency translation

Functional currency

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

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

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

The individual financial statements of each of the Company's subsidiaries are presented in their functional currency, which is the currency of the primary economic environment in which the entity operates. The functional currency determination was conducted through an analysis of the consideration factors identified in *IAS 21, The Effects of Changes in Foreign Exchange Rates*.

Presentation currency

The consolidated financial statements are presented in Canadian dollars.

d) Inventories

Inventories include mineral concentrates, stockpiled ore, materials and supplies, and are valued at the lower of average production cost and estimated net realizable value. Production costs allocated to mineral concentrates and stockpiled ore, or metal inventories include direct mining costs, direct labor and material costs, mine site overhead, depletion and amortization. Costs allocated to materials and supplies are based on weighted average costs and include all costs of purchase and other costs in bringing these inventories to their existing location and condition.

If the carrying amount exceeds the net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exist to the extent that the related inventory has not been sold. Net realizable value is calculated as the estimated price at the time of sale based on prevailing metal prices less estimated future costs to convert the inventories into saleable form and estimated costs to sell.

e) Exploration and evaluation costs

The Company capitalizes acquisition costs of exploration and evaluation properties, including any cash consideration and the fair market value of shares issued, if any. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded when the payments are made. The recorded amounts of property claim acquisition and option payments represent actual expenditures incurred and are not intended to reflect present or future values. Option payments received on properties are offset against those properties.

Exploration and evaluation costs are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore.

3. MATERIAL ACCOUNTING POLICIES (continued)

e) Exploration and evaluation costs (continued)

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve; (ii) determining the optimal methods of extraction and metallurgical and treatment processes; (iii) studies related to surveying, transportation and infrastructure requirements; (iv) permitting activities; and (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

Exploration and evaluation expenditures, other than acquisition costs and estimated closure and decommissioning costs, are expensed as incurred. Once the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and development has been approved by the Board of Directors, exploration and evaluation assets are tested for impairment, and any impairment loss is recognized. Exploration and evaluation assets are then reclassified as mineral properties in property, plant and equipment, with further development costs capitalized.

When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, an impairment test is completed and the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of production, or written off if the property is sold, allowed to lapse or abandoned.

Exploration and evaluation assets are tested for impairment when an indicator of impairment is identified and upon reclassification to mining properties.

f) Mineral properties and property, plant and equipment

Mineral properties, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost less accumulated impairment in value and is not depreciated. The cost of mineral properties, plant and equipment items consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Mineral properties include direct costs of acquiring properties (including option payments) and costs incurred directly in the development of properties once the technical feasibility and commercial viability has been established.

Underground mine development costs are costs incurred to build new shafts, drifts and ramps that will enable the Company to physically access ore underground. The time over which the Company will continue to incur these costs depends on the mine life. These underground development costs for operating mines are capitalized as incurred. Capitalized underground development costs are depreciated on a unit of production basis, based on the estimated proven and probable reserves and the portion of resources considered probable of economic extraction.

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.

Development costs relating to specific properties are capitalized prospectively upon management's determination that a property will be developed. A development decision is made based upon consideration of project economics, including future metal prices, reserves and resources, and estimated operating and capital costs. Expenses directly related to pre-commercial production and sales are expensed as incurred.

The Company capitalizes all direct costs related to the development of the Tahuehueto project to mineral properties 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 project, thereby making it a development stage asset under IAS 16.

3. MATERIAL ACCOUNTING POLICIES (continued)

f) Mineral properties and property, plant and equipment (continued)

Capitalization of costs incurred ceases when the property is capable of operating in the manner intended by management. In assessing whether a mine is in the condition necessary for it to be capable of operating in a manner intended by management, the Company uses several criteria as follows:

- 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 mine project has all the necessary permits to be a producing mine; and
- Mineral recoveries are at or near expected production levels.

Once completed, the costs associated with all applicable assets related to the development and/or construction are reclassified to the appropriate category within mineral properties or plant and equipment and depreciation commences.

Each asset or part's estimated useful life which range from 12 to 21 years, has due regard to both its own physical life limitations and the present assessment of economically recoverable resources of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively. Mineral properties and property, plant and equipment are depreciated using either the straight-line or units-of-production method over the shorter of the estimated useful life of the asset or the expected life of mine. Where an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

g) 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 other borrowing costs are charged to the consolidated statements of loss and comprehensive loss when incurred.

h) Impairment of long-lived assets

At each reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows or cash generating units ("CGUs"). These are typically individual mines or development projects. If any such indication of impairment exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposals and value in use, which is the present value of future cash flows expected to be derived from the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

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

3. MATERIAL ACCOUNTING POLICIES (continued)

i) Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset ("RoU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The RoU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease liability. The RoU asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The RoU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate.

The incremental borrowing rate is the rate which the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the RoU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- 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 subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the RoU asset and lease liability are recognized as an expense in the consolidated statement of income in the period in which they are incurred.

The RoU assets are presented within "Plant and equipment" and the lease liabilities are presented in "Lease liabilities" on the statement of financial position.

i) Provisions

Reclamation, rehabilitation and similar provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of property, plant and equipment, and exploration and evaluation assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognized at its present value in the period in which it is incurred, which is generally when an environmental disturbance occurs, or a constructive obligation is determined. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset.

3. MATERIAL ACCOUNTING POLICIES (continued)

i) Provisions (continued)

Following the initial recognition of a reclamation and rehabilitation liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes in the estimated provision resulting from revisions to the estimated timing and amount of cash flows, or changes in the discount rate. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the decommissioning liability and the decommissioning asset, unless there is no future benefit, in which case they are expensed.

Other provisions

Provisions are recognized when a present legal or constructive obligation exists as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect of the time value of money is material the provision is discounted using an appropriate current market based pre-tax discount rate.

j) Income taxes

Income tax expense consists of current and deferred tax expense.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at period end adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits, and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis (“temporary differences”). Deferred taxes are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability is settled.

On an asset acquisition, the Company applies initial recognition exemption and deferred tax assets, and liabilities are not recognized if the tax base is different from the accounting base.

On a business combination, the Company recognizes the deferred tax assets and liabilities at the acquisition date.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

l) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Proceeds related to the issuance of units are allocated between the common shares and warrants on the residual value method where warrants are classified as equity instruments.

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 as part of a unit are determined to be the more easily measurable component and are valued at its fair value, as determined by the quoted bid price on the issuance date. The balance, if any, is allocated to the attached warrant. When a warrant is exercised the related value is reclassified from reserves to share capital.

3. MATERIAL ACCOUNTING POLICIES (continued)

m) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The offset to the recorded cost is to equity reserves. Consideration received on the exercise of stock options is recorded as share capital and the related equity reserve is transferred to share capital. When stock options are forfeited prior to becoming fully vested, any expense relating to the unvested options previously recorded, is reversed.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period.

n) Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income or loss for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is based on the weighted average number of common shares outstanding during the year, adjusted for the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year, but only if dilutive.

o) Related party transactions

Parties are related if one party has the ability directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities and include key management personnel of the Company. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

p) Revenue recognition

The Company generates revenue from the sale of metal concentrate. The Company sells a bulk concentrate (zinc and copper concentrate), a zinc concentrate and a lead concentrate. Sales revenue is recognized on individual sales to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company considers five steps in assessing whether all of the revenue recognition criteria are met:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations; and
- recognize revenue when or as a performance obligation is satisfied.

