# AUXICO RESOURCES CANADA INC.

## CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2022 AND 2021

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## CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2022 AND 2021

**Contents**

## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of
Auxico Resources Canada Inc.,

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Audit Committee is composed in majority of Directors who are neither management nor employees of the Company. The Committee is responsible for overseeing management in the performance of its financial reporting responsibilities. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

BDO Canada s.r.l./S.E.N.C.R.L., Chartered Professional Accountants, has been appointed to audit the consolidated financial statements and their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board, the Audit Committee and management to discuss their audit findings.

March 6, 2023

*/s/ Frederick Kozak*
President & CEO

Tél./Tel: 514 931 0841
Téléc./Fax: 514 931 9491
www.bdo.ca

BDO Canada s.r.l./S.E.N.C.R.L./LLP
1000, rue De La Gauchetière O. Bureau 200
Montréal QC H3B 4W5 Canada

# Independent Auditor's Report

To the Shareholders of
Auxico Resources Canada Inc.

## Opinion

We have audited the consolidated financial statements of Auxico Resources Canada Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at September 30, 2022 and 2021, and the consolidated statements of income (loss) and comprehensive income (loss), changes in deficiency and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2022 and 2021, 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 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 Group 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 2 in the consolidated financial statements, which indicates that the Group has a deficiency attributable to shareholders of $30,288,892 as at September 30, 2022. These events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Emphasis of Matter – Restated Comparative Information

We draw attention to note 29 to the consolidated financial statements, which explains that certain comparative information presented for the year ended September 30, 2021 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended September 30, 2021 (prior to the adjustments that were applied to restate certain comparative information explained in note 29) were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 24, 2022.

# Independent Auditor's Report

As part of our audit of the consolidated financial statements for the year ended September 30, 2022, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review of apply any procedures to the consolidated financial statements for the year ended September 30, 2021. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

## Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the 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 identified above 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 the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 these 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 Group'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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's audit. We remain solely responsible for the audit opinion.

# Independent Auditor's Report

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 Richard Yeghiayan.

BDO Canada s.r.l./S.E.N.C.R.L./LLP [1]

Montréal, Québec
March 6, 2023

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[1] CPA auditor, public accountancy permit No. A122867

**AUXICO RESOURCES CANADA INC.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Expressed in Canadian Dollars, other then share numbers)

| As at, | September 30, 2022 | September 30, 2021 (Restated note 29) | October 1, 2020 (Restated note 29) |
|---|---|---|---|
| | $ | $ | $ |
| **ASSETS** | | | |
| ***Current assets*** | | | |
| Cash | **2,115,889** | 2,563,533 | 288,780 |
| Receivables (note 6 & 22) | **676,939** | 254,810 | 103,733 |
| Promissory notes (note 7) | **200,000** | - | - |
| Prepaid expenses and deposits (note 8) | **185,526** | 1,321,870 | 156,469 |
| Inventory (note 10) | **-** | 126,776 | 47,171 |
| Advances to directors (note 23) | **3,098** | 3,098 | 3,098 |
| Advances to a joint operation | **-** | - | 288,360 |
| Advances to companies controlled by a director (note 23) | **364,464** | - | 8,646 |
| | **3,545,916** | 4,270,087 | 896,257 |
| ***Non-current assets*** | | | |
| Equipment (note 12) | **81,662** | - | - |
| Prepaid expenses and deposits (note 8) | **500,000** | 500,000 | - |
| Other assets (note 9) | **680,019** | 225,090 | - |
| Exclusive sales agency distribution agreement (note 13) | **561,150** | - | - |
| Conversion right (note 13) | **693,000** | - | - |
| **TOTAL ASSETS** | **6,061,747** | 4,995,177 | 896,257 |
| **LIABILITIES** | | | |
| ***Current liabilities*** | | | |
| Accounts payable and accruals | **1,977,326** | 339,958 | 582,942 |
| Due to companies controlled by a director | **-** | 12,733 | 34,000 |
| Due to directors (note 23) | **-** | 3,883 | 36,530 |
| Farm-out agreement debt (note 14) | **798,280** | 759,640 | 782,400 |
| Current portion of finder's fees payable (note 15) | **218,724** | 224,988 | - |
| Convertible debentures (note 16) | **20,639,170** | 66,232 | 215,433 |
| | **23,633,500** | 1,407,434 | 1,651,305 |
| ***Non-current liabilities*** | | | |
| Deferred income tax liabilities | **-** | - | 70,972 |
| Long-term finder's fees payable (note 15) | **-** | 159,601 | - |
| Convertible debentures (note 16) | **12,716,048** | 77,870,781 | 4,565,348 |
| **Total Liabilities** | **36,349,548** | 79,437,816 | 6,287,625 |
| **SHAREHOLDERS' DEFICIENCY** | | | |
| Issued capital | **29,947,709** | 20,880,617 | 4,972,177 |
| Deficit | **(60,236,601)** | (95,324,343) | (10,365,577) |
| Equity attributable to non-controlling interests | **1,091** | 1,087 | 2,032 |
| **Total Deficiency** | **(30,287,801)** | (74,442,639) | (5,391,368) |
| **TOTAL LIABILITIES & DEFECIENCY** | **6,061,747** | 4,995,177 | 896,257 |

Going Concern (note 2), Commitments (note 28) and Subsequent Events (note 30)

***Approved on behalf of the Board:***

**Pierre Gauthier, Director**

**Mark Billings, Director**

The accompanying notes form an integral part of the consolidated financial statements.

**AUXICO RESOURCES CANADA INC.**
**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**
**For the years ended September 30, 2022 and 2021**
(Expressed in Canadian Dollars, other then share numbers)

| | **September 30, 2022** | September 30, 2021 |
|---|---|---|
| | | *(Restated note 29)* |
| | **$** | $ |
| Sales | **-** | 768,544 |
| Sales commissions | **448,049** | - |
| Cost of sales | **126,776** | 1,252,240 |
| Gross margin (loss) | **321,273** | (483,696) |
| Selling and administrative expenses (note 25) | **10,927,949** | 4,356,899 |
| **Loss before net finance earnings (costs) and income taxes** | **(10,606,676)** | (4,840,595) |
| Finance income | **12,327** | 4,196 |
| Finance costs (note 26) | **(1,677,607)** | (1,507,181) |
| Fair value adjustment of the embedded derivatives (note 16) | **47,359,702** | (77,207,508) |
| Net finance earnings (costs) | **45,694,422** | (78,710,493) |
| **Income (loss) before income taxes** | **35,087,746** | (83,551,088) |
| **Income taxes** | | |
| Deferred (recovered) income taxes | **-** | (70,972) |
| **Net income (loss) and comprehensive income (loss)** | **35,087,746** | (83,480,116) |
| *Net income (loss) and comprehensive income (loss) attributable to:* | | |
| Shareholders | **35,087,742** | (83,479,171) |
| Non-controlling interests | **4** | (945) |
| | **35,087,746** | (83,480,116) |
| **Income (loss) per share to equity holders of Auxico Resources Canada Inc.** | | |
| Basic | **0.51** | (1.52) |
| Diluted (note 18) | **0.48** | (1.52) |
| **Weighted average number of shares outstanding** | | |
| Basic | **68,904,453** | 54,815,945 |
| Diluted (note 18) | **73,760,481** | 54,815,945 |

The accompanying notes form an integral part of the consolidated financial statements.

**AUXICO RESOURCES CANADA INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY**
**For the year ended September 30, 2022**
(Expressed in Canadian Dollars, other then share numbers)

| | TOTAL EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **SHARE CAPITAL (note 17)** | | **WARRANTS (note 17)** | **CONTRIBUTED SURPLUS** | **EQUITY COMPONENT OF THE CONVERTIBLE DEBENTURES** | **DEFICIT** | **TOTAL EQUITY (DEFICIENCY)** | **NON CONTROLLING INTERESTS** |
| | # | $ | $ | $ | $ | $ | $ | $ |
| **Balance, as at September 30, 2021** (Restated note 29) | **65,014,000** | **16,210,067** | **2,431,549** | **2,239,001** | **-** | **(95,324,343)** | **(74,443,726)** | **1,087** |
| Shares and warrants issued in a private placement | 3,538,776 | 2,504,721 | 1,279,007 | - | - | - | 1,279,007 | - |
| Issuance costs - Private placement | - | (304,329) | (136,274) | - | - | - | (136,274) | - |
| Conversion of debentures | 515,410 | 1,567,564 | 187,211 | - | - | - | 1,754,775 | - |
| Stock-options exercised | 1,450,000 | 587,412 | - | (246,661) | - | - | 340,751 | - |
| Warrants issued | - | - | 769,200 | - | - | - | 769,200 | - |
| Warrants exercised | 1,072,010 | 581,972 | (375,510) | - | - | - | 206,462 | - |
| Issuance of convertible debentures | - | - | - | - | 117,949 | - | 117,949 | - |
| Share-based compensation | - | - | - | 2,534,830 | - | - | 2,534,830 | - |
| Net income and comprehensive income | - | - | - | - | - | 35,087,742 | 35,087,742 | 4 |
| **Balance, as at September 30, 2022** | **71,590,196** | **21,147,407** | **4,155,183** | **4,527,170** | **117,949** | **(60,236,601)** | **(30,288,892)** | **1,091** |



The accompanying notes form an integral part of the consolidated financial statements.

**AUXICO RESOURCES CANADA INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY**
**For the year ended September 30, 2021**
(Expressed in Canadian Dollars, other then share numbers)

**TOTAL EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS**

| | SHARE CAPITAL (note 17) # | SHARE CAPITAL (note 17) $ | WARRANTS (note 17) $ | CONTRIBUTED SURPLUS $ | EQUITY COMPONENT OF THE CONVERTIBLE DEBENTURES $ | DEFICIT $ | TOTAL EQUITY (DEFICIENCY) $ | NON CONTROLLING INTERESTS $ |
|---|---|---|---|---|---|---|---|---|
| **Balance, as at September 30, 2020** | **44,885,000** | **4,972,177** | **399,223** | **1,080,372** | **-** | **(11,845,172)** | **(5,393,400)** | **2,032** |
| Shares and warrants issued in a private placement | 9,744,000 | 3,371,266 | 1,500,734 | - | - | - | 4,872,000 | - |
| Issuance costs - private placement | - | (207,450) | (92,347) | - | - | - | (299,797) | - |
| Issuance costs - convertible debentures | - | - | 56,136 | - | - | - | 56,136 | - |
| Stock-options exercised | 895,000 | 420,540 | - | (179,790) | - | - | 240,750 | - |
| Warrants exercised | 4,300,000 | 1,940,454 | (735,454) | - | - | - | 1,205,000 | - |
| Warrants expired | - | - | (135,583) | 135,583 | - | - | - | - |
| Conversion of debentures | 5,190,000 | 5,713,080 | 1,438,840 | - | - | - | 7,151,920 | - |
| Share-based compensation | - | - | - | 1,202,836 | - | - | 1,202,836 | - |
| Net loss and comprehensive loss | - | - | - | - | - | (83,479,171) | (83,479,171) | (945) |
| **Balance, as at September 30, 2021** (Restated note 29) | **65,014,000** | **16,210,067** | **2,431,549** | **2,239,001** | **-** | **(95,324,343)** | **(74,443,726)** | **1,087** |



The accompanying notes form an integral part of the consolidated financial statements.

