DEFIANCE SILVER CORP.

(an exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Defiance Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of Defiance Silver Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 22, 2021

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

		2021		2020
ASSETS				
Current assets				
Cash	$	20,831,725	$	569,031
Restricted Cash (Note 17)		388,560		-
Receivables (Note 4)		77,906		28,806
Prepaid expenses (Note 5)		266,431		44,129
Total current assets		21,564,622		641,966
Value added tax (Note 4)		1,404,951		756,038
Other assets (Note 6)		44,761		21,203
Equipment (Note 7)		104,104		-
Exploration and evaluation assets (Note 8)		19,920,805		14,710,160
Total assets	$	43,039,243	$	16,129,367
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	1,271,741	$	864,632
Loan payable (Note 10)		-		1,218,449
Total current liabilities		1,271,741		2,083,081
Non-current liabilities				
Deferred income tax liabilities (Note 14)		36,000		36,000
Total non-current liabilities		36,000		36,000
Total liabilities		1,307,741		2,119,081
Shareholders' equity				
Share capital (Note 11)		51,431,820		22,564,418
Share-based payment reserve (Note 11)		3,805,350		2,013,494
Deficit		(13,505,668)		(10,567,626)
Total shareholders' equity		41,731,502		14,010,286
Total liabilities and shareholders' equity	$	43,039,243	$	16,129,367

Nature and continuance of operations (Note 1)
Subsequent event (Note 18)

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

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

	YEARS ENDED JUNE 30, 2021	2020
EXPENSES		
Interest expense	$ -	$ 8,404
Investor relations	514,041	300,017
Legal and audit	243,811	135,895
Management and consulting fees (Note 12)	546,649	351,852
Office and administration	195,621	107,035
Share-based compensation (Note 11)	1,358,934	192,174
Transfer agent and filing fees	99,210	21,487
Travel	1,041	3,591
Total expenses	(2,959,307)	(1,120,455)
Interest income	27,403	25
Loss on foreign exchange	31,549	(153,140)
Loss on de-recognition of loan (Note 10)	(37,687)	-
Gain on settlement of debts (Note 11)	-	20,236
	21,265	(132,879)
Loss and comprehensive loss for the year	$ (2,938,042)	$ (1,253,334)
Basic and diluted loss per common share	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding - Basic and diluted	186,505,220	147,165,425

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

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

	YEARS ENDED JUNE 30, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (2,938,042)	$ (1,253,334)
Items not affecting cash:		
Share-based compensation	1,358,934	192,174
Interest on loans payable	-	586
Loss on de-recognition of loan	37,687	-
Gain on settlement of debts	-	(20,236)
Foreign exchange	1,442	(643)
Changes in non-cash working capital items:		
Receivables	(49,100)	(6,129)
Value added tax	(648,913)	3,394
Prepaid expenses	(222,302)	87,531
Restricted Cash	(388,560)	-
Accounts payable and accrued liabilities	(109,203)	(319,713)
Net cash used in operating activities	(2,958,057)	(1,316,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Other assets	(25,000)	-
Purchase of equipment	(122,194)	-
Exploration and evaluation assets expenditures	(4,711,268)	(1,628,071)
Net cash used in investing activities	(4,858,462)	(1,628,071)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	30,813,830	3,505,587
Proceeds from loans	-	200,000
Repayment of loans	(1,312,018)	(201,381)
Repayment of Directors loans	-	(28,042)
Share issuance costs	(1,422,599)	(92,503)
Net cash provided by financing activities	28,079,213	3,383,661
Change in cash during the year	20,262,694	439,220
Cash, beginning of the year	569,031	129,811
Cash, end of the year	**$ 20,831,725**	**$ 569,031**

Supplemental disclosure with respect to cash flows (Note 13)