The Company satisfies its performance obligation and sales revenue is recognized at the point in time when the product is delivered as specified by the customer, which is typically upon delivery of the product to the customer's defined warehouse. The Company considers that control has passed when there is a present obligation to pay from the customer's perspective; physical possession, control and the risks and rewards of ownership have all passed to the customer; and the customer has accepted the concentrate. The Company recognizes deferred revenue in the event it receives payment from a customer before a sales transaction meets all the criteria for revenue recognition.

Metal concentrate is provisionally priced whereby the selling price is subject to final adjustment at the end of a 30-day period after delivery to the customer as defined in the sales contract. The final price is based on the market price at the relevant quotation point stipulated in the contract. At each reporting date, the receivable is marked to fair value based on the forward selling price for the quotation period stipulated in the contract. The change in fair value of the receivable subsequent to the date of revenue recognition is recognized within 'Revenue' on the face of the statements of income and is shown separately in the notes to the consolidated financial statements.

3. MATERIAL ACCOUNTING POLICIES (continued)

q) Financial instruments

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.

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 less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recognized in profit or loss.

An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments.

For the Company's trade receivables, it determines the lifetime expected losses for all of its trade receivables. The expected lifetime credit loss provision for the Company's trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required.

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 the associated risks and rewards of ownership to another entity. The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Gains and losses on derecognition are generally recognized in the consolidated statement of loss and comprehensive loss.

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statements of financial position, only if there is an enforceable legal right to offset the recognized amounts and the intention is to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

q) Adoption of new accounting standards, interpretation or amendments

Presentation of Financial Statements (amendments to IAS 1)

The Company adopted the amendments to IAS 1 - Presentation of Financial Statements effective January 1, 2023, which requires entities to disclose their material accounting policy information rather than significant accounting policy information. The amendments provide guidance on how an entity can identify material accounting policy information and clarify that information may be material because of its nature, even if the related amounts are immaterial. The amendments did not result in any changes to the accounting policies.

Definition of Accounting Estimates (Amendments to IAS 8)

The IASB has issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates. Under the amendments, accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also emphasize that a change in an accounting estimate that results from new information or new developments is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes in an input or measurement technique are not the result of an error correction. This amendment is effective for annual periods beginning on or after January 1, 2023. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

3. MATERIAL ACCOUNTING POLICIES (continued)

q) Adoption of new accounting standards, interpretation or amendments (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IFRS 1 and IAS 12)

The IASB has issued amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 12 Income Taxes which clarify that the initial recognition exemption set out in IAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. This amendment is effective for annual periods beginning on or after January 1, 2023. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

r) New accounting standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after January 1, 2024, and earlier application is permitted; however, the Company has not early adopted any new or amended standards in preparing these financial statements. The Company is currently evaluating the impact of the following amended standard on its financial statements:

Classification of liabilities as current or non-current (amendments to IAS 1)

The amendments to IAS 1, clarifies the presentation of liabilities. The Classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is affected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendment also introduces a definition of 'settlement' to make clear that settlement refer to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendment issued in October 2022 also clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The implementation of this amendment is not expected to have a material impact on the Company.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. A seller- lessee applies the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to sale and leaseback transactions entered into after the date of initial application.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 although earlier application is permitted This amendment is not expected to have a material impact on the Company's financial statements.

4. ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

These estimates and judgments are based on management's knowledge of the relevant facts and circumstances at the time, having regard to prior experience, and are continually evaluated. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results could differ materially from those estimates. Critical judgements and estimates in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

a) 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.

b) Functional currency

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in the events and conditions which determined the primary economic environment.

c) Revenue recognition

The Company's sales of metal in concentrates allow for price adjustments based on the market price at the end of the relevant quotational period ("QP") stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for metal in concentrate is based on the prevailing spot price on a specified future date. At each balance sheet date, the Company estimates the value of the trade receivable using forward metal prices.

Adjustments to the sale price occurs based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP is generally between one and three months. Any future changes over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. As such, the provisional price adjustments are accounted for as derivatives and presented as revenue separately in Note 19 of these financial statements.

d) 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.

e) Mineral resource estimates

Judgments about the amount of product that can be economically and legally extracted from the Company's properties are made by management using a range of geological, technical and economic factors, history of conversion of mineral deposits to proven and probable reserves as well as data regarding quantities, grades, production techniques, recovery rates, production costs, commodity prices and exchange rates. This process may require complex and difficult geological judgments to interpret the data. The Company uses qualified persons (as defined by the Canadian Securities Administrator's National Instrument 43-101) to compile this data.

Changes in the judgments surrounding reserves and resources may impact the carrying value of mineral properties, plant and equipment (Note 7 and 8), reclamation and rehabilitation provisions (Note 15), recognition of deferred income tax amounts (Note 23), and depreciation and depletion (Note 7 and 8).

4. ESTIMATES AND JUDGMENTS (continued)

e) Mineral resource estimates (continued)

Estimating the quantity and/or grade of reserves and resources requires the size, shape and depth of ore bodies or fields to be determined by analyzing geological data such as drilling samples. Following this, the quantity of ore that can be extracted in an economical manner is calculated using data regarding the life of mine plans and forecast sales prices (based on current and long-term historical average price trends). Changes in estimates can be the result of estimated future production differing from previous forecasts of future production, expansion of mineable ore through exploration activities, differences between estimated and actual costs of mining and differences in the commodity price used in the estimation of mineable ore.

The Company's management reviews the carrying values of its mining properties on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining properties depends on confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on life-of-mine ("LOM") plans in its assessments of economic recoverability and probability of future economic benefit. LOM plans provide an economic model to support the economic extraction of reserves and resources. A long-term LOM plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.

f) Valuation of inventory

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.

g) Decommissioning, restoration, and similar provisions

The Company has obligations for decommissioning, restoring and other similar activities related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations.

Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies. As the estimate of the obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of closure provisions, including the future costs, the period over which they will be incurred, and the appropriate discount rate to be used.

h) Depreciation and amortization rates

Depreciation and amortization expenses are allocated based on assumed asset lives and depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the consolidated statement of loss prospectively. A change in the mineral reserve estimate for assets depreciated using the units of production method would impact depreciation expense prospectively.

i) Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

j) Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

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

4. ESTIMATES AND JUDGMENTS (continued)

k) Value-added tax ("VAT") receivable

Timing of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Company assesses the recoverability of the VAT receivable and its classification as current or non- current at each reporting date. This is impacted by several factors, including the status of discussions with the tax authorities, and current interpretation of relevant tax legislation. Changes in these estimates can materially affect the amount recognized as VAT receivable and the classification and could result in an increase in other expenses recognized.

l) Leases

Primarily judgements include whether a lease conveys the right to use a specific asset, whether the Company obtains substantially all of the economic benefits from the use of the asset, whether the Company has the right to direct the use of the asset, evaluating the appropriate discount rate to use to discount the lease liability for each lease or groups of assets, and to determine the lease term where a contract includes renewal options. Significant estimates, assumptions and judgements over these factors would affect the present value of the lease liabilities, as well as the associated amount of the ROU asset.

m) Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings or regulatory or government actions that may negatively impact the Company's business or operations, the Company, with assistance from its legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims or actions.

A liability is recognized in the consolidated financial statements when the outcome of the legal proceedings is probable, and the estimated settlement amount can be estimated reliably. Contingent assets are not recognized in the consolidated financial statements until virtually certain.

5. AMOUNTS RECEIVABLE

		December 31 2023		December 31 2022
Trade receivables	**$**	743	$	4,088
VAT recoverable		12,536		10,796
Other receivables		652		290
	$	13,931	$	15,174
Less: non-current portion of VAT recoverable		3,698		1,671
Total amounts receivable	**$**	**10,233**	**$**	**13,503**

At the reporting date, the Company assessed the timing of collection of the total VAT receivable of $12,536 (December 31, 2022 – $10,796) and concluded that $3,698 (December 31, 2022 – $1,671) of the VAT recoverable is not expected to be collected within the next 12 months, therefore it was classified as non-current Other assets.