**AUXICO RESOURCES CANADA INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in Canadian Dollars, other then share numbers)

| | **September 30, 2022** | September 30, 2021 |
|---|---|---|
| | | *(Restated note 29)* |
| | **$** | $ |
| **Cash flows used in operating activities** | | |
| Net income (loss) and comprehensive income (loss) | **35,087,746** | (83,480,116) |
| Depreciation | **34,789** | - |
| Amortization exclusive sales agency distribution agreement | **187,050** | - |
| Share-based compensation | **2,534,830** | 1,202,836 |
| Bad debts | **37,479** | 10,352 |
| Professional fees paid with warrants | **769,200** | - |
| Write-off of sales tax receivable | **43,638** | 18,634 |
| Write-down of inventory prepayments | **1,200,785** | - |
| Unrealized foreign exchange loss | **(30,860)** | (7,666) |
| Impairment on advance to a joint operation | **-** | 400,067 |
| Loss on debt settlement | **-** | (98,147) |
| Write-down on inventory | **126,776** | 26,535 |
| Fair value adjustment of the embedded derivatives (note 16) | **(47,359,702)** | 77,207,508 |
| Deferred income tax expense | **-** | (70,972) |
| Accreted interest | **1,199,756** | 456,848 |
| Transaction costs | **-** | 780,518 |
| Fair value adjustment of the conversion option | **(124,700)** | - |
| Provision on prepayment of inventory | **-** | 116,000 |
| Net changes in non-cash working capital items (note 24) | **685,884** | (2,151,575) |
| | **(5,607,329)** | (5,589,178) |
| **Cash flows used in investing activities** | | |
| Advance to directors | **-** | (32,647) |
| Advances to companies controlled by a director | **(364,464)** | 8,646 |
| Advances to a joint operation | **-** | (126,060) |
| Promissory notes to third party | **(200,000)** | - |
| Acquisition of other assets | **(71,133)** | (225,090) |
| Acquisition of exclusive sales agency distribution agreement and conversion right | **(1,247,000)** | - |
| Acquisition of equipment | **(116,451)** | - |
| | **(1,999,048)** | (375,151) |
| **Cash flows from financing activities** | | |
| Due to companies controlled by a director | **(12,733)** | (21,267) |
| Due to directors | **(3,883)** | - |
| Finder's fees payable | **(224,988)** | (198,561) |
| Exercise of warrants | **206,462** | 1,205,000 |
| Exercise of options | **340,751** | 240,750 |
| Proceeds from issuance of units, net of issuance cost | **3,343,124** | 4,409,528 |
| Proceeds from issuance of convertible debentures, net of issuance cost | **3,510,000** | 2,603,528 |
| | **7,158,733** | 8,238,978 |
| **Increase (decrease) in cash** | **(447,644)** | 2,274,649 |
| Cash beginning of the year | **2,563,533** | 288,780 |
| Effect of foreign exchange rate fluctuations on cash | **-** | 104 |
| **Cash end of the year** | **2,115,889** | 2,563,533 |
| **Supplemental information** | | |
| Interest paid | **334,877** | 153,192 |

## 1. GENERAL INFORMATION AND NATURE OF OPERATIONS

Auxico Resources Canada Inc. ("Auxico" or the "Company") was incorporated under the Canada Business Corporations Act on April 16, 2014.

Auxico has four subsidiaries, Auxico Resources S.A. de C.V., incorporated under the laws of Mexico on June 16, 2011, C.I. Auxico de Colombia S.A., incorporated under the laws of Colombia on April 9, 2019, Sociedad Minera Auxico S.A.S., incorporated under the laws of Colombia on May 11, 2022 and Minera Auxico Bolivia S.A., incorporated under the laws of Bolivia on December 8, 2021.

Auxico is a mineral exploration company with silver-gold properties in the state of Sinaloa, Mexico. The Company is also actively engaged in exploration mining opportunities in Colombia, the Democratic Republic of the Congo ("DRC") as well as Brazil and Bolivia.

The Company's head office and primary place of business is located at 500-201 Notre-Dame Street West, Montréal, Québec, H2Y 1T4, Canada.

## 2. GOING CONCERN

These financial statements were prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for a reasonable period of time.

The business of mining exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in its mining properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Although the Company has taken steps to verify the title to the properties on which it is conducting exploration and has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, aboriginal claims and non-compliance with regulatory requirements.

Several adverse conditions and events cast substantial doubt upon the validity of this assumption. For the year ended September 30, 2022, although the Company did generate revenues of $448,049 (September 30, 2021 - $768,544) from its operations, but incurred a loss before net finance earnings (costs) and income taxes of $10,606,676 (2021 – $4,840,595) and has a deficiency attributable to shareholders of $30,288,892 as at September 30, 2022 (September 30, 2021 – $74,443,726). Its ability to continue as a going concern is uncertain and is dependent upon its ability to fund its working capital, complete the development of its explorations, and eventually to generate positive cash flows from operations. Accordingly, there is a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

Management plans to explore all alternatives possible, including joint ventures, debt and equity financings, and merger opportunities. In that regard, the Company has entered an agreement in the Democratic Republic of the Congo ("DRC") for the supply of tantalite. The Company has also entered into agreements with Brazilian suppliers to purchase a quantity of columbite. In addition, subsequent to year-end the Company signed an agreement with an entity in Colombia that will lead to the production of rare earth elements.

Global equity markets have experienced significant volatility and periodic weakness due to rising inflation and interest rates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

The recent news on the development and rapid implementation of several vaccines which appear to have very good efficacy against the virus has generated considerable optimism. While it is clear that the global pandemic is not over, it appears that investors and the general public are learning to live with the fact of the pandemic.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern and, accordingly, they do not reflect the adjustments, if any, that may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business.

## 3. BASIS OF PREPARATION

### Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 6, 2023.

### Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated statement of financial position:

- Derivative liabilities and the conversion right are measured at fair value.

The consolidated financial statements have been prepared on a going concern basis, meaning the Company would be able to realize its assets and discharge its liabilities in the normal course of action.

### Basis of consolidation

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company. The Company’s subsidiaries, as at September 30, are:

| | **2022** | 2021 |
|---|---|---|
| Auxico Resources S.A. de C.V. (“Auxico Mexico”) | **100%** | 100% |
| C.I. Auxico de Colombia S.A (“Auxico Colombia”) | **96%** | 96% |
| Sociedad Minera Auxico S.A.S (“Auxico Colombia New”) | **100%** | - |
| Minera Auxico Bolivia S.A (“Auxico Bolivia”) | **100%** | - |

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net income (loss) and comprehensive income (loss) is recognized directly in deficiency.

Operating segments are reported in a manner consistent with the internal reporting of the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the management team, which makes strategic decisions.

### Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The parent company’s functional currency is Canadian dollars. The functional currency of the subsidiaries is also Canadian dollars.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Revenue recognition

The revenue from sale of ore concentrate is recognized at an amount that reflects the consideration that the Company expects to receive. The Company established a five-step model to account for revenue arising from contracts with customers: to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. The Company exercises judgment, taking into consideration all of the relevant facts and circumstances when applying each step of revenue recognition model to contracts with customers.

The revenue from sales commissions is recognized when the Company is notified from its customer that the sales has been completed, the final invoice issued and the payment is received.

Where a revenue arrangement includes consideration payable to a customer it is recorded as a reduction of the arrangement's transaction price. The payment is currently recognized as a contract asset and will reduce future revenue recognized over time during the life of the agreement.

### Issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise, they are expensed as incurred. The Company charges share issue costs to share capital and debentures when the related financial instruments are issued. Deferred issue costs related to financing transactions that are not completed are charged to expenses as well as issuance cost affected to financial instruments classified at fair value through profit or loss.

### Share-based compensation

A share-based compensation plan has been granted by the Company to its directors, officers and employees. Share-based compensation expense is measured based on the fair value at the grant date and recognized over the period that the employees unconditionally become entitled to the awards with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

Upon the exercise of the options, any consideration received from plan participants is credited to share capital; the amount originally credited to contributed surplus is also reclassified to share capital.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the services.

### 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 common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive.

**Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statements of income (loss) and comprehensive income (loss) in the period in which they arise, except when deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of income (loss) and comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

**Mining properties and exploration and evaluation expenditures**

Exploration and evaluation (E&E) expenditures include rights in mining properties and costs related to the initial search for mineral deposits with economic potential. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in net income (loss) when they are incurred.

E&E expenditures also include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Expenditures relating to E&E activities are expensed as incurred.

E&E include costs related to establishing the technical and commercial viability of extracting a mineral resource. E&E include the cost of:

- 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 source or a proven and probable reserve;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

The E&E expenses are recorded in the consolidated statement of loss and comprehensive loss until such time as the technical feasibility and commercial viability has been established that supports the future development of the property.

**Equipment**

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The acquisition cost includes the purchase price or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is recognized under the straight-line method to write-down the cost to its estimated residual value, over the useful life of the assets. Assets are depreciated once they are available for use. The depreciation of equipment is calculated over three years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

**Financial instruments**

*(i) Financial assets*

Financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified and valued according to three categories: at amortized cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured according to two categories: at amortized cost or at FVTPL. In accordance with IFRS 9, derivatives embedded in contracts where the host contract is a financial asset falling within the scope of the standard are not separated, but the hybrid financial instrument as a whole is valued for the purposes of ranking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. Financial assets at FVTOCI are stated at fair value, with any gains or losses arising on re-measurement recognized through other comprehensive income. Debt instruments are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company has classified all of its financial assets as follows:

| Financial Assets | Classification | Subsequent Measurement |
|---|---|---|
| Cash | Debt instruments | Amortized cost |
| Receivables | Debt instruments | Amortized cost |
| Advances to directors | Debt instruments | Amortized cost |
| Advances to companies controlled by a director | Debt instruments | Amortized cost |
| Conversion right (note 13) | FVTPL | FVTPL |
| Promissory notes | Debt instruments | Amortized cost |

*(ii) Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired if there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

*(iii) Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

*(iv) Financial liabilities and equity instruments issued by the Company*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the amount of proceeds received, net of direct issue costs.