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

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

	Number of Shares		Share capital		Share-based payment Reserves		Deficit		Total
Balance at June 30, 2019	132,984,558	$	18,911,866	$	1,830,111	$	(9,314,292)	$	11,427,685
Private placement	14,448,286		3,323,106		-		-		3,323,106
Issuance costs	-		(92,503)		-		-		(92,503)
Issuance costs - broker warrants	-		(15,025)		15,025		-		-
Stock options exercised	1,690,000		326,142		(156,141)		-		170,001
Warrants exercised	48,000		17,746		(5,266)				12,480
Shares issued for debt	404,722		93,086		-		-		93,086
Warrants issued pursuant to loan agreement	-		-		137,591		-		137,591
Share-based compensation	-		-		192,174		-		192,174
Net loss for the year	-		-		-		(1,253,334)		(1,253,334)
Balance at June 30, 2020	149,575,566		22,564,418		2,013,494		(10,567,626)		14,010,286
Private placement	42,192,778		21,501,100		-		-		21,501,100
Issuance costs	-		(1,513,506)		-		-		(1,513,506)
Issuance costs - broker compensation units	-		(947,111)		947,111		-		-
Stock options exercised	736,694		484,294		(168,867)		-		315,427
Warrants exercised	27,098,266		9,016,382		(163,040)				8,853,342
Compensation units exercised	423,415		326,243		(182,282)				143,961
Share-based compensation	-		-		1,358,934		-		1,358,934
Net loss for the year	-		-		-		(2,938,042)		(2,938,042)
Balance at June 30, 2021	220,026,719	$	51,431,820	$	3,805,350	$	(13,505,668)	$	41,731,502

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

Going Concern of Operations

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through other business and financial transactions which would assure continuation of the Company's operations and exploration programs. At June 30, 2021, the Company had cash of $20,831,725 (2020 - $569,031) and a working capital surplus of $20,292,881 (2020 - working capital deficiency $1,441,115). The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. The Company estimates it has sufficient working capital to continue operations for the upcoming year.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and capital markets are not known at this time.

2. BASIS OF PREPARATION

Statement of Compliance

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

The financial statements were authorized for issue by the Audit Committee and Board of Directors on October 20, 2021.

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

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

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

Critical Accounting Estimates

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

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

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

Critical Accounting Estimates (Cont'd)

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

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

Critical Accounting Judgements

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

1. *Going concern of operations*: The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).
2. *Determination of functional currency:* The Company determines the functional currency through the analysis of several indicators such as expenses and cash flow, financing activities, and frequency of transactions with the reporting entity.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

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

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

Foreign currencies

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

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

Cash

Cash is comprised of cash on hand.

Receivables

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

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

Financial instruments

Financial assets

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

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

Impairment

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

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

Financial liabilities

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

As at June 30, 2021, the Company does not have any derivative financial liabilities.

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

Equipment

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

Vehicles	5 years
Equipment	5 years
Computers	3-4 years

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

Exploration and evaluation assets (Mineral properties)

Pre-exploration costs

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

Exploration and evaluation expenditures

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

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

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

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

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

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

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

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

Reclamation deposits

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

Impairment of tangible and intangible assets

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

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

Rehabilitation provision

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

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

The Company does not have any significant rehabilitation obligations.

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

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

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

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

Warrants issued in equity financing transactions

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

Income taxes

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

Deferred tax assets and liabilities are recognized on temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for amounts relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect either accounting or taxable loss, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and are also rarely debt funded. Any related borrowing costs incurred during this phase are therefore generally recognized in profit or loss in the period they are incurred.

Earnings (loss) per share

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

Standards issued or amended but not yet effective

The Company has not applied the following revised IFRS that has been issued but was not yet effective at June 30, 2021. This accounting standard is not currently expected to have a significant effect on the Company's accounting policies or financial statements.

IAS 16, Property, Plant and Equipment - Proceeds before Intended Use (effective January 1, 2022). The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss.