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

6. INVENTORIES

		December 31 2023		December 31 2022
Concentrate	$	684	$	2,575
Ore stockpiles		951		352
Materials and supplies		6,382		6,470
Total inventories	**$**	**8,017**	**$**	**9,397**

During the year ended December 31, 2023, the Company expensed $17,125 of inventories to cost of sales (year ended December 31, 2022 – $20,383).

7. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment	Land and buildings	Vehicles	Construction in process	Total
COST	**$**	**$**	**$**	**$**	**$**
Balance December 31, 2022	23,529	12,814	-	21,514	57,857
Additions	714	612	-	13,882	15,208
Transfers	41	1,802	-	(1,843)	-
Dispositions	-	(252)	-	-	(252)
Foreign currency movement	(626)	(338)	-	(723)	(1,687)
Balance December 31, 2023	**23,658**	**14,638**	**-**	**32,830**	**71,126**
ACCUMULATED DEPRECIATION					
Balance December 31, 2022	(7,965)	(2,546)	-	-	(10,511)
Depletion and amortization	(3,252)	(2,995)	-	-	(6,247)
Dispositions	-	252	-	-	252
Foreign currency movement	252	111	-	-	363
Balance December 31, 2023	**(10,965)**	**(5,178)**	**-**	**-**	**(16,143)**
Net book value, December 31, 2023	**12,693**	**9,460**	**-**	**32,830**	**54,983**

	Machinery and equipment	Land and buildings	Vehicles	Construction in process	Total
COST	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2021	20,275	9,152	77	13,959	43,463
Additions	910	-	-	9,828	10,738
Transfers	718	2,882	-	(3,600)	-
Change in estimate	-	15	-	-	15
Disposal	-	-	(79)	-	(79)
Foreign currency movement	1,626	765	2	1,327	3,720
Balance, December 31, 2022	**23,529**	**12,814**	**-**	**21,514**	**57,857**
ACCUMULATED DEPRECIATION					
Balance, December 31, 2021	(4,772)	(969)	(68)	-	(5,809)
Depreciation and depletion	(2,758)	(1,485)	(9)	-	(4,252)
Disposal	-	-	79	-	79
Foreign currency movement	(435)	(92)	(2)	-	(529)
Balance, December 31, 2022	**(7,965)**	**(2,546)**	**-**	**-**	**10,511**
Net book value, December 31, 2022	**15,564**	**10,268**	**-**	**21,514**	**47,347**

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

8. MINERAL PROPERTIES

	Campo Morado Mine	Tauehueto Mining Project	Total
COST	**$**	**$**	**$**
Balance December 31, 2022	17,587	38,438	56,025
Additions	-	8,357	8,357
Changes in closure and reclamation	1,448	329	1,778
Foreign currency movement	(413)	(399)	(811)
Balance December 31, 2023	**18,622**	**46,725**	**65,348**
ACCUMULATED DEPRECIATION			
Balance December 31, 2022	(693)	-	(693)
Depletion and amortization	(604)	-	(604)
Foreign currency movement	27	-	27
Balance December 31, 2023	**(1,270)**	**-**	**(1,270)**
Net book value, December 31, 2023	**17,352**	**46,725**	**64,078**

	Campo Morado Mine	Tauehueto Mining Project	Total
COST	**$**	**$**	**$**
Balance December 31, 2021	16,462	24,237	40,699
Additions	-	12,726	12,726
Disposals		(296)	(296)
Foreign currency movement	1,124	1,772	2,896
Balance December 31, 2022	**17,586**	**38,439**	**56,025**
ACCUMULATED DEPRECIATION			
Balance December 31, 2022	-	-	-
Depletion and amortization	(667)	-	(667)
Foreign currency movement	(26)	-	(26)
Balance December 31, 2022	**(693)**	**-**	**(693)**
Net book value, December 31, 2022	**16,893**	**38,439**	**55,332**

Tahuehueto Mining Project

The Company owns 99% of the Tahuehueto mining project located in the State of Durango, Mexico. The Company has a 30 year surface access rights agreement with the local communities under which the Company is obligated to make annual payments of US$46,540, increasing 5% compounded annually. A portion of the Tahuehueto mine is subject to a 1.6% net smelter return royalty ("NSR"). Under IAS 16, the Company capitalizes all direct costs related to the development of the Tahuehueto project to mineral properties or property, plant and equipment, including borrowing costs. For the year ended December 31, 2023, the Company capitalized $4,766 in borrowing costs (December 31, 2022 - $4,779) associated with the Tahuehueto mining project.

Campo Morado Mine

The Company owns 100% of the Campo Morado Mine located in the State of Guerrero, Mexico. The Campo Morado Mine is subject to a royalty between 2% - 3% of the net value of sales over the minerals extracted during the term of existence of the mining concession to the Servicio Geologico Mexicano ("SGM").

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

9. OTHER ASSETS

		December 31 2023		December 31 2022
Deferred financing costs	$	72	$	959
Non-current portion of VAT recoverable		3,698		1,671
Total other assets	**$**	**3,770**	**$**	**2,630**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31 2023		December 31 2022
Accounts payable	$	12,226	$	12,190
Tax payable		1,830		1,966
Payroll and benefits accrual		2,466		3,072
Contingent liabilities		9,020		6,606
Royalties and other payables		6,895		5,389
Total accounts payable and accrued liabilities	**$**	**32,437**	**$**	**29,223**

As at December 31, 2023, the Company has recognized $9,020 of contingent liabilities (December 31, 2022 - $6,606) in relation to litigation, claims and assessments (see Note 27).

11. LEASE LIABILITIES

Leases consist of machinery and equipment used to support operations at the Campo Morado and Tahuehueto mines. The Company also leases office space for its corporate offices in Vancouver, Canada and site headquarters located in Mexico City, Mexico.

The following outlines the continuity of lease liabilities:

Balance, December 31, 2021	$	**10,021**
Additions		574
Amendments		15
Payments		(1,204)
Interest expense		1,025
Interest paid		(1,025)
Foreign currency movement		656
Balance, December 31, 2022	**$**	**10,062**
Additions		490
Payments		(545)
Interest expense		1,048
Interest paid		(1,048)
Foreign currency movement		(224)
Balance, December 31, 2023	**$**	**9,783**

		December 31 2023		December 31 2022
Current	$	1,551	$	1,527
Non-current		8,232		8,535
Balance	**$**	**9,783**	**$**	**10,062**

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

11. LEASE LIABILITIES (continued)

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

		Amount
2024	$	3,048
2025		2,117
2026		1,645
Thereafter		9,178
Total minimum lease payments		15,988
Present value of minimum lease payments		(6,205)
Lease obligations, December 31, 2023	**$**	**9,783**

12. EMPRESS ROYALTY STREAMING

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. Empress, to secure the Stream Agreement advanced a total of US$5,000 with a first initial payment of US$2,000 received on April 29, 2021, and the remaining US$3,000 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. During the year ended December 31, 2023, the Company delivered 9,384 oz of silver credits (December 31, 2022 – 4,493 oz).

Effective January 5, 2023, the Company entered into an amended Stream Agreement with Empress whereby the silver delivery obligations between October 1, 2022 and June 30, 2023 were deferred (the "Deferral Period") and the maturity of the Stream Agreement was extended by nine months, commensurate with the Deferral Period for cash consideration of US$150 paid on June 30, 2023.