*(v) Financial liabilities issued by the Company*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Derivative instruments are measured at FVTPL even though they are not held for trading or designated as such.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or if it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or if it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive loss.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

The Company has classified all of its financial liabilities as follows:

| Financial Liabilities | Classification | Subsequent Measurement |
|---|---|---|
| Accounts payable and accruals | Other financial liability | Amortized cost |
| Due to companies controlled by a director | Other financial liability | Amortized cost |
| Due to directors | Other financial liability | Amortized cost |
| Finder's fees payable | Other financial liability | Amortized cost |
| Farm-out agreement | Other financial liability | Amortized cost |
| Long-term debt | Other financial liability | Amortized cost |
| Convertible debentures – Host component | Other financial liability | Amortized cost |
| Convertible debentures 2020 and 2021 – Conversion option (note 16) | FVTPL | Fair value |
| Convertible debentures – Participating feature (note 16) | FVTPL | Fair value |

*(vi) Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

*(vii) Extinguishment of financial liabilities with equity instruments*

In accordance with IFRIC 19, when debt is extinguished with equity, the difference between the carrying amount of the debt extinguished and the fair value of the equity is recognized in the consolidated statement of loss and comprehensive loss, unless the settlement was determined to be a transaction with an owner, in which case the difference is recognized in the equity.

**Income taxes**

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically valuates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax*

Deferred income tax is recorded using the asset and liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Inventory and inventory prepayment**

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the FIFO (first in, first out) method. The cost of inventory comprises costs of purchase incurred in bringing the inventory to their present location and condition. The costs of purchase include the purchase price, non-recoverable taxes, transport, handling and other costs directly attributable to the acquisition of finished goods. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. If the cost exceeds net realizable amount, a provision is recognized. The provision may be reversed in a subsequent period if the circumstances which caused the write down no longer exist.

**Leases**

Lease contracts which contain the legal form of a lease are classified as either finance or operating leases. Finance lease represent leases that transfer substantially all of the risks and rewards of ownership of the leased asset. To assess whether a contract transfers substantially all the risks and rewards of ownership of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (less than $8,000). The lease payments associated with these leases are classified as operating lease and are recognized as an expense on a straight-line basis over the lease term.

**Standards issued but not yet effective**

At September 30, 2022, a number of new standards, amendments to standards and interpretations have been issued but are not yet effective. Accordingly, they have not been applied in preparing these consolidated financial statements. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective that are expected to be relevant to the Company's consolidated financial statements are provided below.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements and are not listed.

*i) <u>Amendments to IAS 1 – Classification of Liabilities as Current or Non-current</u>*

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The Company is currently assessing the impact on its consolidated financial statements.

*ii*) *Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of deficit or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after October 1, 2022, with early application permitted. The Company is currently assessing the impact on its consolidated financial statements.

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting year. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates. The areas which require management to make significant judgments or estimates and assumptions in determining carrying values include, but are not limited to:

i) *Going concern*

The assessment of the Company's ability to raise sufficient funds to finance its exploration and administrative expenses involves judgment. 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.

ii) *Convertible debentures*

The convertible debentures issued by the Company in Fiscal 2020 and 2021 include conversion options as well as a participating feature on net profits generated by the Company, which are considered as Level 3 financial instruments, both classified as derivative liabilities. The derivative components are initially measured at fair value and subsequently measured at fair value through profit and loss, with subsequent changes in fair value recorded in the statement of loss and comprehensive loss. The host liability component was initially measured at the residual amount, after deducting the fair value of the derivative components from the transaction price, and is subsequently measured at amortized cost using the effective interest method. The Monte Carlo simulation (using the Black-Scholes framework) is used to estimate the fair value of the conversion option and the discounted cash flow analysis is used to estimate the fair value of the participation option. Detailed assumptions used in the model to determine the fair value of the embedded derivative as of September 30, 2022, are provided in note 16.

**(Expressed in Canadian Dollars)**

Also, the evaluation of the embedded derivatives contains a high level of incertitude and several estimates such as the price of the shares of a private company, the profits that will be generated from the future sales, the correlation between the two conversion options as well as the rationale that there will be no sub-optimal behavior from holders of the convertible debentures.
For the convertible debenture issued in Fiscal 2022, the Company determined the fair value of the liability component and the residual amount of the transaction price is allocated to the equity component.

Estimating the fair value of the liability component requires the use of assumptions, the most significant being the discount rate. The Company needs to determine the discount rate that reflects the interest rate that the Company would get for entering into a liability with similar terms but without any conversion feature (see note 16).

iii) *Determination of deferred income taxes*

The carrying amount of deferred income tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be used. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered. There is no certainty that future income tax rates will be consistent with current estimates. Changes in tax rates increase the volatility of the Company's earnings.

iv) *Black-Scholes valuation*

The calculation of the fair value of units, stock options and warrants granted require management to make estimates and assumptions, the most significant being related to the volatility of the underlying common share. Expected volatility was based on the Company's historical volatility if it was available for the life of the grant. Where the Company does not have sufficient history of being publicly traded, the volatility was determined based on the Company's historical volatility and the historical volatility of comparable publicly traded companies. The Company has estimated the expected life of grants as being their contractual life given the limited history of early exercises.

v) *Net realizable value of inventory and inventory prepayment*

The Company reviews the carrying value of inventory regularly to ensure that their cost does not exceed net realizable value. In determining net realizable value, various factors are taken into account, including sales prices and costs to complete inventory to their final form.

## 6. RECEIVABLES

| As at, | **September 30, 2022** | September 30, 2021 |
|---|---|---|
| | **$** | $ |
| Trade accounts receivable (note 23) | **515,145** | - |
| Sales tax receivable | **86,853** | 205,656 |
| Subscription receivable | **-** | 11,675 |
| Supplier reimbursement (a) | **-** | 37,479 |
| Other receivables | **74,941** | - |
| | **676,939** | 254,810 |

(a) The supplier reimbursement consists of a prepayment of inventory for which the Company and the supplier agreed on a reimbursement schedule. As of September 30, 2021, the gross amount receivable totals $39,390 on which a $1,911 provision was recorded. The provision was estimated based on facts known to the Company for the year ended September 30, 2021. As of September 30, 2022, the Company increased the provision to $37,479.

**(Expressed in Canadian Dollars)**

## 7. PROMISSORY NOTES

In February 2022, the Company advanced $200,000 through promissory notes to a third-party. The promissory notes bear interest at the rate of 10% and was due to be reimbursed by September 30, 2022. Subsequent to year-end, the promissory notes were paid by the third-party with interest.

## 8. PREPAID EXPENSES

| As at, | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| Inventory prepayment (a) | **-** | 1,200,785 |
| Prepaid to related company (b) | **500,000** | 500,000 |
| Other prepaid expenses | **185,526** | 121,085 |
| | **685,526** | 1,821,870 |
| Current portion | **185,526** | 1,321,870 |
| Long-term portion | **500,000** | 500,000 |

(a) Inventory prepayment
According to the term of contracts with its suppliers, these prepayments do not qualify as inventory as per IAS 2. However, the Company measured these prepayments at the lower of the cost and net realizable value; this was written down to $Nil, given the uncertainty of collectability. The Company has written down prepaid expenses by $1,200,785 and recorded the same amount as an expense on the statement of net income (loss) and comprehensive income (loss). This amount relates to advances made to JBNX, a Brazilian company, for the purchase of manganese by that entity. As the Company still has not received the manganese over two years after the advances were made, and given the uncertainties concerning the collectability of this amount from JBNX, the Company has decided to write down the entire amount advanced to JBNX.

(b) Prepaid to related company
On July 28, 2021, the Company signed an agreement with a related company to use the license developed by the related company for a period of 10 years upon the signing of the agreement. The Company had to pay a deposit of $500,000 that will be applied against future license royalties.

## 9. OTHER ASSETS

| As at, | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| Deposit on Minastyc property (a) | **235,375** | 225,090 |
| Deposit on Agualinda property (b) | **444,644** | - |
| | **680,019** | 225,090 |

(a) Deposit on Minastyc property
On December 14, 2020, the Company signed an agreement to purchase a parcel of land in Colombia. As at September 30, 2022, the Company paid a total deposit of $235,375 ($225,090 as of September 30, 2021). However, the transfer of property of the land has not been completed at the date of these consolidated financial statements.

(b) Deposit on Agualinda property
On December 8, 2021, the Company announced the acquisition of the surface rights to 1,293 hectares of land titled Agualinda, located in the municipality of Puerto Carreño, in the department of Vichada, Colombia. The land adjoins the Minastyc property, which the Company agreed to purchase in December 2020. As per the signed agreement, the Company has the obligation to pay to the vendors a purchase price of US $315,000, which was payable as US$35,000 upon signature and $US280,000 upon completion of the succession documents.

**(Expressed in Canadian Dollars)**

As of September 30, 2022, the Company has made an initial payment of US$41,100 (or $53,000) and a payment of US$7,000 (or $7,848), for taxes and legal fees. The succession documents were completed therefore the amount of $US280,000 (or $383,796) is payable as of September 30, 2022 and was recorded accordingly. In addition, the Company has committed to pay a yearly fee in the amount of US$100,000 for a period of three years following the beginning of production.

## 10. INVENTORY

| As at, | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| Ore concentrates | **-** | 126,776 |

The cost of inventory recognized as an expense in the consolidated statement of loss and comprehensive loss under cost of sales during the year was $126,776 (September 30, 2021 - $583,635). For the year ended September 30, 2022, a write-down of $126,776 (September 30, 2021, $26,535) was recorded in the cost of sales.

## 11. ADVANCE TO KIBARA MINERALS

On June 2, 2020, the Company entered into a joint venture agreement with Kibara Minerals s.a.r.l. ("Kibara"), a company based in the DRC, concerning the trading of high-grade tantalum and niobium ores from the DRC. Kibara has exclusive supply agreements with local cooperatives in the DRC for the purchase of such ores. The Company has access to buyers worldwide for these ores.

Under the terms of the joint venture agreement for the export of tantalum and niobium-bearing ore from the DRC, the Company will provide financing of up to $1,000,000 (CAD) for the trading of these ores. These funds will be used for:

- Site mobilization for the resumption of production;
- Working capital for the extraction and purchase of ore;
- Transportation of the ore from deposit to the port of Matadi in the DRC;
- Related export taxes; and
- Warehousing of the ore.

Kibara will be responsible for managing the relationship with the cooperatives in the DRC and for sourcing the ore and obtaining the necessary permits and licenses for the export of this ore from the DRC. The profits generated from the trading of tantalum and niobium-bearing ores from the DRC will be shared by the two parties, with 70% going to the Company, with 30% going to Kibara. As at September 30, 2021, the Company had advanced $400,067 (September 30, 2020 - $288,360) to Kibara, which was impaired during Fiscal 2021 as the Company noted objective evidence that the estimated future cash flows of the advance had been affected.