(Expressed in Canadian Dollars)

4. RECEIVABLES

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

		June 30, 2021		June 30, 2020
VAT receivable	$	1,404,951	$	756,038
GST receivable		71,417		28,139
Advances receivable		6,489		667
Accounts receivable		-		-
	$	77,906	$	28,806

5. PREPAID EXPENSES

The prepaid expenses for the Company are summarized as follows:

		June 30, 2021		June 30, 2020
Security deposits	$	6,786	$	4,168
Insurance		16,915		13,769
Vendor prepayments		242,730		26,192
	$	266,431	$	44,129

(Expressed in Canadian Dollars)

6. OTHER ASSETS

		June 30, 2021		June 30, 2020
Investment	$	30,025	$	5,000
Reclamation bond		14,736		16,203
	$	44,761	$	21,203

Investment

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

Reclamation bond

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

7. EQUIPMENT

		Vehicles		Computers		Total
Cost						
As at June 30, 2020 and 2019	$	-	$	-	$	-
Additions		57,350		64,844	$	122,194
As at June 30, 2021		57,350		64,844		122,194
Accumulated depreciation						
As at June 30, 2020 and 2019	$	-	$	-	$	-
Depreciation for the year		8,364		9,726	$	18,090
As at June 30, 2021		8,364		9,726		18,090
Carrying amounts						
As at June 30, 2020	$	-	$	-	$	-
As at June 30, 2021	$	48,986	$	55,118	$	104,104

(1) During 2021, depreciation expense of $18,090 (2020 – $Nil) was recorded in exploration and evaluation expenditures (Note 8)

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing.

	Tepal	San Acacio	Lagartos	Lucita	Minerva	Total
Balance at June 30, 2019	**$ 4,910,410**	**$ 6,454,007**	**$ 1,590,000**	**$ -**	**$ 23,248**	**$ 12,977,665**
Acquisition costs						
Property Acquisition costs	16,272	854,367	-		-	870,639
Exploration costs						
Claim Fees	30,876	29,632	6,005	-	-	66,513
Consulting Fees	22,509	291,188	3,779	-	-	317,476
Camp	18,741	115,568	-	-	-	134,309
Drilling	-	(979)	-	-	-	(979)
Equipment	-	863	-	-	-	863
Borrowing costs	-	291,667	-	-	-	291,667
Geology and mapping	-	12,358	-	-	-	12,358
Travel and accommodation	255	39,394	-	-	-	39,649
	72,381	779,691	9,784	-	-	861,856
Balance at June 30, 2020	**4,999,063**	**8,088,065**	**1,599,784**	**-**	**23,248**	**14,710,160**
Acquisition costs						
Property Acquisition costs	461,248	1,074,127	10,072	161,561	-	1,707,008
Exploration costs						
Claim Fees	14,763	16,195	-	-	-	30,958
Consulting Fees	118,415	856,059	12,980	987	-	988,441
Camp	14,900	473,776	40,818	822	-	530,316
Drilling	-	1,231,947	1,283	-	-	1,233,230
Equipment	-	41,584	18,280	-	-	59,864
Borrowing costs	-	55,882	-	-	-	55,882
Geology and mapping	-	505,928	925	-	-	506,853
Geophysics	4,374	9,116	-	2,057	-	15,547
Travel and accommodation	-	81,746	557	243	-	82,546
	152,452	3,272,233	74,843	4,109	-	3,503,637
Balance at June 30, 2021	**$ 5,612,763**	**$ 12,434,425**	**$ 1,684,699**	**$ 165,670**	**$ 23,248**	**$ 19,920,805**

(Expressed in Canadian Dollars)

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

Tepal Project

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

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

During the year ended June 30, 2021, the Company entered into an option agreement to repurchase the existing 2.5% NSR on the Tepal Project from Minera Tepal, S.A. de C.V ("Minera Tepal") over four years for total consideration of USD $4.85 million. The payment terms are as follows:

		Option Payment	
January 10, 2021	USD	150,000	(paid)
June 16, 2021		150,000	(paid)
December 16, 2021		300,000	
June 16, 2022		300,000	
December 16, 2022		550,000	
June 16, 2023		550,000	
December 16, 2023		600,000	
June 16, 2024		600,000	
December 16, 2024		1,650,000	
	Total	USD 4,850,000	

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

(Expressed in Canadian Dollars)

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

San Acacio Project

The Company entered into an option agreement on October 24, 2011, subsequently the subject of several amendments, with the Mexican owners ("the Vendors") for an option to purchase a 100% interest in the San Acacio property consisting of 10 mining concessions and associated surface rights and tailings. The San Acacio property is located approximately 6.5 km north of the city of Zacatecas, Mexico.