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	**$**	**8,628**
Amortization of deferred revenue		(349)
Cash disbursement, net of transaction fees		(202)
Change in estimate		267
Accretion on streaming arrangements		1,740
Foreign currency movement		(236)
Balance, December 31, 2023	**$**	**9,848**

		December 31 2023		December 31 2022
Current	$	9,848	$	333
Non-current		-		8,295
Balance	**$**	**9,848**	**$**	**8,628**

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

13. LOANS PAYABLE

	Trafigura (Campo)	Trafigura (Tah)	Breakwat er	Escorfin	Accendo	Calu	Total
	$	$	$	$	$	$	$
Balance, December 31, 2022	2,970	17,202	3,682	5,419	9,395	3,561	42,229
Additions, net of transaction fees	-	-	-	-	-	-	-
Interest expense	241	1,833	320	284	1,269	123	4,070
Loan payments	(1,334)	(2,173)	(1,758)	-	-	-	(5,265)
Fair value of shares issued in settlement of debt obligations	-	-	-	(5,725)	-	(3,715)	(9,440)
Effect of change in foreign exchange rates	(49)	(401)	(57)	(19)	(246)	(13)	(785)
(Gain)/loss on modification	4	207	-	41	-	44	296
Balance, December 31, 2023	**1,832**	**16,668**	**2,187**	**-**	**10,418**	**-**	**31,105**

	Trafigura (Campo)	Trafigura (Tah)	Breakwater	Escorfin	Accendo	Calu	Total
	$	$	$	$	$	$	$
Balance, December 31, 2021	3,937	17,704	5,488	4,736	8,169	-	40,034
Additions	-	-	-	-	-	2,985	2,985
Interest expense	451	2,624	483	482	643	415	5,098
Loan payments	(1,629)	(4,307)	(2,575)	-	-	-	(8,511)
Effect of change in foreign exchange rates	221	1,144	289	334	583	138	2,709
(Gain)/loss on modification	(10)	37	(3)	(133)	-	23	(86)
Balance, December 31, 2022	**2,970**	**17,202**	**3,682**	**5,419**	**9,395**	**3,561**	**42,229**
Which consist of:							
Current portion of loans	2,970	17,202	3,682	1,274	5,516	3,561	34,205
Non-current portion of loans	-	-	-	4,145	3,879	-	8,024
Balance, December 31, 2022	**2,970**	**17,202**	**3,682**	**5,419**	**9,395**	**3,561**	**42,229**

a) Trafigura (Campo and Tahuehueto)

The Company has had loans outstanding to Trafigura since 2017. As a result of previous non-compliance with the terms and conditions of the Company's loans with Trafigura, on November 12, 2020, the Company agreed to transfer all of its assets in the Campo Morado and Tahuehueto mining projects into a trust, governed by a trustee and a trust agreement (the "Trust"), in order to secure the full repayment of the outstanding loans. When the total debt due to Trafigura is fully repaid, the Trust will be terminated, and all assets held within the Trust will return to the Company.

On January 1, 2022, the Company had two outstanding loans to Trafigura, the Trafigura Campo loan ("Trafi Campo") and the Trafigura Tahuehueto loan ("Trafi Tah") for $3,937 and $17,704 respectively (collectively the "Trafigura Loans"). The Trafi Campo loan bore interest at three-month LIBOR plus 5% and matured on September 30, 2023, and the Trafi Tah loan bore interest at one year LIBOR plus 6% and matured on September 30, 2024. On April 1, 2022, the Company and Trafigura amended the terms of the Trafigura Loans to extend the maturity dates to December 31, 2023, for the Trafi Campo loan and December 31, 2024, for the Trafi Tah loan each with equal loan repayments over eighteen and thirty months, respectively, beginning in July 2022. The Company recognized a gain of $10 through the statement of loss and comprehensive loss for the change in fair value due to the amendment to the terms on the Trafi Campo loan and capitalized a loss of $37 to the development project asset for the change in fair value due to the amended terms on the Trafi Tah loan.

13. LOANS PAYABLE (continued)

a) Trafigura (Campo and Tahuehueto) (continued)

On June 30, 2023, the Company and Trafigura further amended the outstanding Trafigura Loans to extend the maturities of the Trafi Campo loan to June 2024 and the Trafi Tah loan to December 31,2024 and the effective interest rates were changed to SOFR plus 5.26% and SOFR plus 6.72%, respectively. Repayments were to be made in 14 equal installments commencing in May 31, 2023 for Trafi Campo and November 2023 for Trafi Tah. The Company assessed the overall impact of the changes and capitalized a loss of $207 to the development project asset for the change in fair value due to the amended terms on the Trafi Tah loan.

On January 11, 2024, the Company received an additional loan from Trafigura for $3,352 (US$2,500) under the Trafi Campo loan agreement, converted $7,777 (US$5,800) of the Trafi Tah loan into a non-interest bearing convertible debenture and concurrently amended the terms of the Trafigura Loans. The Trafi Campo loan's maturity date was extended to June 30, 2025 with repayments of $349 (US$260) plus interest commencing on April 30, 2024. The Trafi Tah loan's maturity date was extended to January 3, 2026 with repayments of $268 (US$200) plus interest commencing on March 31, 2024. After six months, the repayments on the Trafi Tah loan will increase to $463 ($US345) plus interest.

The convertible debenture matures on January 11, 2027 but may be repaid prior to that date upon providing 60 days written notice and that the Trafigura Loans and the Breakwater Loan have been repaid in full. Trafigura may elect to convert in whole or in part, the convertible debenture principal at any time prior to the maturity date at the conversion price of $0.35 per common share. The convertible debenture is secured under the Trust.

b) Breakwater Loan Agreement

The Company has a loan outstanding to Breakwater Resources Ltd. ("Breakwater"), a subsidiary of Trafigura Mexico, S.A. de C.V.("Trafigura") which bears interest at 10% per annum and is repayable in equal monthly installments of $279 (US$207). On May 1, 2022, the Company and Breakwater amended the terms of the loan agreement to extend the maturity date to December 31, 2023, with a three-month grace period between May and July 2022. Effective June 30, 2023, the Company and Breakwater further amended the agreement to extend the maturity date of the loan to May 2024, with a six-month grace period between December 2022 and May 2023. As a result of the amendment of terms, the Company recognized a gain of $6 on the revaluation of the loan.

On January 11, 2024, the Company and Breakwater agreed to a further extend the maturity date of the loan to June 2025 with repayment to commence in April 2024 with equal monthly principal repayments of $147 (US$110) plus interest.

c) Escorfin

The Company had a loan outstanding with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin") which bore interest at 10% per annum. On May 26, 2022, the terms of the loan were amended to extend the maturity date to September 2025 with thirty-six equal principal repayments commencing on October 2023 and interest continuing to accrue at 10% per annum on the outstanding principal balance. On February 28, 2023, the Company settled the outstanding principal and interest of $5,725 by issuing 12,721,310 common shares of the Company. As a result of the amendment and settlement during the year, the Company recognized a loss of $41 (December 31, 2022 - $133) through the statements of loss and comprehensive loss.

d) Accendo Loan Facility

The Company had a loan faciity agreement with Accendo Banco, S.A., Institucion de Banca Multiple ("Accendo") for US$12,000 (the "Loan Facility"), of which US$6,200 had been drawn down. The Loan Facility was for a four-year term with equal monthly principal repayments commencing after a twelve month grace period, bore interest at 13.5% per annum, payable quarterly on the drawn amount and was secured by a second ranking security interest over all the assets of the Company.

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 commenced a liquidation process to protect the savings of the bank's clients. The Company had a balance of US$5,800 available from the Loan Facility for drawdown. However, due to the ongoing liquidation process, the Company's ability to access this remaining balance was impaired.