## 12. EQUIPMENT

| | **$** |
|---|---|
| ***Equipment - at cost:*** | |
| As at October 1, 2021 | - |
| Additions during the year | 116,451 |
| **As at September 30, 2022** | **116,451** |
| ***Depreciation:*** | |
| As at October 1, 2021 | - |
| Depreciation during the year | 34,789 |
| **As at September 30, 2022** | **34,789** |
| **Net carrying amount as at September 30, 2022** | **81,662** |

**(Expressed in Canadian Dollars)**

## 13. EXCLUSIVE SALES AGENCY DISTRIBUTION AGREEMENT

On March 30, 2022, the Company signed an exclusive sales agency distribution agreement with Central America Nickel Inc. ''CAN'' (a company with common directors) for the sales of CAN's rare earths. The contract gives the Company the exclusive rights to distribute CAN's rare earths in exchange for a payment of $1,247,000 (US$1,000,000) that was paid on April 1, 2022. The term of the contract is for two years. The contract entitles the Company to receive a 15% commission on CAN'S rare earth gross revenues. The commission revenues for the year ended September 30, 2022 totalled $448,050. Anytime during the two year's contract period, the Company has the right to convert the full value of the $1M USD into the number of common shares of CAN resulting from a conversion ratio of $2CAD/common share based on the exchange rate on conversion date, otherwise this amount is not repayable by CAN. No additional payment is required to convert.

At inception, the fair value of the conversion right was estimated assuming a share price of $0.80 CAD for CAN and a number of shares of 623,500 resulting in an initial fair value of $498,800. At September 30, 2022, the fair value of the conversion right increased to $693,000, due to the variability in the number of shares resulting from changes in foreign exchange and a change in share price of CAN from $0.80 CAD to $1.00 CAD, resulting in a fair value gain of $124,700 which was recorded within selling and administrative expenses as a fair value change of the conversion option and a foreign exchange gain of $69,500.

## 14. FARM-OUT AGREEMENT DEBT

On April 7, 2017, the Company entered into a Gold Loan Settlement Agreement (the "Settlement Agreement") related to the June 13, 2013 Farm-Out Agreement. Pursuant to the Settlement Agreement, the Company agreed to pay US$400,000 and the number of common shares that would equate to $250,000 (based on the market price of the shares on the date of issuance). The Settlement Agreement was revised several times, with the most recent amendment being on September 1, 2019 pursuant to which the Company was to pay the amount on or before August 30, 2020. The amount remains unpaid and the shares have not yet been issued.

## 15. FINDER'S FEES PAYABLE

Following the issuance of convertible debentures (note 16), the Company signed a contract on December 30, 2020, with a third party to pay monthly finder's fees until the maturity date of the convertible debentures issued in October 2020. The monthly payment for those finder's fees represents 10% of the total financing under the scope of this contract. The finder's fees are payable if the investors remain holders of the convertible debentures. As soon as an investor converts their debentures into units of the Company or shares of CAN, the monthly payment will be adjusted to reflect that conversion. The maturity of this long term-debt is identical to the convertible debentures, which is October 23, 2023.

At inception, the initial monthly payment was $23,190, bearing no interest. Under IFRS 9 guidance, the Company determined the initial carrying amount using the discounted fair value and, following initial measurement, the liability will be amortized over the term of maturity using the effective interest rate method. The interest rate used for the calculation of the discounted fair value was 19%. Upon conversion of debentures, the Company derecognizes the associated gross carrying amount of the liability and will be transferred to profit and loss as a "gain on debt settlement". For the year ended September 30, 2021, the face value of $538,000 of convertible debentures was converted into 2,690,000 units of the Company resulting in a gain of $98,147 on the long term-debt.

| As at, | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| Financing fees, payable by monthly instalments of $18,749, bearing no interest, nominal of $243,737 ($463,509 in 2021), maturing in October 2023. | **218,724** | 384,589 |
| Current portion | **218,724** | 224,988 |
| Long-term portion | **-** | 159,601 |
| | **218,724** | 384,589 |

## 16. CONVERTIBLE DEBENTURES

*Issuance – September 30, 2021*

On October 26, 2020, the Company announced that it has completed a non-brokered private placement, raising aggregate gross proceeds of $2,788,000 in participating convertible debentures (the "Debentures"). Each Debenture consists of $1 principal amount of participating, secured, non-redeemable convertible debenture maturing on October 23, 2023 ("Maturity Date") and convertible at the option of the Debenture holder into:

- units ("Units") of the Company that are equal to the principal amount of each Debenture being converted at a deemed price of $0.20 per Unit. Each Unit is comprised of one common share ("Share") in the capital of the Company and one warrant ("Warrant"). Each Warrant is exercisable into one Share at a price of $0.25 for a period of three years from the date of issuance; or
- the number of common shares of Central America Nickel Inc. ("CAN") (a private company based in Montréal, Canada) at a conversion price of $1.00 per CAN share; and
- a cash payment equal to the principal amount that such holder would receive if the holder held the Debenture from the date of conversion until the Maturity Date.

In addition, Debenture holders will receive a total of 13.94% of the net profits generated by the Company from the sale of tantalum and niobium-bearing ores, to be paid quarterly in arrears; this represents 1% of the profits for every $200,000 principal amount of Debentures ("Participating Feature").

The Company paid the following finder's fees:

- $146,800 in cash;
- $120,000 of convertible debentures with the same characteristics as the ones detailed below;
- 500,000 finders' warrants ("Finders' Warrants"). Each Finder's Warrant is exercisable into one Share at a strike price of $0.20 for a period of three years from closing. The Debentures issued pursuant to the private placement are subject to a four-month hold period in Canada;
- $606,083 as a variable remuneration on the form of a long-term debt (note 15).

The company recorded total finder's fees of $971,119 for the issuance of these debentures. From the total of those finder's fees, $426,402 was allocated to the host component and was therefore capitalized to the consolidated statement of financial position.

In accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"), the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

At the time of issuance of the debentures, the Company determined that the conversion options as well as the participating feature constitute an embedded derivative financial instrument. Upon a conversion into units of the Company, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative will be transferred to equity. Upon a conversion into common shares of CAN, the carrying amount of the host debt instrument and the fair value of the related embedded derivative will be transferred to profit and loss.

Any directly attributable transaction costs are allocated to the host and derivative components in proportion to their initial carrying amounts.

**(Expressed in Canadian Dollars)**

At the date of these consolidated financial statements, the Company reviewed the estimated fair value of the conversion options and adjusted the initial fair value to $28,119,197 (September 30, 2021 - $77,212,445) using the same valuation technique. The fair value of the Conversion Options was estimated using Monte Carlo simulation (using the Black-Scholes framework). Monte Carlo simulation is a procedure for randomly sampling changes in market variables in order to value derivatives. The following assumptions were used to determine the fair value as at each reporting date for the debentures issued in June and July 2020:

| | **September 30, 2022** | **September 30, 2021** *(Restated note 29)* | **September 30, 2020** *(Restated note 29)* | **Inception** *(Restated note 29)* |
|---|---|---|---|---|
| Estimated life | 0.8 years | 1.8 years | 2,8 years | 3 years |
| Actual stock price | $0.70 | $1.56 | $0.19 | $0.08 |
| Volatility | 60.90% | 160,00% | 80,00% | 80,00% |
| Risk free rate | 3.944% | 0.701% | 0,24% | 0.290% |
| Dividend yield | Nil% | Nil% | Nil% | Nil% |

The following assumptions were used to determine the fair value as at each reporting date for the debentures issued in October 2020:

| | **September 30, 2022** | **September 30, 2021** *(Restated note 29)* | **Inception** *(Restated note 29)* |
|---|---|---|---|
| Estimated life | 1.1 years | 2.1 years | 3 years |
| Actual stock price | $0.70 | $1.56 | $0.19 |
| Volatility | 60.90% | 160,00% | 80,00% |
| Risk free rate | 3.944% | 0.701% | 0,25% |
| Dividend yield | Nil% | Nil% | Nil% |

For the year ended September 30, 2022, the change in fair value of derivatives resulted in a decrease of expense of $47,359,702 (September 30, 2021 increase of $77,207,508) and was recorded in the consolidated statement of loss and comprehensive loss.

*Issuance – September 30, 2022*

On March 8, 2022, the Company completed a non-brokered financing of $3,900,000 by way of issuance of unsecured, non-redeemable convertible debentures (the "Debentures"). The debentures carry an interest rate of 10%, payable monthly, with a maturity date of March 11, 2023. The principal amount of the Debentures is convertible at any time at the election of the holder. The Debentures are convertible into common shares of the Company at a price of $2.50 per common share. If all debentures were converted, this would result in the issuance of 1,560,000 common shares. For accounting purposes, the Debentures are separated into their liability and equity components by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Debentures assuming a 14.5% discount rate, which was the estimated rate for a similar debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the Debentures and the fair value of the liability component.

Transaction costs of $390,000 were incurred and have been recorded pro rata against the liability and equity components. The liability balance of the transaction costs will be amortized over the life of the debenture.

On March 1, 2022, there was a conversion of $25,000 of the initial Debentures plus $411 of interest into 254,109 units (254,109 shares and 254,109 warrants that can be exercised at $0.15 over a 3-year period).

On June 15, 2022, there was a conversion of $25,000 of the initial Debentures plus $1,130 of interest into 261,301 units (261,301 shares and 261,301 warrants that can be exercised at $0.15 over a 3-year period).

As at September 30, 2022, the total debentures have a nominal value of $7,500,000 (September 30, 2021 - $3,650,000).

**(Expressed in Canadian Dollars)**

The following table summarizes the information on debentures:

| | Host Component $ | Embedded Derivatives $ | Total $ |
|---|---|---|---|
| **Balance as at September 30, 2020 (Restated note 29)** | **330,989** | **4,449,789** | **4,780,778** |
| Initial proceeds - October's issuance | 2,788,000 | - | 2,788,000 |
| Fair value adjustment at inception | (2,589,946) | 2,589,946 | - |
| Transaction costs allocated to host component | (68,986) | - | (68,986) |
| Accretion (a) | 381,634 | - | 381,634 |
| Conversion into units of the Company | (117,123) | (7,034,798) | (7,151,921) |
| Change in fair value of the derivative | - | 77,207,508 | 77,207,508 |
| **Balance as at September 30, 2021 (Restated note 29)** | **724,568** | **77,212,445** | **77,937,013** |
| Proceeds - Year's issuances | 3,900,000 | - | 3,900,000 |
| Accretion (a) | 1,139,502 | - | 1,139,502 |
| Equity component of the debenture | (131,054) | - | (131,054) |
| Transaction costs allocated to host component | (376,895) | - | (376,895) |
| Conversion into units of the Company | (20,100) | (1,733,546) | (1,753,646) |
| Change in fair value of the derivative | - | (47,359,702) | (47,359,702) |
| **Balance as at September 30, 2022** | **5,236,021** | **28,119,197** | **33,355,218** |
| | | | |
| Current potion | 4,445,667 | 16,193,503 | 20,639,170 |
| Long-term portion | 790,354 | 11,925,694 | 12,716,048 |

(a) The amortization of transaction costs was presented as an expense with the accreted expenses and was recorded in the consolidated statements of loss and comprehensive loss.