The Company has paid US$4,276,996 towards the agreement through June 30, 2021.

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

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

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

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

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

Surface rights agreements

In August 2014, the Company obtained authorization to temporarily occupy and explore certain land holdings on the San Acacio property. In order to keep the agreement in good standing, the Company is required to make semi-annual payments during the exploration phase and the development phase. The agreement will be valid for twenty years with the option to extend in the future.

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

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

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

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

(Expressed in Canadian Dollars)

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

Minerva property

During the year ended June 30, 2012, the Company applied for a mining claim located in Coahuila State, Mexico, known as the Minerva property. As of June 30, 2021, the application was still pending approval by the Mexican mining authorities.

Lagartos Project

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

Lucita Project

During the year ended June 30, 2021, the Company entered into a definitive option agreement with Pan American Silver Corp. ("Pan American") to acquire a 100% interest in Pan American's Lucita property consisting of 28 mining concessions, located adjacent to the Company's San Acacio project. The property is subject to a 2% NSR payable to the vendors on production from the property. The payment terms are as follows:

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		June 30, 2021		June 30, 2020
Trade payables	$	1,011,824	$	689,865
Accrued liabilities		259,917		174,767
	$	1,271,741	$	864,632

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

(Expressed in Canadian Dollars)

10. LOAN PAYABLE

During the year ended June 30, 2021, the Company repaid in full the outstanding loan including accrued interest. The lender has acknowledged the repayment in full and the charges created by the general security agreement have been removed by the lender.

During the year ended June 30, 2020, the Company:

i) entered into a loan agreement in the amount of $200,000. The loan was unsecured, bore interest at 1% per month and was repayable on or before July 24, 2020. The loan was repaid on August 15, 2019 including interest of $1,381;

ii) extended its outstanding loan facility for a period of 12 months; the principal balance on extension was $1,221,649. The loan bore interest at the rate of 10% per annum, accrued daily and had a maturity date of December 21, 2020. The Company issued 2,350,000 warrants to the lender, each warrant entitling the lender to acquire one common share of the Company at $0.20 until December 21, 2020. The warrants were valued using the Black-Scholes Model resulting in a fair value of $137,591 based on the following assumptions: dividend yield 0%, expected life of 1 year, expected volatility of 73.41%, and a risk-free interest rate of 1.67% (Note 11).

On June 27, 2019 the Company signed a general security agreement with the lender whereby the assets of the Company's subsidiaries including property, plant and equipment have been pledged as collateral for this loan. (see Note 8).

As of June 30, 2019	$	1,065,752
Loan proceeds		200,000
Bonus warrants (2)		(137,591)
Borrowing Costs (1)		291,669
Loan settlement		(201,381)
As of June 30, 2020		1,218,449
Borrowing Costs (1)		55,882
Loss on de-recognition of loan (3)		37,687
Loan settlement		(1,312,018)
As of June 30, 2021	$	-

(1) Capitalized to exploration and evaluation assets
(2) Included in Share-based payment reserves
(3) Represents the difference between carrying value of the loans derecognized and fair value of the loan pursuant to Note 10(ii), net of transaction costs, recognized upon execution of new loan agreements.