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

13. LOANS PAYABLE (continued)

d) Accendo Loan Facility (continued)

The Company's Loan Facility was assigned to Latapi Consultores, S.A. de C.V. ("Latapi") by Accendo and on December 6, 2023, the Company and Latapi agreed to settle the outstanding Loan Facility's principal and interest of $11,030 (US$7,993) by the Company issuing 17,750,000 common shares of the Company at $0.45 per share to Latapi and Latapi forgiving $3,042 (US$2,205) of the Loan Facility. The transaction closed on January 23, 2024 with the issuance of the common shares.

e) Calu Loan

The Company had a loan agreement ("Calu Loan") with Calu Opportunity Fund, LP ("Calu") whereby Calu provided the Company with $2,891 (US$2,345). The loan was unsecured, had a term of 4 years, bore interest at 13.5% per annum, and was payable in twelve quarterly instalments commencing March 10, 2023.

On August 31, 2022, the Company and Calu agreed to amend the terms of the Calu Loan whereby $187 (US$144) 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 with the loan balance payable in thirty-seven monthly blended principal and interest payments 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 fair value of the Calu Loan of $23 in the statement of loss and comprehensive loss. As consideration for the amendment, the Company issued Calu, 622,272 bonus warrants. Each bonus warrant is exercisable into common shares of the Company within two and a half years at a price of $2.80 per common share. The bonus warrants had a fair value of $119, calculated using the Black- Scholes option pricing model, and were 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, 2023, the unamortized balance of the fair value discount on the loan and the deferred financing cost is $Nil and $70, respectively (December 31, 2022 – $61 and $118, respectively).

In February 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 8,254,954 shares. As a result of the amendments and settlement, the Company recognized a loss on the fair value of the Calu Loan of $44 in the statement of loss and comprehensive loss.

14. SHARE SUBSCRIPTION

During the year ended December 31, 2022, the Company received gross proceed of $9,120 (US$6,800) in share subscriptions (the "Subscriptions") for an announced planned Rights Offering. At December 31, 2022, the Company had not proceeded with the Rights Offering and as a result, the Subscriptions were recorded as a liability, net of transaction costs in accordance with the terms of the subscription agreement. On April 27, 2023, the Company closed the first tranche of a non-brokered private placement (Note 16) with the Subscriptions converted into Units in the private placement.

15. PROVISION FOR RECLAMATION AND REHABILITATION

The Company recognized a provision for reclamation related to the environmental restoration and closure costs associated with the Campo Morado Mine and the Tahuehueto Mining Project. Significant reclamation and closure activities include land rehabilitation, decommissioning of buildings and mine facilities, ongoing care and maintenance and other costs.

		Campo Morado		Tahuehueto		Total
Balance, December 31, 2022	$	3,348	$	2,469	$	5,817
Accretion		382		315		697
Changes in estimate		1,448		329		1,778
Effect of change in foreign exchange rates		411		304		714
Balance, December 31, 2023	**$**	**5,588**	**$**	**3,418**	**$**	**9,006**

		Campo Morado		Tahuehueto
Anticipated settlement date		2044		2035
Undiscounted uninflated estimated cash flow	$	10,102,455	$	7,511,791
Estimated life of mine (years)		21		12
Discount rate (%)		9.6		9.6
Inflation rate (%)		5.2		5.2

16. SHARE CAPITAL

a) Authorized share capital

The authorized share capital of the Company is as follows:
i. unlimited voting common shares without par value – 148,107,644
ii. unlimited preferred shares without par value - Nil

b) Equity offerings

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.

During the year ended December 31, 2023, the Company issued common shares as follows:

i. 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 and the fair value, net of share issue costs of $7 has been recorded as share capital. A gain/loss of $860 was realized on settlement based on the closing bid price of the shares issued on settlement.

ii. 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 issued an aggregate of 20,976,264 shares at a deemed price of $0.45 per share. In connection with the Debt Settlements, the Company incurred $208 of transaction fees and the fair value of the shares, net of transaction fees of $9,231 has been allocated to share capital.

iii. On April 25, 2023, the Company closed the first tranche of its non-brokered private placement (the "Private Placement"). The Company has sold 52,412,064 units of the Company (each, a "Unit") at a price of $0.35 per Unit for gross proceeds of $18,344. Each Unit consists of one common share in the Company and one half of one share purchase warrant (each whole, a "Warrant") entitling the holder to purchase an additional common share at a price of $0.50 per common share until April 25, 2025.

    On June 2, 2023, the Company closed the second tranche of the Private Placement under the same terms and sold 6,889,462 Units at a price of $0.35 per Unit for gross proceeds of $2,411. Warrants issued in the second tranche entitle the holder to purchase an additional common share at a price of $0.50 per common share until June 2, 2025.

    On June 25, 2023, the Company closed the third and final tranche of the Private Placement under the same terms and sold 11,831,474 Units at a price of $0.35 per Unit for gross proceeds of $4,141. Warrants issued in the second tranche entitle the holder to purchase an additional common share at a price of $0.50 per common share until June 25, 2025.

    In connection with the Private Placement, related parties to the Company acquired 14,937,830 Units for an aggregate purchase price of $5,228. Additionally, the Company incurred $2,185 of share issue costs consisting of finders' fees of $1,198, issuance of 3,423,556 finders' warrants with a fair value of $680, and legal fees and other transaction costs of $307. The entirety of the fair value net of share issuance costs have been allocated to share capital with $680 for the finders' warrants being allocated to other reserves.

iv. On June 2, 2023, the Company agreed to settle an amount of $4,900 advanced in relation to a standby guarantee under the Company's proposed but no longer proceeding Rights Offering. Pursuant to the debt settlement, the Company agreed to issue 14,000,000 Units, having the identical terms as the Private Placement Units as consideration. In connection with the settlement, the Company incurred $352 of transaction fees.

v. On December 3, 2023, the Company completed a private placement and sold 5,714,286 Units at a price of $0.35 per Unit for gross proceeds of $2,000. Each Unit consists of one common share in the Company and one half of one share purchase warrant entitling the holder to purchase an additional common share at a price of $0.50 per common share until December 18, 2025. In connection with the private placement, the Company issued 680,851 finders' warrants with a fair value of $160 allocated to other reserves.

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

16. SHARE CAPITAL (continued)

b) Equity offerings (continued)

vi. During the year ended December 31, 2023, the Company recognized the expiry of 312,500 stock options and 4,651,572 warrants.

During the year ended December 31, 2022, the Company issued common shares as follows:

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 of the Company at a price of $2.80 per Unit. Each Unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder 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.

   On May 12, 2022, the Company closed the second and final tranche of the non-brokered private placement for gross proceeds of $759 through the issuance of an additional 271,178 Units. All securities issued under the private placement were subject to a four month hold period from the closing date of the transaction.

   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.

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 other reserves to share capital. As a result of the share purchase warrants exercised, Escorfin, a related party to the Company, was issued 454,137 common shares.