## 17. SHARE CAPITAL

**Authorized share capital**

The Company has authorized an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at September 30, 2022, there were 71,590,196 (65,014,000 as at September 30, 2021) issued and fully paid common shares.

*Issuances through private placement or conversion of debentures*

On February 3, 2021, the Company completed a non-brokered private placement, raising gross proceeds of $4,721,000 by issuing 9,442,000 units of the capital of the Company at a price of $0.50 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire one additional common share of the Company at a price of $1.00 per common share for three years from the date of issuance. In connection with the private placement, the Company issued an aggregate of 302,000 units of the capital of the Company for services rendered valued at $151,000. The fair value of the units issued in exchange for services rendered was measured by reference of the fair value of the equity instruments granted because the fair value of the services received could not be estimated reliably.

Issuance costs of $299,797 were incurred for this private placement. Those issuance costs were allocated respectively to the relative fair value of each component of the private placement.

During the year ended September 30, 2021 the Company issued 2,500,000 units of the capital of the Company following the conversion of debentures issued in June 2020 at a price of $0.10 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.15 per common share for three years from the date of issuance.

During the year ended September 30, 2021 the Company issued 2,690,000 units of the capital of the Company following the conversion of debentures issued in October 2020 at a price of $0.20 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.25 per common share for three years from the date of issuance.

On January 19, 2022, the Company completed a non-brokered private placement, raising gross proceeds of $1,771,200 by issuing 1,476,000 units of the capital of the Company at a price of $1.20 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire one additional common share of the Company at a price of $1.50 per common share for three years from the date of issuance. In connection with the private placement, the Company issued an aggregate of 80,080 broker's warrants. Issuance costs of $142,056 were incurred for this private placement. Those issuance costs were allocated respectively to the relative fair value of each component of the private placement.

On March 1, 2022, the Company issued 254,109 units of the capital of the Company following the conversion of debentures issued in June 2020 at a price of $0.10 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.15 per common share for three years from the date of issuance.

On March 21, 2022, the Company completed a non-brokered private placement, raising gross proceeds of $1,856,500 by issuing 2,062,776 units of the capital of the Company at a price of $0.90 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire one additional common share of the Company at a price of $1.20 per common share for three years from the date of issuance. In connection with the private placement, the Company issued an aggregate of 158,355 broker's warrants. Issuance costs of $142,520 were incurred for this private placement. Those issuance costs were allocated respectively to the relative fair value of each component of the private placement.

On June 15, 2022, the Company issued 261,301 units of the capital of the Company following the conversion of debentures issued in June 2020 at a price of $0.10 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of $0.15 per common share for three years from the date of issuance.

*Issuance through exercise of options and warrants*

During the year ended September 30, 2021 the Company issued 895,000 common shares of the capital of the Company following the exercise of 895,000 options in exchange for $240,750. The options exercised had an exercise price ranging from $0.105 to $0.40. Following the exercise of those options, $179,790 was reclassified from contributed surplus to share capital.

During the year ended September 30, 2021 the Company issued 4,300,000 common shares of the capital of the Company following the exercise of 4,300,000 warrants in exchange for $1,205,000. The warrants exercised had an exercise price ranging from $0.15 to $0.40. Following the exercise of those warrants, $735,454 was reclassified from warrants reserve to share capital.

On October 5, 2021, the Company issued 150,000 common shares of the capital of the Company following the exercise of 150,000 options in exchange of $37,500. The options exercised had an exercise price of $0.25. Following the exercise of those options, $27,307 was reclassified from contributed surplus to share capital.

On October 18, 2021, the Company issued 440,000 common shares of the capital of the Company following the exercise of 440,000 warrants in exchange of $110,000. The warrants exercised had an exercise price of $0.25. Following the exercise of those warrants, $174,161 was reclassified from warrants reserve to share capital.

On December 20, 2021, the Company issued 100,000 common shares of the capital of the Company following the exercise of 100,000 warrants in exchange of $15,000. The warrants exercised had an exercise price of $0.15. Following the exercise of those warrants, $10,903 was reclassified from warrants reserve to share capital.

On February 28, 2022, the Company issued 950,000 common shares of the capital of the Company following the exercise of 950,000 options in exchange for $237,500. The options exercised had an exercise price of $0.25. Following the exercise of those options, $172,946 was reclassified from contributed surplus to share capital.

On March 15, 2022, the Company issued 200,000 common shares of the capital of the Company following the exercise of 200,000 options in exchange for $50,000. The options exercised had an exercise price of $0.25. Following the exercise of those options, $30,465 was reclassified from contributed surplus to share capital.

On March 15, 2022, the Company issued 254,109 common shares of the capital of the Company following the exercise of 254,109 warrants in exchange for $38,116. The warrants exercised had an exercise price of $0.15. Following the exercise of those warrants, $94,430 was reclassified from warrants reserve to share capital.

On July 6, 2022, the Company issued 261,301 common shares of the capital of the Company following the exercise of 261,301 warrants in exchange for $39,195. The warrants exercised had an exercise price of $0.15. Following the exercise of those warrants, $92,781 was reclassified from warrants reserve to share capital.

On July 19, 2022, the Company issued 150,000 common shares of the capital of the Company following the exercise of 150,000 options in exchange for $15,750. The options exercised had an exercise price of $0.105. Following the exercise of those options, $15,943 was reclassified from contributed surplus to share capital.

On August 25, 2022, the Company issued 16,600 common shares of the capital of the Company following the exercise of 16,600 warrants in exchange of $4,150. The warrants exercised had an exercise price of $0.25. Following the exercise of those warrants, $3,235 was reclassified from warrants reserve to share capital.

**Warrants**

*Issuance through finders' fees and consulting fees*

On October 23, 2020, the Company issued 500,000 warrants. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $0.19 and an exercise price of $0.20, risk-free rate of 0.25%, volatility of 97.20%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $56,136. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $0.20 at any time until the third-year anniversary of the date of their issuance.

On January 19, 2022, in connection with a private placement, the Company issued 80,080 broker warrants as compensation. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $1.10 and an exercise price of $1.50, risk-free rate of 1.5168%, volatility of 125.70%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $60,412. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $1.50 at any time until the third-year anniversary of the date of their issuance.

On March 21, 2022, in connection with a private placement, the Company issued 158,355 broker warrants as compensation. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $0.96 and an exercise price of $0.90, risk-free rate of 2.1072%, volatility of 98%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $95,615. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $0.90 at any time until the third-year anniversary of the date of their issuance.

On June 22, 2022, the Company issued 1,000,000 warrants in exchange of consulting fees. The fair value of these warrants was calculated using Black-Scholes pricing model, with an expected life of 3 years from date of grant resulting in a fair value of $769,200. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $0.90 at any time until the third-year anniversary of the date of their issuance.

*Issuance through private placement*

On February 3, 2021, in connection with a private placement, the Company issued 4,872,000 warrants. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $0.59 and an exercise price of $1.00, risk-free rate of 0.22%, volatility of 102.20%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $1,500,734. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $1.00 at any time until the third-year anniversary of the date of their issuance.

On January 19, 2022, in connection with a private placement, the Company issued 738,000 warrants. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $1.10 and an exercise price of $1.50, risk-free rate of 1.5168%, volatility of 125.70%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $556,747. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $1.50 at any time until the third-year anniversary of the date of their issuance.

On March 21, 2022, in connection with a private placement, the Company issued 1,031,388 warrants. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of $0.96 and an exercise price of $1.20, risk-free rate of 2.1072%, volatility of 98%, vesting immediately and expected life of 3 years from date of grant resulting in a fair value of $566,232. Each warrant will entitle its holder to subscribe for and purchase one fully paid and non-assessable common share of the Company at a price of $1.20 at any time until the third-year anniversary of the date of their issuance.

**(Expressed in Canadian Dollars)**

*Issuance through conversion of debentures*

During the year ended September 30, 2021 the Company issued 2,500,000 warrants following the conversion of debentures issued in June 2020. The fair value of those warrants was calculated under the relative fair value method. The Company allocated the total proceeds from the conversion in proportion to their relative fair values. Those relative fair values were estimated using the share price at the date of issuance for the common shares of the capital of Company issued and using a Black-Scholes pricing model for the warrants. The assumptions used in the Black-Scholes pricing model are described below:

| | **August 25, 2021** | **June 14, 2021** | **May 19, 2021** | **December 3, 2020** |
|---|---|---|---|---|
| Estimated life | 3 years | 3 years | 3 years | 3 years |
| Actual stock price | $1.22 | $0.72 | $0.85 | $0.28 |
| Strike price | $0.15 | $0.15 | $0.15 | $0.15 |
| Volatility | 100.48% | 101.88% | 101.03% | 100.68% |
| Risk-free rate | 0.57% | 0.50% | 0.53% | 0.30% |
| Dividend yield | Nil% | Nil% | Nil% | Nil% |

The fair value for the warrants calculated under the relative fair value method was estimated at $691,895.

During the year ended September 30, 2021 the Company issued 2,690,000 warrants following the conversion of debentures issued in October 2020. The fair value of those warrants was calculated under the relative fair value method. The Company allocated the total proceeds from the conversion in proportion to their relative fair values. Those relative fair values were estimated using the share price at the date of issuance for the common shares of the capital of Company issued and using a Black-Scholes pricing model for the warrants. The assumptions used in the Black-Scholes pricing model are described below:

| | **September 2, 2021** | **August 9, 2021** | **June 9, 2021** |
|---|---|---|---|
| Estimated life | 3 years | 3 years | 3 years |
| Actual stock price | $1.21 | $0.76 | $0.76 |
| Strike price | $0.25 | $0,25 | $0.25 |
| Volatility | 98.39% | 102.26% | 100.80% |
| Risk-free rate | 0.49% | 0.58% | 0.49% |
| Dividend yield | Nil% | Nil% | Nil% |

The fair value for the warrants calculated under the relative fair value method was estimated at $746,945.

On March 1, 2022, the Company issued 254,109 warrants following the conversion of debentures issued in June 2020. The fair value of those warrants was calculated under the relative fair value method. The Company allocated the total proceeds from the conversion in proportion to their relative fair values. Those relative fair values were estimated using the share price at the date of issuance for the common shares of the capital of Company issued and using a Black-Scholes pricing model for the warrants. The assumptions used in the Black-Scholes pricing model are: estimated life 3 years, actual stock price $1.00, strike price $0.15, volatility 125.4%, risk-free rate 1.5551% and dividend yield at Nil%. The fair value for the warrants calculated under the relative fair value method was estimated at $94,430.