11. SHARE CAPITAL

Authorized

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

During the year ended June 30, 2021, the Company:

i) closed a brokered private placement by issuing 12,777,778 units at a price of $0.90 per unit for gross proceeds of $11,500,000. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant is exercisable to purchase one common share at a price of $1.35 per share on or before June 10, 2023. The Company paid finder's fees of $605,152 and other issue costs of $145,913 and recognized $313,934 for share issuance costs related to the issuance of 672,391 non-transferable compensation options, each compensation option consists of an option to purchase one unit at a price of $0.90 per unit with each unit consisting of one common share at $0.90 and one-half of one common share purchase warrant. Each Warrant is exercisable to purchase one common share at a price of $1.35 per share on or before June 10, 2023. The fair value of the compensation options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.32%, expected life of 2 years, annualized volatility 90.03% and dividend rate at nil.

ii) closed a brokered private placement by issuing 29,415,000 units at a price of $0.34 per unit for gross proceeds of $10,001,100. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The Company paid finder's fees of $499,844 and other issue costs of $262,597 and recognized $633,177 for share issuance costs related to the issuance of 1,470,783 non-transferable compensation options, each compensation option consists of an option to purchase one unit at a price of $0.34 per unit with each unit consisting of one common share at $0.34 and one-half of one common share purchase warrant. Each Warrant is exercisable to purchase one common share at a price of $0.48 per share on or before September 16, 2022. The fair value of the compensation options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.24%, expected life of 2 years, annualized volatility 97.69% and dividend rate at nil.

iii) issued 736,694 common shares pursuant to exercise of stock options for gross proceeds of $315,427;

iv) issued 27,098,266 common shares pursuant to exercise of warrants for gross proceeds of $8,853,342;

v) issued 423,415 common shares pursuant to exercise of compensation units for gross proceeds of $143,961.

During the year ended June 30, 2020, the Company:

i) closed a non-brokered private placement by issuing 14,448,286 units at a price of $0.23 per unit for gross proceeds of $3,323,106. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of $0.31 per share on or before August 12, 2022. The Company paid finder's fees of $30,065 and issued 87,780 broker warrants. Each broker warrant is exercisable to purchase one common share at a price of $0.23 per share on or before August 12, 2020.

ii) issued 1,690,000 common shares pursuant to exercise of stock options for gross proceeds of $170,000.

iii) issued 48,000 common shares pursuant to exercise of warrants for gross proceeds of $12,480.

iv) issued 404,722 common shares to settle debt of $113,322.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL *(Cont'd)*

Stock options

Under the Company's rolling stock option plan, the Company may grant options, with a maximum term of ten years, for up to 10% of the Company's issued and outstanding common shares, to directors, officers, employees and consultants at exercise prices to be determined by the market value on the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Incentive stock options issued have an immediate vesting term, unless vesting is imposed by the Company's board of directors.

During the year ended June 30, 2021, the Company received proceeds of $315,427 (2020 - $170,000) from the exercise of 736,694 (2020 – 1,690,000) stock options. The Company transferred $168,867 (2020 - $156,141) to share capital from share-based payment reserve.

A summary of the Company's outstanding share purchase options as at June 30, 2021 and the changes during the year are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2019	5,373,836	$0.33
Granted	880,000	0.25
Exercised	(1,690,000)	0.10
Expired / Cancelled	(897,250)	0.40
Balance, June 30, 2020	3,666,586	0.40
Granted	4,871,500	0.69
Exercised	(736,694)	0.43
Expired / Cancelled	(426,267)	0.62
Balance, June 30, 2021	7,375,125	$0.57

(Expressed in Canadian Dollars)

11. SHARE CAPITAL *(Cont'd)*

Stock options *(Cont'd)*

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

	June 30, 2021	June 30, 2020
Annualized volatility	93.02%	107.02%
Risk-free interest rate	0.87%	1.27%
Dividend rate	0%	0%
Expected life of options	7.28 years	7.65 years
Forfeiture rate	0%	0%
Fair value per stock option	$ 0.55	$ 0.22