17. RESERVES

a) Warrants

The following summarizes the continuity of common share purchase warrants:

		December 31 2023		December 31 2022
	Number outstanding	Weighted average exercise price $	Number outstanding	Weighted average exercise price $
Outstanding, beginning of the year	6,169,330	2.55	8,162,969	1.72
Issued	49,097,191	0.50	1,517,758	3.74
Exercised	-	-	(882,023)	1.88
Forfeited	-	-	(1,875,000)	0.72
Expired	(4,651,572)	2.16	(754,374)	1.26
Outstanding, end of the year	**50,614,949**	**0.60**	**6,169,330**	**2.55**

As at December 31, 2023, the following common share purchase warrants were outstanding:

Expiry date	Exercise price CAD$	Warrants outstanding	Remaining life (years)
April 20, 2024	$ 4.40	757,273	0.3
May 12, 2024	4.40	43,750	0.4
May 30, 2024	4.40	94,463	0.4
April 25, 2025	0.50	28,905,717	1.3
June 2, 2025	0.50	10,832,896	1.4
June 23, 2025	0.50	250,000	1.5
June 26, 2025	0.50	6,001,435	1.5
June 30, 2025	2.80	622,272	1.5
December 18, 2025	0.50	2,857,143	2.0
June 5, 2026	0.50	250,000	2.4
	$ 0.60	**50,614,949**	**1.4**

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

17. RESERVES (continued)

a) Warrants (continued)

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

	December 31 2023	December 31 2022
Risk-free interest rate	3.86%	3.95%
Expected life of options (years)	2.0 years	2.5 years
Expected annualized volatility	93%	108%
Expected dividend yield	Nil	Nil

b) Stock Options

The Company has adopted an Omnibus equity compensation plan (the "Plan") under the rules of the TSXV pursuant to which the Company's Board of Directors is authorized, from time to time, to grant a varying range of incentive awards, including stock options, restricted share units ("RSU"), deferred share units ("DSU"), performance share units ("PSU") and other share-based awards (the "Awards") to employees, consultants, directors and officers. The Plan is a rolling Awards plan whereby the number of Awards issuable under the plan shall not exceed, on a rolling basis, 10% of the Company's issued and outstanding common shares at the time of grant.

Under the Plan, the exercise price of each stock option may be issued at a maximum of a 25% discount to the market price of the Company's common shares on the date of grant, or such higher price as determined by the Board of Directors. The stock options can be granted for a maximum term of 10 years with vesting terms determined by the Board of Directors. No individual may be granted options exceeding 5% and no consultant or individual employed to provide "investor relations activities" may be granted options exceeding 2% of the Company's common shares outstanding in any 12-month period. As at December 31, 2023 and 2022, the Company has not issued any RSUs, DSUs or PSUs under the Plan.

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

		December 31 2023		December 31 2022
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of the period	1,226,042	0.57	1,319,791	0.85
Issued	6,052,778	0.45	112,500	0.72
Cancelled	(305,000)	0.46	(33,333)	2.94
Expired	(312,500)	0.73	(172,916)	2.40
Outstanding, end of the period	**6,661,320**	**0.46**	**1,226,042**	**0.57**

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

17. RESERVES (continued)

b) Stock options (continued)

The following table summarizes the information about stock options outstanding as at December 31, 2023:

Expiry date	Options outstanding	Weighted average exercise price CAD$	Remaining contractual life (years)	Options exercisable
January 29, 2025	25,000	0.50	1.08	25,000
February 8, 2025	31,250	0.50	1.11	31,250
February 10, 2025	100,000	0.40	1.12	50,000
August 6, 2025	12,500	0.50	1.60	12,500
December 5, 2025	112,500	0.72	1.93	75,000
February 25, 2026	635,417	0.50	2.16	635,417
May 11, 2026	9,375	0.50	2.36	9,375
May 19, 2026	62,500	0.50	2.38	62,500
August 9, 2026	12,500	0.50	2.61	12,500
April 25, 2028	527,778	0.45	4.32	175,926
June 7, 2028	4,707,500	0.46	4.44	1,569,167
September 17, 2028	135,000	0.35	4.72	135,000
October 4, 2028	290,000	0.35	4.76	290,000
	6,661,320	**0.46**	**4.08**	**3,083,635**

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, 2023, an amount of $1,584 was expensed as share-based payments (December 31, 2022 - $290). Included in share-based payments are amounts expensed through administrative personnel of $1,114 (December 31, 2022 - $237), mine operations of $211 (December 31, 2022 - $8) and business promotion of $212 (December 31, 2022 - $45). Additionally, during the year ended December 31, 2023, $334 (December 31, 2022 - $6) was capitalized to the Tahuehueto mineral property asset. The portion of share-based compensation recorded is commensurate with the vesting terms of the options. The fair value of options granted during the year carry an exercise price ranging from $0.17 to $0.37.

During the year ended December 31, 2023, the Company also repriced 1,076,042 stock options originally 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 with their expiry dates remaining unchanged. As a result, the Company recorded $470 as additional share-based compensation expense.

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

	December 31 2023	December 31 2022
Risk-free interest rate	3.75%	3.77%
Expected life of options (years)	5.0 years	3.0 years
Expected annualized volatility	110%	124%
Expected dividend yield	Nil	Nil

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

18. LOSS PER SHARE

		Year ended		
		December 31 2023		December 31 2022
Net loss for the year	$	(14,996)	$	(11,607)
Weighted average number of shares(000's)		103,557		34,157
Loss per share-basic and diluted		**(0.15)**		**(0.34)**

All of the outstanding warrants and options are anti-dilutive for the year ended December 31, 2023 and 2022.

19. NET REVENUE

The Company is principally engaged in the business of producing a bulk (copper and zinc), lead and zinc concentrates in Mexico. The disaggregated revenue information for the year ended December 31, 2023, is as follows:

		Year ended		
		December 31 2023		December 31 2022
Bulk concentrate	$	34,095	$	17,092
Lead concentrate		21,793		8,451
Zinc concentrate		45,226		63,317
Provisional pricing adjustments		(109)		102
Income from stream		255		329
Treatment and selling costs		(32,985)		(30,083)
	$	**68,275**	**$**	**59,208**

The Company sells 100% of its concentrates to one customer.

20. COST OF SALES

		Year ended		
		December 31 2023		December 31 2022
Production Costs	$	58,640	$	50,741
Royalties		2,546		1,987
Inventory changes		1,592		1,022
Depreciation		4,028		2,451
	$	**66,806**	**$**	**56,201**

21. GENERAL AND ADMINISTRATION

		Year ended		
		December 31 2023		December 31 2022
Salaries and employee benefits	$	3,861	$	3,223
Professional fees		1,358		991
Corporate and administration		3,351		1,946
Depreciation and amortization		451		139
	$	**9,021**	**$**	**6,299**

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

22. INTEREST AND FINANCE COSTS (INCOME)

		Year ended		
		December 31 2023		December 31 2022
Interest	$	749	$	1,148
Amortization of deferred finance costs		884		1,105
Accretion on streaming arrangements		1,740		1,423
Accretion of provision for site reclamation and closure		697		566
Amortization of deferred revenues		(349)		(305)
Bank fees, penalties, and other		370		303
	$	**4,091**	**$**	**4,240**

23. INCOME TAX

a) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the applicable Canadian statutory income tax rate to income before income taxes. The significant reasons for the differences are as follows:

	December 31 2023	**December 31 2022**
	$	**$**
Income (Loss) before income taxes	(14,996)	(11,607)
	27%	27.00%
Expected income tax expense (recovery)	(4,049)	(3,134)
Increase (decrease) in taxes resulting from:		
Change in statutory, foreign tax, foreign exchange rates, and other	(9,943)	(13,414)
Permanent differences	(1,616)	3,515
Share issuance costs	(795)	(23)
Share-based compensation	542	78
Change in deferred tax assets	12,712	4,193
Adjustment to prior years' provision versus statutory tax returns and inflationary adjustments	(9,727)	(6,882)
Change in unrecognized deductible temporary differences	12,876	15,501
Income tax expense (recovery)	**-**	**(166)**

b) Unrecognized Deferred Tax Assets and Liabilities

The Company recognizes tax benefits on losses or other deductible amounts where it is more likely than not that the deferred tax asset will be realized. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	December 31 2023	**December 31 2022**
	$	**$**
Exploration and evaluation assets	2,974	4,362
Equipment	27,829	19,937
Share issue costs	794	40
Allowable capital losses	569	609
Non-capital losses available for		-
future periods	82,474	61,529
Total	114,640	86,477
Unrecognized deferred tax assets	114,640	(86,477)
Total deferred tax assets	**-**	**-**