On June 15, 2022, the Company issued 261,301 warrants following the conversion of debentures issued in June 2020. The fair value of those warrants was calculated under the relative fair value method. The Company allocated the total proceeds from the conversion in proportion to their relative fair values. Those relative fair values were estimated using the share price at the date of issuance for the common shares of the capital of Company issued and using a Black-Scholes pricing model for the warrants. The assumptions used in the Black-Scholes pricing model are: estimated life 3 years, actual stock price $0.89, strike price $0.15, volatility 127.4%, risk-free rate 3.2994% and dividend yield at Nil%. The fair value for the warrants calculated under the relative fair value method was estimated at $92,781.

**(Expressed in Canadian Dollars)**

Changes in the number of warrants outstanding for the year are as follows:

| | Warrants<br>\# | Weighted average exercise price<br>$ |
|---|---|---|
| **Balance - September 30, 2020** | **3,279,100** | 0.40 |
| Issued | 10,562,000 | 0.57 |
| Exercised | (4,300,000) | 0.28 |
| Expired | (1,362,500) | 0.40 |
| **Balance - September 30, 2021** | **8,178,600** | 0.68 |
| Issued | 818,080 | 1.50 |
| Issued | 1,158,355 | 0.90 |
| Issued | 1,031,388 | 1.20 |
| Issued | 515,410 | 0.15 |
| Exercised | (440,000) | 0.25 |
| Exercised | (615,410) | 0.15 |
| Exercised | (16,600) | 0.25 |
| **Balance - September 30, 2022** | **10,629,823** | 0.84 |

The following table summarizes the information on outstanding warrants as at:

| Exercise price | Number outstanding and exercisable | Weighted average remaining contractual life (years) | Expiry |
|---|---|---|---|
| $0.15 | 200,000 | 1.17 | December 2023 |
| $1.00 | 4,872,000 | 1.34 | February 2024 |
| $0.15 | 400,000 | 1.70 | June 2024 |
| $0.25 | 1,650,000 | 1.86 | August 2024 |
| $0.15 | 500,000 | 1.90 | August 2024 |
| $1.50 | 818,080 | 2.30 | January 2025 |
| $0.90 | 158,355 | 2.47 | March 2025 |
| $1.20 | 1,031,388 | 2.47 | March 2025 |
| $0.90 | 1,000,000 | 2.73 | June 2025 |
| | **10,629,823** | | |

**Stock options**

In 2017, the Board of Directors of the Company adopted an incentive stock option plan (the "Plan"), for the benefit of employees, consultants, officers and directors. The Plan allows the Company to issue stock options up to a maximum of 10% of the issued and outstanding shares of the Company at the date of grant. The exercise price payable for each option is determined by the Board of Directors at the date of grant and may not be less than the closing market price during the trading day immediately preceding the date of the grant of the options on the Exchange, for a minimum amount of $0.10 per option. The vesting period and expiry date are determined by the Board of Directors for each vesting.

On March 17, 2021, the Board of Directors issued 900,000 stock options to consultants, officers and directors of the Company. These stock options have a strike price of $0.45, vested immediately and expire in 5 years. The fair value of the options was estimated at $0.323 per option at the grant date for a total of $290,631 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 0.99%, expected volatility of 98.72% and expected option life of five years.

**(Expressed in Canadian Dollars)**

On June 21, 2021, the Board of Directors issued 500,000 stock options to consultants, officers and directors of the Company. These stock options have a strike price of $0.75, vested immediately and expire in 5 years. The fair value of the options was estimated at $0.139 per option at the grant date for a total of $69,341 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 0.97%, expected volatility of 85.76% and expected option life of five years.

On July 19, 2021, the Board of Directors issued 675,000 stock options to consultants, officers and directors of the Company. These stock options have a strike price of $0.79, vested immediately and expire in 5 years. The fair value of the options was estimated at $0.573 per option at the grant date for a total of $387,105 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 0.78%, expected volatility of 96.73% and expected option life of five years.

On September 1, 2021, the Board of Directors issued 510,000 stock options to consultants, officers and directors of the Company. These stock options have a strike price of $1.26, vested immediately and expire in 5 years. The fair value of the options was estimated at $0.894 per option at the grant date for a total of $455,759 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 0.79%, expected volatility of 96.10% and expected option life of five years.

On November 24, 2021, the Board of Directors issued 450,000 stock options to consultants of the Company. These stock options have a strike price of $1.39, vested immediately and expire in 5 years. The fair value of the options was estimated at $1.0459 per option at the grant date for a total of $470,655 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 1.235%, expected volatility of 99% and expected option life of five years.

On March 2, 2022, the Board of Directors issued 1,000,000 stock options to consultants of the Company. These stock options have a strike price of $1.00, vested immediately and expire in 1 year. The fair value of the options was estimated at $0.2716 per option at the grant date for a total of $271,600 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 1.2770%, expected volatility of 68.20% and expected option life of one year.

On April 19, 2022, the Board of Directors issued 2,250,000 stock options to consultants, officers and directors of the Company. These stock options have a strike price of $0.85, vested immediately and expire in 5 years. The fair value of the options was estimated at $0.5887 per option at the grant date for a total of $1,324,575 using the Black-Scholes option pricing-model with the following assumptions: risk-free interest rate of 2.6696%, expected volatility of 87.40% and expected option life of five years. Changes in the number of options outstanding for the year are as follows:

| | **Options**<br>**#** | **Weighted average exercise price**<br>**$** |
|---|---|---|
| **Balance - September 30, 2020** | **4,475,000** | 0.27 |
| Issued | 2,585,000 | 0.76 |
| Exercised | (895,000) | 0.27 |
| Cancelled | (625,000) | 0.18 |
| **Balance - September 30, 2021** | **5,540,000** | 0.49 |
| Issued | 450,000 | 1.39 |
| Issued | 1,000,000 | 1.00 |
| Issued | 2,250,000 | 0.85 |
| Exercised | (150,000) | 0.105 |
| Exercised | (1,300,000) | 0.25 |
| Expired | (500,000) | 0.75 |
| Expired | (205,000) | 0.25 |
| Cancelled | (150,000) | 0.105 |
| **Balance - September 30, 2022** | **6,935,000** | **0.79** |

**(Expressed in Canadian Dollars)**

During the twelve-month period ended September 30, 2022, the issuance of stock options resulted in a recognition of a stock-based compensation expense by the Company of $2,534,830 (September 31, 2021 - $1,202,836). The following table summarizes the information on outstanding and exercisable options:

| Exercise price | Number outstanding and exercisable | Weighted average remaining contractual life (years) | Expiry |
|---|---|---|---|
| $0.40 | 300,000 | 0.06 | October 2022 |
| $0.40 | 200,000 | 0.45 | March 2023 |
| $1.00 | 1,000,000 | 0.42 | March 2023 |
| $0.25 | 100,000 | 0.89 | August 2023 |
| $0.25 | 300,000 | 1.49 | March 2024 |
| $0.105 | 250,000 | 2.96 | September 2025 |
| $0.45 | 900,000 | 3.46 | March 2026 |
| $0.79 | 675,000 | 3.80 | July 2026 |
| $1.26 | 510,000 | 3.92 | September 2026 |
| $1.39 | 450,000 | 4.15 | November 2026 |
| $0.85 | 2,250,000 | 4.55 | April 2027 |
| | **6,935,000** | | |

## 18. EARNINGS (LOSS) PER SHARE

The diluted weighted average number of shares has been calculated as follows:

| | **September 30, 2022** | September 30, 2021 |
|---|---|---|
| Weighted average number of common shares – basic | **68,904,453** | 54,815,945 |
| Addition to reflect the dilutive effect of stock options | **1,899,980** | - |
| Addition to reflect the dilutive effect of warrants | **2,956,048** | - |
| Weighted average number of common shares - diluted | **73,760,481** | 54,815,945 |

Options and warrants that are anti-dilutive because the exercise price was greater than the average market price of the common shares is not included in the computation of net earnings per share. For the year ended September 30, 2022, 2,513,750 and 2,926,432 options and warrants respectively were excluded from the above computation. Net income is the measure of the income used to calculate the earnings per share. Convertible debenture is anti-dilutive due to the impact of adjustments related to them (specifically related to the derivatives see note 16) would have on net income. In Fiscal 2021, the Company reported a net loss and accordingly the weighted average number of common shares on a basic and diluted basis were the same.

**(Expressed in Canadian Dollars)**

## 19. SEGMENTATION INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral property interests and in five geographical segments: Canada, Mexico, Colombia, DRC, Brazil and Bolivia. The total assets, liabilities, deficiency and net income (loss) and comprehensive income (loss) with these geographic areas as at and for the years ended September 30, 2022, and 2021 are as follows:

| **For the years ended,** | **September 30, 2022** | September 30, 2021<br>*(Restated note 29)* |
|---|---|---|
| | **$** | $ |
| Canada | **5,334,801** | 3,357,422 |
| Mexico | **10,537** | 25,192 |
| Columbia | **683,117** | 227,938 |
| Bolivia | **13,707** | - |
| Brazil | **19,585** | 1,384,625 |
| **Total assets** | **6,061,747** | 4,995,177 |
| Canada | **36,130,288** | 79,386,721 |
| Mexico | **204,517** | 50,594 |
| Columbia | **696** | 501 |
| Bolivia | **14,047** | - |
| **Total liabilities** | **36,349,548** | 79,437,816 |
| Canada | **(22,237,681)** | (70,995,630) |
| Mexico | **(2,476,859)** | (1,993,468) |
| Columbia | **(2,055,961)** | (845,548) |
| Bolivia | **(239,565)** | (36,824) |
| DRC | **(35,758)** | (28,030) |
| Brazil | **(3,241,977)** | (543,139) |
| **Total deficiency** | **(30,287,801)** | (74,442,639) |
| Canada | **39,690,857** | (81,745,914) |
| Mexico | **(483,391)** | (312,954) |
| Columbia | **(1,210,413)** | (813,255) |
| Bolivia | **(202,741)** | (36,824) |
| DRC | **(7,728)** | (28,030) |
| Brazil | **(2,698,838)** | (543,139) |
| **Net income (loss) and comprehensive income (loss)** | **35,087,746** | (83,480,116) |

## 20. CAPITAL MANAGEMENT

The Company considers its capital structure to include net residual equity of all assets, less liabilities. The Company currently manages its capital structure and makes adjustments to it, based on cash resources expected to be available to the Company, in order to support the planned exploration and development of mineral property interests. Management has not established a quantitative capital structure. Capital needs are reviewed on a regular basis by management relative to the stage of development of the business entity. The Company currently is dependent on externally provided equity financing to fund its future exploration activities. In order to carry out planned exploration and development and fund administrative costs, the Company will allocate its existing capital and plans to raise additional amounts as needed through equity and related party advances if available. The Company and its subsidiaries are not subject to any capital requirements imposed by a lending institution or regulatory body. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company, the current state of the markets and exploration industry. There were no changes in the Company's approach to capital management during the years.