The following incentive stock options were outstanding to directors, officers and employees at June 30, 2021:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Exercise Price ($)
200,000	0.41	July 21, 2021	200,000	0.41
400,000	0.32	December 14, 2021	400,000	0.32
221,875	1.13	March 1, 2022	221,875	1.13
135,000	0.35	February 15, 2023	135,000	0.35
273,350	0.70	March 16, 2023	273,350	0.70
20,000	0.20	May 29, 2024	20,000	0.20
830,000	0.20	May 29, 2029	830,000	0.20
200,000	0.31	July 23, 2029	200,000	0.31
605,000	0.23	May 29, 2030	403,333	0.23
833,400	0.59	November 5, 2025	273,400	0.59
1,087,500	0.59	November 5, 2030	362,500	0.59
1,144,000	0.66	June 30, 2026	381,333	0.66
1,425,000	0.90	June 30, 2031	475,000	0.90
7,375,125	0.57		4,175,791	0.50

Share-based compensation

The Company recognizes compensation for all stock options granted using the fair value based method of accounting. During the year ended June 30, 2021, the Company recognized $1,358,934 (2020 - $192,174) in share-based compensation expense for stock options issued in the current and previous years.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL *(Cont'd)*

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2019	24,505,803	$0.38
Granted	16,886,066	0.29
Exercised	(48,000)	0.26
Expired / Cancelled	(5,712,198)	0.51
Balance, June 30, 2020	35,631,671	0.32
Granted	21,308,095	0.74
Exercised	(27,098,266)	0.33
Expired / Cancelled	(371,214)	0.45
Balance, June 30, 2021	29,470,286	$0.62

At June 30, 2021, the following warrants and Agent's warrants were outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
8,815,591	0.31	August 12, 2022
14,265,806	0.48	September 16, 2022
6,388,889	1.35	June 10, 2023
29,470,286	0.62	

(Expressed in Canadian Dollars)

11. SHARE CAPITAL *(Cont'd)*

Warrants *(Cont'd)*

During the year ended June 30, 2021 there were no finder warrants or bonus warrants issued.

During the year ended June 30, 2020, the Company recognized compensation for finders warrants granted using the Black-Scholes option pricing model, resulting in $15,025 being included in share issuance costs.

During the year ended June 30, 2020, the Company recognized compensation for bonus warrants granted pursuant to the loan agreement using the Black-Scholes option pricing model (Note 8).

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

	June 30, 2021	June 30, 2020
Annualized volatility	-	73.63%
Risk-free interest rate	-	1.66%
Dividend rate	-	0%
Expected life of warrant	-	1 year
Forfeiture rate	-	0%
Fair value per warrant	-	$ 0.06

Compensation Options

During the year ended June 30, 2021, the Company recognized compensation for broker compensation units using the Black-Scholes option pricing model with the following assumptions: weighted risk free interest rate 0.27%, expected life of 2 years, annualized volatility 95.28% and dividend rate at nil. This resulted in $947,111 (2020 - $Nil) being included in share issuance costs.

A summary of the Company's outstanding compensation options as at June 30, 2021 and the changes during the period are presented below:

	Number of Compensation Options	Weighted Average Exercise Price
Balance, June 30, 2020 and 2019	-	$ -
Granted	2,143,174	0.52
Exercised	(423,415)	0.34
Expired / Cancelled	-	-
Balance, June 30, 2021	1,719,759	$ 0.56

(Expressed in Canadian Dollars)

11. SHARE CAPITAL *(Cont'd)*

Compensation Options *(Cont'd)*

At June 30, 2021, the following broker compensation options were outstanding:

Number of Compensation Options	Exercise Price ($)	Expiry Date
1,047,368	0.34	September 16, 2022
672,391	0.90	June 10, 2023
1,719,759	0.56	

12. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and entities that are controlled by these individuals.

As at June 30, 2021, accounts payable and accrued liabilities included $134,337 (2020 - $124,249) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

During the year ended June 30, 2021, related party transactions include the following payments:

	YEAR ENDED JUNE 30, 2021	2020
Management and consulting fees	$ 981,889	$ 335,381
Share-based payments [1]	1,055,389	178,416
	$ 2,037,278	$ 513,797

(1) Share-based compensation expense is the fair value of options granted which have been calculated using the Black-Scholes option-pricing model and the assumptions disclosed in Note 9.