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

23. INCOME TAX (continued)

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

	December 31 2023	Expiry date range	December 31 2022	Expiry date range
	$		$	
Mineral interest and equipment	103,113	No expiry date	88,208	No expiry date
Share issue costs	2,939	No expiry date	217	No expiry date
Allowable capital losses	2,107	No expiry date	2,107	No expiry date
Non-capital losses available for future periods	278,535		252,397	2022 to 2041
Canada	34,362		29,396	2026 to 2041
Mexico	243,991		223,001	2022 to 2031

24. RELATED PARTIES

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

a) Compensation of key management personnel

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

		Year ended December 31 2023		December 31 2022
Salaries, bonus and benefits	$	1,371	$	1,584
Consulting fees		1,119		162
Share-based compensation		1,203		186
	$	**3,693**	**$**	**1,932**

b) Related party balances

As at December 31, 2023, directors and officers or their related companies were owed $393 (December 31, 2022 - $732) included in accounts payable and accrued liabilities mainly in respect to directors' fees payable and reimbursement of 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")

Escorfin is a private equity fund to which the Company had a long-term loan obligation of $5,419 (US$4,001) at December 31, 2022 (note 12). The Company and Escorfin have directors in common. On February 28, 2023, the principal and interest owning of $5,725 (US$4,242) was settled with the issuance of 12,721,310 common shares of the Company. During the year ended December 31, 2023, the Company incurred interest of $79 (December 31, 2022 - $58).

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

The Company has a service agreement with Bursametrica whereby the financial institution provides 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, 2023, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was $21,526 (US$15,910) (December 31, 2022 - $26,974 (US$20,718)).

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

25. SEGMENTED INFORMATION

The Company is engaged in mining, exploration, and development of mineral properties in Mexico with a corporate head office based out of Canada and Mexico and two reportable operating segments. The Company's operating segments are based on internal management reports that are reviewed by the Company's executives in assessing performance. Mining operations consists of the Campo Morado mine, which is currently operational and producing, and Tahuehueto mining project currently in a ramp-up stage.

December 31, 2023	Total assets	Total liabilities	Capital expenditures
	$	$	$
Campo Morado	44,146	25,451	3,136
Tahuehueto	102,028	58,684	9,652
Corporate	882	8,044	-
Consolidated	**147,056**	**92,179**	**12,788**

December 31, 2022	Total assets	Total liabilities	Capital expenditures
	$	$	$
Campo Morado	50,306	23,924	3,821
Tahuehueto	83,533	51,492	9,353
Corporate	(636)	29,424	-
Consolidated	**133,203**	**104,840**	**13,174**

Year ended December 31, 2023	Campo Morado	Tahuehueto	Corporate	Total
	$	$	$	$
Revenue, net	44,848	23,427	-	68,275
Cost of sales before depreciation and depletion	(44,863)	(17,915)	-	(62,778)
Depreciation and depletion in cost of sales	(4,028)	-	-	(4,028)
Mine operating earnings (loss)	(4,043)	5,512	-	1,469
G&A and other expenses	(4,220)	(1,704)	(6,450)	(12,374)
Interest, finance cost, and other	(671)	(327)	(3,093)	(4,091)
Net income (loss)	**(8,934)**	**3,481**	**(9,543)**	**(14,996)**

Year ended December 31, 2022	Campo Morado	Tahuehueto	Corporate	Total
	$	$	$	$
Revenue, net	54,547	4,661	-	59,208
Cost of sales before depreciation and depletion	(46,912)	(6,221)	(617)	(53,750)
Depreciation and depletion in cost of sales	(2,451)	-	-	(2,451)
Mine operating earnings (loss)	5,184	(1,560)	(617)	3,007
G&A and other expenses	(2,536)	(2,692)	(5,146)	(10,374)
Interest, finance cost, and other	(156)	(21)	(4,063)	(4,240)
Net income (loss)	**2,492**	**(4,273)**	**(9,826)**	**(11,607)**

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

a) Fair value hierarchy

Financial instruments included in the consolidated statements of financial position are measured either at fair value or amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

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

Financial asset or liability	Methods and assumptions used to estimate fair value
Trade receivables	Trade receivables arising from the sales of metal concentrates are subject to provisional pricing, and the final selling price is adjusted at the end of a quotational period. These are marked to market at each reporting date based on the forward price corresponding to the expected settlement date.

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

(Expressed in thousand of Canadian dollars, unless otherwise indicated)

December 31, 2023	Fair value through profit or loss	Amortized cost	Total	Level 1	Level 2	Carrying value approximates Fair Value
	$	$	$	$	$	$
Financial assets measured at Fair Value						
Trade receivables from sale of concentrate	743	-	743	-	743	-
	743	**-**	**743**	**-**	**743**	**-**
Financial assets not measured at Fair Value						
Cash	-	2,722	2,722	-	-	2,722
Other receivables	-	9,490	9,490	-	-	9,490
	-	**12,212**	**12,212**	**-**	**-**	**12,212**
Financial liabilities not measured at Fair Value						
Accounts payable and accrued liabilities	-	(32,437)	(32,437)	-	-	(32,437)
Loans payable	-	(31,105)	(31,105)	-	-	(31,105)
	-	**(63,542)**	**(63,542)**	**-**	**-**	**(63,542)**

December 31, 2022	Fair value through profit or loss	Amortized cost	Total	Level1	Level2	Carrying value approximates Fair Value
	$	$	$	$	$	$
Financial assets measured at Fair Value						
Trade receivables from sale of concentrate	4,088		4,088		4,088	-
	4,088	**-**	**4,088**	**-**	**4,088**	**-**
Financial assets not measured at Fair Value						
Cash	-	1,152	1,152	-	-	1,152
Other receivables	-	9,415	9,415	-	-	9,415
	-	**10,567**	**10,567**	**-**	**-**	**10,567**
Financial liabilities not measured at Fair Value						
Accounts payable and accrued liabilities	-	(29,223)	(29,223)	-	-	(29,223)
Loans payable	-	(34,205)	(34,205)	-	-	(34,205)
	-	**(63,428)**	**(63,428)**	**-**	**-**	**(63,428)**

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy.

(Expressed in thousand of Canadian dollars, unless otherwise indicated)

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (continued)

b) Financial instrument risk exposure and risk management

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.

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 is exposed to credit risk on its bank accounts and amounts receivables. Credit risk exposure on bank accounts is limited through maintaining the Company's balances with high-credit quality financial institutions, maintaining investment policies, assessing institutional exposure and continual discussion with external advisors. Amounts receivables are generated on the sale of concentrate inventory to reputable metal traders as well as various other receivables arising from operations.

As of	Dec 31, 2023	Dec 31, 2022
	$	$
Cash	2,722	1,152
Trade receivables	743	4,088
VAT recoverable	8,838	9,125
Other receivables	652	290
	12,955	**14,655**

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 by continually monitoring forecasted and actual cash flows. 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 considering existing cash, operating cash flows and expected exercise of stock options and share purchase warrants. See Note 1 for further discussion.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at December 31, 2023:

	Less than 1 year	1 to 5 years	After 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	32,437	-	-	32,437
Lease liabilities	3,048	8,558	4,382	15,998
Empress royalty streaming	9,848	-	-	9,848
Loans payable	31,105	-	-	31,105
Provision for reclamation and rehabilitation	-	-	9,006	9,006
Total contractual obligations	**76,438**	**8,558**	**13,388**	**98,394**

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (continued)

b) Financial instrument risk exposure and risk management (continued)

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.