**(Expressed in Canadian Dollars)**

The Company's capital items are the following:

| **For the years ended,** | **September 30, 2022** | September 30, 2021 *(Restated note 29)* |
|---|---|---|
| | **$** | $ |
| Convertible debentures (note 16) | **33,355,218** | 77,937,013 |
| Share capital (note 17) | **21,147,407** | 16,210,067 |

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

As at September 30, 2022, the Company's financial instruments include cash, receivables (excluding sales tax), advance to directors, advance to companies controlled by a director, accounts payable and accruals, due to directors and due to companies controlled by directors, for which there are no differences in the carrying values and fair values, due to their short-term nature.

### Classification of financial instruments

The carrying amount of the Company's financial assets and liabilities by categories are as follows:

| **Financial assets and liabilities recognized at amortized cost** | **September 30, 2022** | September 30, 2021 *(Restated note 29)* |
|---|---|---|
| | **$** | $ |
| Cash | **2,115,889** | 2,563,533 |
| Receivables, excluding sales tax | **590,086** | 49,154 |
| Promissory notes | **200,000** | - |
| Advances to directors | **3,098** | 3,098 |
| Advances to companies controlled by a director | **364,464** | - |
| Accounts payable and accruals | **1,977,326** | 339,958 |
| Due to directors | **-** | 3,883 |
| Due to companies controlled by a director | **-** | 12,733 |
| Farm-out agreement debt | **798,280** | 759,640 |
| Finder's fees payable | **218,724** | 384,589 |
| Convertible debentures – Host component | **5,236,021** | 724,568 |

### Fair value

Fair value is the estimated amount that parties dealing at arm's length would accept to exchange in settlement of a financial instrument based on the current market for instruments with the same risk, principal and maturity date. These fair value estimates are affected by assumptions made about the amount and timing of estimated future cash flows, discount rates and terms of the contract. As a result, the fair values are not necessarily the net amounts that would be realized if such financial instruments were settled.

The Company has determined that the carrying amount of its short-term financial assets and liabilities, approximates their fair value because of the relatively short periods to maturity of these instruments.

The carrying amount of the convertible debentures – host component do not differ significantly from their fair value. Management believes that no significant change occurred in the risk of these instruments.

**Fair value hierarchy**

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

| **Financial liabilities recognized at fair value** | **September 30, 2022**<br>**$** | September 30, 2021<br>*(Restated note 29)*<br>$ |
|---|---|---|
| Conversion right (level 3) | **693 000** | - |
| Convertible debentures -Embedded derivative (level 3) | **28 119 197** | 77 212 445 |

The determination of the fair value of the embedded derivative of the convertible debentures was calculated using a level 3 fair value hierarchy.

**Risks**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and cash flows and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge these risks.

Market risk

*Foreign exchange risk:* Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. A portion of the Company's financial assets is denominated in United States dollars, in Mexican Pesos and in Pound Sterling. Consequently, certain financial assets are exposed to exchange fluctuations. Most of the Company's operations are conducted in Canadian dollars. The Company does not hold derivative financial instruments to manage the fluctuation of exchange rate risk.

The financial assets and liabilities denominated in United States dollars, in Mexican Pesos and in Pound Sterling, translated into Canadian dollars at the closing rate, which expose the Company to exchange risk are:

| **As at,** | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| Cash (United States) | **121,293** | 741,067 |
| Cash (Mexico) | **7,233** | 23,949 |
| Receivables (United States) | **515,145** | 37,479 |
| Account payables and accruals (United States) | **(1,257,362)** | (106,567) |
| Account payables and accruals (Mexico) | **(199,800)** | (46,252) |
| **Net exposure** | **(813,491)** | 649,676 |

A 10% change in the exchange rate would result in a variation estimated at $81,350 (September 30, 2021 - $62,179).

**(Expressed in Canadian Dollars)**

*i)Fair value interest rate risk*

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate, because of changes in interest rates. The Company's financial liabilities other than current liabilities, are comprised of medium to long-term fixed interest rate debt.

| | |
|---|---|
| Cash | Fixed interest rates |
| Advances to directors | Non-interest bearing |
| Advances to companies controlled by a director | Non-interest bearing |
| Promissory notes | Fixed interest rates |
| Accounts payables and accruals | Non-interest bearing |
| Due to companies controlled by a director | Non-interest bearing |
| Due to directors | Non-interest bearing |
| Convertible debentures | Fixed interest rates / non-interest bearing |

*ii)Commodity price risk*

While the value of the Company's core mineral resource is related to the price of precious metals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity-based risks in respect of its operational activities. Precious metal prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors. Adverse movements in the prices of precious metals may also negatively impact the Company's ability to raise capital and meet its financial commitments.

Credit risk

Credit risk arises from cash with banks and financial institutions. The Company reduces this risk by dealing with creditworthy financial institutions. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash, receivables (excluding sales tax), and promissory notes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuance. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. At September 30, 2022, the Company has a negative working capital of $20,087,584 (September 30, 2021 –positive working capital of $2,862,653).

The following are the contractual maturities of the financial liability's amounts:

| **September 30, 2022** | **Less than 1 year** <br> **$** | **1 to 5 years** <br> **$** | **> 5 years** <br> **$** |
|---|---|---|---|
| Accounts payable and accruals | 1,977,326 | - | - |
| Finder's fees payable | 218,724 | - | - |
| Farm-out agreement debt | 798,280 | - | - |
| Convertible debentures – Host component | 4,445,667 | 790,354 | - |
| Convertible debentures – Embedded derivative | 16,193,503 | 11,925,694 | - |

**(Expressed in Canadian Dollars)**

## 22. INCOME TAXES

Effective income tax expenses differ from income tax expense (recovery) computed based on the combined federal and provincial income tax rate of 26.5% (2021 – 26.5%) as a result of the following:

| | **September 30, 2022** | September 30, 2021 *(Restated note 29)* |
|---|---|---|
| | **$** | $ |
| Income (loss) before income taxes | **35,087,746** | (83,551,088) |
| Tax expense (recovery) using the Company's domestic tax rate | **9,298,253** | (22,141,039) |
| Loss in foreign jurisdiction subject to a different tax rate | **(17,235)** | (11,758) |
| Inflation adjustment in foreign jurisdiction subject to a different tax rate | **44,997** | 32,504 |
| Deduction from losses carry forward in foreign jurisdiction | **90,632** | 63,648 |
| Non-deductible expenses | **(11,604,821)** | 20,828,656 |
| Tax benefits not recognized | **2,188,174** | 1,227,989 |
| Total income tax expenses | **-** | - |

The non-capital losses expire as follows:

| | **Federal** | **Québec** | **Colombia** | **Mexico** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| 2034 | 7,167 | 7,167 | - | - |
| 2035 | 13,998 | 13,998 | - | - |
| 2036 | 323,455 | 323,455 | - | - |
| 2037 | 1,071,460 | 1,069,057 | - | - |
| 2038 | 1,358,670 | 1,355,631 | - | - |
| 2039 | 1,474,935 | 1,470,533 | 31,134 | - |
| 2040 | 866,966 | 865,871 | 3,490 | - |
| 2041 | 3,039,725 | 3,039,725 | 23,638 | 230,048 |
| 2042 | 4,472,762 | 4,472,762 | - | 264,004 |
| | **12,629,138** | **12,618,199** | **58,262** | **494,052** |

Movement in deferred tax balances during the year:

| | **Balance October 1, 2020** | Recognized in profit or loss | **Balance September 30, 2021** | Recognized in profit or loss | **Balance September 30, 2022** |
|---|---|---|---|---|---|
| | **$** | $ | **$** | $ | **$** |
| Issuance costs | (70,972) | 70,972 | - | - | - |

**(Expressed in Canadian Dollars)**

Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

| | **September 30, 2022**<br>**$** | September 30, 2021<br>*(Restated note 29)*<br>$ |
|---|---|---|
| Non-capital losses | **3,480,018** | 2,246,674 |
| Inventory adjustment | **318,208** | - |
| Exploration and evaluation expenses | **930,733** | 250,226 |
| Issuance costs | **-** | 27,425 |
| Capital assets | **9,219** | - |
| Intangible assets | **49,568** | - |
| Unrecognized provision | **-** | 106,018 |

## 23. RELATED PARTY TRANSACTIONS

The Company's related parties include companies with common directors, controlled by a director as well as key management personnel and directors.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash. All balances of advances receivables and advances payable are measured at fair value and occurred in the normal course of business.

| | **September 30, 2022**<br>**$** | September 30, 2021<br>$ |
|---|---|---|
| **Management fees** | | |
| Company controlled by a director | **135,000** | 145,000 |
| Key management personnel and directors | **240,000** | 230,000 |
| **Share-based compensation** | | |
| Key management personnel and directors | **412,090** | 383,622 |
| **Rent** | | |
| Company controlled by a director | **36,000** | 36,000 |
| **Consulting fees** | | |
| Key management personnel and directors | **103,103** | 6,000 |
| **Interest on private placement** | | |
| Key management personnel and directors | **37,082** | 18,581 |

**(Expressed in Canadian Dollars)**

Amounts payable to related parties included in the non-current liabilities and in the accounts payable and accrued liabilities were as follows:

| | | Amounts owed by related parties $ | Amounts owed to related parties $ |
|---|---|---|---|
| **Key management personnel and directors** | **September 30, 2022** | **3,098** | **-** |
| | September 30, 2021 | 3,098 | 3,883 |
| **Company with common directors (a)** | **September 30, 2022** | **879,609** | **-** |
| | September 30, 2021 | - | - |
| **Companies controlled by a director** | **September 30, 2022** | **-** | **28,675** |
| | September 30, 2021 | - | - |

The advances to directors and companies controlled by a director are unsecured, due on demand and bear no interest.

The due to companies controlled by a director and directors are unsecured, payable on demand and bear no interest.

(a) This total amount consists of:

- Advance to a company controlled by a director for $364,464
- Trade accounts receivable from a company controlled by a director for $515,145 (see note 6)

## 24. SUPPLEMENTAL CASHFLOW INFORMATION

| | **September 30, 2022** $ | September 30, 2021 $ |
|---|---|---|
| Receivable | **(514,922)** | (168,388) |
| Subscription receivable | **11,675** | - |
| Prepaid expenses and deposits | **(64,441)** | (1,781,401) |
| Inventory | **-** | (106,140) |
| Accounts payable and accruals | **1,253,572** | (95,646) |
| | **685,884** | (2,151,575) |

Non-cash transaction for the year ended September 30, 2022:

During the year, a number of conversions of the convertible debentures occurred resulting in a decrease of the convertible debentures of $391,913 and an increase of the same amount was recorded in the share capital and warrants of the Company.