(2) Included in management and consulting fees were $401,789, $580,100 was capitalized as Exploration and evaluation assets.

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended June 30, 2021 included:

a) A balance of $473,713 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Compensation options issued pursuant to a brokered private placement valued at $947,111.

c) Borrowing costs of $55,882 capitalized as exploration and evaluation assets.

d) A balance of $90,907 included in accounts payable related to share issuance costs.

Significant non-cash transactions for the year ended June 30, 2020 included:

a) A balance of $48,308 included in exploration and evaluation assets relating to accounts payable and accrued liabilities.

b) Bonus warrants issued pursuant to loan agreement valued at $137,591.

c) Borrowing costs of $291,668 capitalized as exploration and evaluation assets.

d) Issuance of 404,722 common shares to settle debt of $113,322.

e) Write off of VAT in the amount of $29,730 capitalized as exploration and evaluation assets.

(Expressed in Canadian Dollars)

14. INCOME TAXES

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

		2021		2020
Loss before income taxes for the year	$	(2,938,042)	$	(1,253,334)
Expected income tax recovery	$	(793,000)	$	(338,000)
Change in statutory, foreign tax, foreign exchange rates and other		(568,000)		509,000
Permanent differences		391,000		(226,000)
Share issuance costs		(411,000)		(25,000)
Adjustment of prior year tax attributes		463,000		(153,000)
Change in unrecognized deductible temporary differences and other		918,000		233,000
Total income tax expense	**$**	**-**	**$**	**-**

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

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

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

		2021		2020
Deferred Tax Assets (Liabilities)				
Exploration and evaluation assets	$	(3,245,000)	$	(2,234,000)
Non-capital losses		3,209,000		2,198,000
Net deferred tax liability	**$**	**(36,000)**	**$**	**(36,000)**

(Expressed in Canadian Dollars)

14. INCOME TAXES (*Cont'd*)

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2021	2020
Deferred Tax Assets		
Property and equipment	$ 121,000	$ 121,000
Share issue costs and other	356,000	56,000
Non-capital losses available for future period	2,456,000	1,838,000
	2,933,000	2,015,000
Unrecognized deferred tax assets	(2,933,000)	(2,015,000)
Net deferred tax assets	**$ -**	**$ -**

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

	2021	Expiry Date Range	2020	Expiry Date Range
Temporary Differences				
Equipment	$ 448,000	No expiry	$ 448,000	No expiry
Share issue costs and other	1,318,000	2042 to 2045	206,000	2041 to 2044
Non-capital losses available for future periods				
Canada	7,931,000	2028 to 2041	6,147,000	2028 to 2040
USA	10,000	No expiry	-	2039
Mexico	$ 1,042,000	2022 to 2031	$ 595,000	2021 to 2030

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

15. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets in Mexico. All of the costs at June 30, 2021 and June 30, 2020 were for exploration and evaluation assets in Mexico.

16. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

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

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held at large Canadian financial institutions in interest bearing accounts. The Company has no investment in asset backed commercial paper.

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2021, the Company had cash of $20,831,725 (2020 - $569,031) to settle current liabilities of $1,271,741 (2020 - $2,083,081). The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

Market risk

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

a) Interest rate risk

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

16. FINANCIAL AND CAPITAL RISK MANAGEMENT *(Cont'd)*

b) Foreign currency risk

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

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

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

Based on the Company's net exposures as at June 30, 2021 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of $40,959 in the Company's net earnings. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican peso would result in a decrease/increase of $127,280 in the Company's net earnings.

c) Price risk

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

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

Capital management

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

There were no changes in the Company's approach to capital management.

17. CONTINGENCY

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

18. SUBSEQUENT EVENT

Subsequent to June 30, 2021, the Company issued 200,000 common shares pursuant to exercise of stock options for gross proceeds of $82,000.