The Canadian dollar equivalents of financial assets and liabilities denominated in currencies other than the Canadian dollar as at December 31, 2023, are as follows:

	December 31, 2023		December 31, 2022	
Denominated (000's)	US Dollars	Mexican Peso	US Dollars	Mexican Peso
	$	$	$	$
Financial assets, foreign currency	2,149	227,382	5,364	185,592
Financial liabilities, foreign currency	(64,092)	(793,391)	(49,001)	(394,394)
Net financial assets (liabilities)	**(61,943)**	**(566,009)**	**(43,637)**	**(208,802)**

Of the financial assets listed above, US$880 (2022 – US$527) represents cash held in US dollars and MXN$6,284 (2022 - MXN$6,222) represents cash held in Mexican pesos. The remaining cash balance is held in Canadian dollars.

As at December 31, 2023, with other variables unchanged, a 10% change of the Canadian dollar against the US dollar would change net loss by $8,362 due to these financial assets and liabilities.

As at December 31, 2023, with other variables unchanged, a 10% change of the Canadian dollar against the Mexican peso would change net loss by $4,305 due to these financial assets and liabilities.

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, 2023 and 2022, the Company's loans payable 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 loans bear interest at variable and fixed rates. Interest risk exposure is in relation to variable interest rates and a variation of 1% on the interest rate would change net loss by approximately $172 (December 31, 2022 – $199). 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 minimal.

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 December 31, 2023, a 10% change in zinc, copper, lead, silver, or gold prices would result in an increase/decrease of approximately $79, $75, $4, $141, and $245, respectively in revenues (December 31, 2022 – $357, $129, $98, $nil, and $nil).

(Expressed in thousand of Canadian dollars, unless otherwise indicated)

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (continued)

b) Financial instrument risk exposure and risk management (continued)

Management of Capital

The Company considers the items included in the consolidated statement of shareholder's equity as capital. The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal deposits.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal; and
- To obtain the necessary financing to complete mine refurbishment and exploration and development of its properties, when it is required.

The properties in which the Company currently holds interests in are in the production, pre-production and exploration stages and the Company is dependent on external financing to fund its activities in order to carry out planned activities and pay for administrative costs. Management reviews its capital management approach on an ongoing basis and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets, and believes that this approach, given the relative size of the Company, is reasonable.

In order to maintain or adjust the capital structure, the Company may issue new equity, incur additional debt, option its exploration and evaluation assets for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. When applicable, the Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company is not subject to externally imposed capital requirement.

27. SUPPLEMENTAL CASHFLOW INFORMATION

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

	Loans	Leases	Empress royalty streaming
	$	$	$
As at December 31, 2021	**40,034**	**10,021**	**6,988**
Additions	2,985	589	-
Interest	5,098	-	-
Accretion	-	-	1,423
Payments	(5,802)	(1,204)	(305)
Foreign exchange	-	656	-
Gain on settlement of debt	(86)		-
Changes in fair value	-	-	522
As at December 31, 2022	**42,229**	**10,062**	**8,628**
Additions	-	490	-
Interest	1,047	-	-
Accretion	197	-	1,740
Payments	(2,439)	(545)	(551)
Foreign exchange	(785)	(224)	(236)
Loss on settlement of debt	295	-	-
Changes in fair value	(9,439)	-	267
As at December 31, 2023	**31,105**	**9,783**	**9,848**

(Expressed in thousand of Canadian dollars, unless otherwise indicated)

27. SUPPLEMENTAL CASHFLOW INFORMATION (continued)

The significant non-cash financing and investing transactions during the year ended December 31, 2023 and 2022, are as follows:

	Year ended	
	December 31 2023	December 31 2022
Closure and reclamation provision	1,767	58
Share based compensation capitalized	334	6
Right of use depreciation capitalized	949	1,089
Shares issued on settlement of debt	9,439	-

28. COMMITMENTS AND CONTINGENCIES

a) Commitments

As at December 31, 2023, the Company had no commitments which are expected to be expended within one year.

b) 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.

As at December 31, 2023, the Company has estimated an accrual of $9,020 (December 31, 2022 - $6,606) in contingent liabilities, mainly as follows:

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. ("MCM"), 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$16,000) and possible reduction of accumulated tax losses for $10,090 (MXN$104,000), which the Company is challenging through a legal process. As at December 31, 2023, Minas de Campo Morado, S.A. de C.V. has non-capital losses available for future periods in excess of the claimed amount (Note 23), thus no additional accrual has been recorded on a contingent basis.

Subsequent to December 31, 2023, the Mexican court issued a favorable resolution to MCM for 90% of the 2014 and 2015 tax credits because all the expenses deducted were in line with the income tax regulations. MCM will go to a second legal action to get the remining 10% of the credits.

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$34,000).

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 $133 (MXN$1,700).

28. COMMITMENTS AND CONTINGENCIES (continued)

b) Contingencies (continued)

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 $4,970 (MXN$62,000).

29. SUBSEQUENT EVENTS

Debt settlement

In January 2024, the Company closed a debt settlement (the "Debt Settlement") with Latapi Consultores, S.A. de C.V. ("Latapi"), by issuing an aggregate of 17,750,000 Shares to settle outstanding debt of $11,030, comprising of (i) $3,042 of debt that the Latapi and the Company agreed to write off and (ii) $7,988 of debt that was settled in common shares of the Company (the "Shares"), at a price of $0.45 per Share. The Shares were issued to a syndicate of creditors with Latapi acting as agent on behalf of the syndicate to negotiate the terms of the Debt Settlement. The debt was originally owed under a loan facility to Accendo Banco, S.A. and assigned to Latapi acting on behalf of a syndicate of creditors.

The Shares are subject to a four month plus one day hold period under applicable Canadian securities laws. The Debt Settlement is subject to the receipt of final approval from the TSXV.

Debt restructuring

In January 2024, the Company completed a debt restructuring transaction with Trafigura Mexico, S.A. de C.V. ("Trafigura") and its affiliate Urion Holdings ("Malta") Limited ("Urion"). The Company conditionally converted US$5,800 (the "Principal Amount") outstanding loan into a non-interest-bearing three-year term convertible debenture (the "Convertible Debenture"). Trafigura has conditionally assigned the Principal Amount to Urion, such assignment to be perfected upon Urion being included in the existing security arrangements between the Company and Trafigura (the "Condition").

The Convertible Debenture was signed and placed in escrow, to be released once the Condition is met. The Convertible Debenture will mature in three years from the date it is released from escrow and made effective. Upon maturity or any time prior thereto, the Principal Amount is convertible into Shares at a price of $0.35 per Share. Under certain circumstances the Company is permitted to make prepayments of the Principal Amount in cash, in accordance with the terms of the Convertible Debenture.

Any Shares issued under the Convertible Debenture will be subject to a four month plus one day hold period under applicable Canadian securities laws. The Convertible Debenture is subject to the receipt of final approval from the TSXV.

In connection with debt restructuring transaction, Trafigura advanced an additional US$2,500 loan to assist the Company in completing the mine optimization program to deliver separate clean copper, zinc and lead concentrates with substantially higher recoveries and concentrate grades at Campo Morado.

Stock options

Subsequent to December 31, 2023, the Company granted 600,000 stock options to certain officers and employees. These options carry an exercise price from $0.35 to $0.37 and have a lifespan of 5 years.