Non-cash transaction for the year ended September 30, 2021:

In relation with the issuance of the convertible debentures in October 2020, there were numerous non-cash transactions. The following items are non-cash financing fees:

Issuance of the long-term debt recorded at $606,083;
Issuance of finder's warrants recorded at $56,136;
Issuance of convertible debentures as finder's fees recorded at $162,603.

**(Expressed in Canadian Dollars)**

Non-cash transaction costs recorded in the consolidated statement of cash flows represent the transaction cost related to the convertible debentures issued in October and that were allocated to the consolidated statement of loss and comprehensive loss diminished by the proportion of the issuance cost paid in cash allocated to the consolidated statement of loss and comprehensive loss.

In February 2021, units issued during the private placement were recorded as issuance cost and the fair value was allocated between share capital and warrants. This non-cash transaction was recorded at $99,000. At the same moment, units from the private placement were issued in exchange for consulting services for a total of $151,000.

During the year, a number of conversions of the convertible debentures occurred resulting in a decrease of the convertible debentures of $3,144,049 and an increase of the same amount was recorded in the share capital and warrants of the Company.

## 25. SELLING AND ADMINISTRATIVE EXPENSES

| | **September 30, 2022** | September 30, 2021 |
|---|---|---|
| | | *(Restated note 29)* |
| | **$** | $ |
| Exploration and evaluation expenditures (note 27) | **3,378,420** | 1,171,601 |
| Professional fees | **2,465,699** | 932,163 |
| Share-based compensation (note 17) | **2,534,830** | 1,202,836 |
| Write-down of inventory prepayments | **1,200,785** | - |
| Management fees | **375,000** | 375,000 |
| Legal fees | **318,767** | 154,124 |
| Travel expenses | **261,988** | 6,267 |
| Amortization exclusive sales agency distribution agreement | **187,050** | - |
| Public listing fees | **88,329** | 71,418 |
| Advertising | **57,478** | 30,633 |
| Write-off of sales tax receivable | **43,638** | 18,634 |
| Bad debts | **37,479** | 10,352 |
| Rent | **36,000** | 36,000 |
| Depreciation | **34,789** | - |
| Office expenses | **16,249** | 11,017 |
| Taxes and permits | **7,997** | 2,818 |
| Telecommunication | **2,302** | 1,253 |
| Loss on foreign exchange | **5,849** | 24,985 |
| Fair value adjustment of the conversion option | **(124,700)** | - |
| Impairment on advance to Kibara Minerals | **-** | 400,067 |
| Subscriptions | **-** | 5,878 |
| Gain on debt settlement | **-** | (98,147) |
| **Total selling and administrative expenses** | **10,927,949** | 4,356,899 |

**(Expressed in Canadian Dollars)**

## 26. FINANCE COSTS

| | **September 30, 2022** | September 30, 2021 *(Restated note 29)* |
|---|---|---|
| | **$** | $ |
| Accreted interest | **1,268,194** | 456,848 |
| Interest on convertible debentures | **390,336** | 113,919 |
| Interest and bank fees | **18,790** | 10,897 |
| Interest and penalties | **287** | 23,383 |
| Transaction costs | **-** | 902,134 |
| **Total finance costs** | **1,677,607** | 1,507,181 |

## 27. EXPLORATION AND EVALUATION EXPENDITURES

| | **Geology and prospection** | **Mining claims** | **Total E&E Expenditures** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Balance at September 30, 2020** | **1,115,694** | **365,023** | **1,480,717** |
| Expenditures for the year | 949,993 | 221,608 | 1,171,601 |
| **Balance at September 30, 2021** | **2,065,687** | **586,631** | **2,652,318** |
| Expenditures for the year | 3,230,926 | 147,494 | 3,378,420 |
| **Balance at September 30, 2022** | **5,296,613** | **734,125** | **6,030,738** |

## 28. COMMITMENTS

*Net Smelter Return Royalty ("NSRR")*

The Company has a 100% undivided interest in the Zamora Property, pursuant to an assignment agreement signed on July 17, 2013 involving two vendors and Auxico Mexico. As per the terms of this agreement, the Zamora Property is subject to a 2% NSRR from proceeds of first-hand sale of products proceed from the mining concessions on commencement of commercial production. Half of this NSRR can be purchased by the Company at any time for US$500,000.

*Net royalty – Central America Nickel Inc.*

On May 25, 2018, the Company agreed to pay Central America Nickel Inc. ("CAN") a 2% net royalty on the production of gold on any deposit in the world where process is used by the Company. The Company has the option to buy back 50% of this royalty (or 1% of the 2% royalty) at any time through the issuance of 2,000,000 common shares of the Company.

*Agreement with the École Polytechnique and Impact Global Systems*

On February 1, 2021, the Company signed an agreement with École Polytechnique and IGS concerning the recovery of critical minerals from ore tailings. As per the terms of this contract, the Company has agreed to provide to École Polytechnique $15,000 in each of 2022 and 2023.

*Joint venture agreement with Impact Global Systems*

On May 25, 2021, the Company signed a joint venture agreement with Impact Global Systems ("IGS") concerning the processing of ores bearing tantalum, niobium, iridium and possibly other minerals. As per the terms of this agreement, the Company will assume all costs related to the purchase and transport of ores to the IGS facility in Delson, Québec, as well as providing funds for the purchase of equipment and working capital. In return, the Company will receive 80% of the net profits from the sale of these minerals, with the remaining 20% going to IGS.

*Joint venture agreement with Cooperativa Estanifera de Mineradores da Amazonia Legal Ltda.*

On June 3, 2022, Auxico signed a joint venture agreement ("Agreement") with CEMAL, concerning the production and sale of concentrates from the Massangana tailings in the state of Rondonia, Brazil. During Fiscal 2022, the Company has made payments of $648,435 (US$500,000) and subsequent to year-end made payments of $682,510 (US$500,000), which was accrued at September 30, 2022. A payment of $344,250 (US$250,000) was made in October 2022 and a second payment of $338,260 (US$250,000) was completed in January 2023, for a combined amount of $682,510 (US$500,000). These have been recorded as exploration and evaluation expenditures.

Pursuant to the Agreement, the Company is to obtain licenses and permits by June 20, 2023 and has a commitment to make a final payment of US$1,000,000 in August 2023. The Company has the right to terminate the agreement prior to the final payment being due.

*Purchase of Agualinda Property*

On December 8, 2021, the Company announced the acquisition of the surface rights to 1,293 hectares of land titled Agualinda, located in the municipality of Puerto Carreño, in the department of Vichada, Colombia. The land adjoins the Minastyc property, which the Company purchased in December 2020. As per the signed agreement, the Company will pay to the vendors a purchase price of US$315,000 (of which US$35,000 was paid as of September 30, 2022 and US$280,0000 is due as of September 30, 2022), in addition to a yearly fee in the amount of US$100,000 for a period of three years following the signing of the agreement upon revenues generated from production.

## 29. RESTATEMENT – SEPTEMBER 30, 2021

*Convertible debenture*

Management of the Company has determined that the methodology used to calculate the fair value of the conversion option of the convertible debentures issued during the September 30, 2020 and September 30, 2021 years (Note 14) was inappropriate. The fair values of the embedded derivative liabilities were not adequately determined. Furthermore, the Company recognized a loss at inception by measuring the host component at fair value rather than an allocation of the residual amount of the transaction price.

The Company has determined that a correction was required, which resulted in an increase of $956,045 and $49,815,198 in the carrying value of the convertible debenture as at September 30, 2020 and 2021 respectively. The correction also resulted in an increase to the fair value adjustment on embedded derivatives of $53,472,584 and a decrease in finance costs of $671,195 for Fiscal 2021.

*Farm-out agreement debt*

Management of the Company has determined that there was an erroneous extinguishment of a liability related to the Farm-out agreement (note 14). An amount of US$400,000 for the agreed upon cash settlement and the liability to issue the number of common shares that aggregates to a value of $250,000 based on market price of the shares on that date has been reincorporated on the October 1, 2020. The correction resulted in an increase to the liability of $782,400 and 759,640 at September 30, 2020 and 2021 respectively. The correct resulted in a decrease in selling and administrative expenses of $22,760 for Fiscal 2021, related to foreign currency translation.

**(Expressed in Canadian Dollars)**

**Consolidated Statement of Financial Position as at October 1, 2020**

| | As restated<br>$ | As previously reported<br>$ | Restatement<br>$ |
|---|---|---|---|
| Farm-out agreement debt | 782,400 | - | 782,400 |
| Convertible debentures | 4,780,781 | 3,824,733 | 956,048 |
| Total Liabilities | 6,287,625 | 4,519,177 | 1,768,448 |
| Deficiency attributable to shareholders | (5,393,400) | (3,654,952) | (1,738,448) |
| Total equity (deficiency) | (5,391,368) | (3,652,920) | (1,738,448) |

**Consolidated Statement of Financial Position as at September 30, 2021**

| | As restated<br>$ | As previously reported<br>$ | Restatement<br>$ |
|---|---|---|---|
| Farm-out agreement debt | 759,640 | - | 759,640 |
| Convertible debentures | 77,937,013 | 28,121,815 | 49,815,198 |
| Total Liabilities | 79,437,816 | 28,929,210 | 50,508,606 |
| Deficiency attributable to shareholders | (95,324,343) | (40,807,866) | (54,516,477) |
| Issued capital | 20,880,617 | 12,202,196 | 8,678,421 |
| Total equity (deficiency) | (74,442,639) | (23,934,033) | (50,508,606) |

**Consolidated statement of Income (Loss) and Comprehensive Income (Loss)**
**for the year ended September 30, 2021**

| | As restated<br>$ | As previously reported<br>$ | Restatement<br>$ |
|---|---|---|---|
| Selling and administrative expenses | 4,356,899 | 4,379,659 | (22,760) |
| Loss before finance income, finance costs and income taxes | (4,840,595) | (4,863,355) | 22,760 |
| Finance costs | (1,507,181) | (2,178,976) | 671,795 |
| Fair value adjustment on embedded derivatives | (77,207,508) | (23,734,924) | (53,472,584) |
| Net income (loss) and comprehensive income (loss) | (83,480,116) | (30,702,087) | (52,778,029) |
| Loss per share | (1.52) | (0.56) | |

## 30. SUBSEQUENT EVENTS

*Agreement with Gracor*

On October 26, 2022, Auxico announced that it had signed an agreement for high-grade tin trading operations in Colombia, which provides the Company with a 70% profit share on all sales of tine ore executed with Gracor S.A.S ("Gracor"). The remaining 30% goes to Gracor. Gracor' s principal business is the purchase of tin from the indigenous population in the state of Vichada, Colombia, close to the Minastyc Property that is controlled by Auxico. Auxico will be providing the working capital to increase direct purchases of tin concentrates. Auxico will also arrange the sales of tin according to international standards.