



## CONSOLIDATED FINANCIAL STATEMENTS

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*For the year ended December 31, 2022 and 2021  
(Expressed in United States dollars)*



## Independent auditor's report

To the Shareholders of Mako Mining Corp.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mako Mining Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Stockpiled ore and ore in-circuit inventory net realizable value assessment</b></p> <p><i>Refer to note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 7 – Inventories to the consolidated financial statements.</i></p> <p>The Company's stockpiled ore and ore in-circuit inventory balances amounted to \$5.7 million and \$1.6 million, respectively, as at December 31, 2022. Inventories are stated at the lower of weighted average cost and net realizable value (NRV). The NRV of stockpiled ore and ore in-circuit inventory is calculated by management based on estimated recoverable ounces of gold within stockpiled ore and ore in-circuit inventory, and the forecasted gold price per ounce, less the estimated costs of completion and selling expenses. If there is a subsequent increase in the value of stockpiled ore or ore in-circuit, the previous write-downs to NRV are reversed to the extent that the related inventory has not been sold. During the year, stockpiled ore was written down by \$2.2 million to its NRV. No NRV write-down was recorded for ore in-circuit inventory.</p> <p>We considered this a key audit matter due to the significant judgment applied by management in developing the NRV, including assumptions related to estimated recoverable ounces of gold within stockpiled ore and ore in-circuit inventory, the forecasted gold price per ounce, estimated costs of completion and selling expenses. This, in turn, led to a high degree of auditor judgment,</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested how management determined the net realizable value of stockpiled and ore in-circuit inventory, which included the following:<ul style="list-style-type: none"><li>– Tested the mathematical accuracy of the NRV realizable value calculations.</li><li>– Tested underlying data used in the NRV calculations.</li><li>– Evaluated the reasonableness of assumptions used by management by comparing:<ul style="list-style-type: none"><li>◦ the forecasted gold price per ounce with external market and industry data; and</li><li>◦ the estimated costs of completion and selling expenses with recent actual costs incurred.</li></ul></li></ul></li><li>• The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable ounces of gold within stockpiled ore and ore in-circuit inventory. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions</li></ul>



Key audit matter	How our audit addressed the key audit matter
subjectivity and effort in performing procedures and evaluating audit evidence relating to these assumptions used by management.	used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

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### Other information

Management is responsible for the other information. The other information comprises 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.

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

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

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

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

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



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## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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



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

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

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

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
April 14, 2023



**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
Expressed in thousands of United States dollars

As at	Note	December 31, 2022	December 31, 2021
<i>(Restated Note 3(p))</i>			
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 523	\$ 1,944
Receivables	6	1,180	38
Inventories	7	9,971	6,864
Gold stream derivative asset	8	346	284
Prepaid expenses, and other		884	801
<b>Total current assets</b>		<b>12,904</b>	<b>9,931</b>
<b>Advances and other prepaid expenses</b>		<b>3</b>	<b>251</b>
<b>Gold stream derivative asset</b>	8	<b>-</b>	<b>263</b>
<b>Exploration and evaluation assets</b>	9	<b>765</b>	<b>765</b>
<b>Mineral property, plant and equipment</b>	10	<b>31,499</b>	<b>43,762</b>
<b>TOTAL ASSETS</b>		<b>\$ 45,171</b>	<b>\$ 54,972</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 12,678	\$ 4,984
Term loans	12	2,771	3,981
Derivative liability	12	18	-
Provision for reclamation and rehabilitation	13	689	1,043
<b>Total current liabilities</b>		<b>16,156</b>	<b>10,008</b>
<b>Accrued liabilities</b>	11	<b>1,131</b>	<b>368</b>
<b>Provision for reclamation and rehabilitation</b>	13	<b>1,944</b>	<b>1,245</b>
<b>Term loans</b>	12	<b>12,270</b>	<b>17,383</b>
<b>Total liabilities</b>		<b>31,501</b>	<b>29,004</b>
<b>Shareholders' equity</b>			
Share capital	14	88,021	88,259
Contributed surplus	14	12,087	11,603
Accumulated other comprehensive income		1,402	1,763
Deficit		(87,840)	(75,657)
<b>Total shareholders' equity</b>		<b>13,670</b>	<b>25,968</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 45,171</b>	<b>\$ 54,972</b>

Approved by the Audit Committee of the Board of Directors on April 10, 2023

"John Hick", Audit Committee Chair

"Akiba Leisman", Director

Events after the reporting period (Note 23)

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



**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
Expressed in thousands of United States dollars, except per share amounts

For the year ended	Note	December 31, 2022	December 31, 2021
			<i>(Restated Note 3 (p))</i>
<b>Revenue</b>		\$ 62,931	\$ 35,241
<b>Production services revenue</b>	8 & 15(e)(ii)	444	256
		63,375	35,497
<b>Cost of sales</b>			
Production costs		(30,993)	(15,826)
Write-down of inventories		(2,200)	-
Depreciation, depletion and amortization		(20,346)	(7,211)
		(53,539)	(23,037)
<b>Mine operating profit</b>		9,836	12,460
<b>Exploration and evaluation expenses</b>		(11,517)	(5,687)
<b>General and administrative expenses</b>	20	(6,232)	(6,332)
<b>Other income (expense)</b>			
Accretion and interest expense	21	(2,324)	(1,453)
Change in provision for reclamation and rehabilitation	13	185	(311)
Change in fair value of derivative liability	12(c)	71	(89)
Gain on gold stream derivative asset	8	13	670
Gain on disposal of subsidiaries	6	-	12,009
Foreign exchange loss		84	(936)
Interest income		2	133
<b>(Loss) income before income taxes</b>		(9,882)	10,464
Income tax expense		(2,095)	(501)
<b>(Loss) income for the year</b>		\$ (11,977)	\$ 9,963
<b>Other comprehensive (loss) income</b>			
(Loss) income for the year		(11,977)	9,963
Items subject to reclassification into statement of loss:			
Reclassification of foreign currency translation upon disposal of subsidiaries	5	-	(2,013)
Foreign currency translation adjustment		(361)	142
<b>Other comprehensive loss for the year</b>		(361)	(1,871)
<b>Comprehensive (loss) income for the year</b>		\$ (12,338)	\$ 8,092
Basic and diluted (loss) income per common share		\$ (0.18)	\$ 0.15
Weighted average common shares outstanding (thousands)		65,800	65,806

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





## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Expressed in thousands of United States dollars

	Number of shares (000s)	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit (Restated Note 3 (a))	Total
<b>Balance at December 31, 2020</b>	65,613	\$ 87,262	\$ 11,634	\$ 3,634	\$ (85,620)	\$ 16,910
Shares issued on exercise of options	318	621	-	-	-	621
Transfer of option value	-	376	(376)	-	-	-
Share-based compensation	-	-	345	-	-	345
Net income	-	-	-	-	9,963	9,963
Other comprehensive loss	-	-	-	(1,871)	-	(1,871)
<b>Balance at December 31, 2021 (Restated)</b>	<b>65,931</b>	<b>\$ 88,259</b>	<b>\$ 11,603</b>	<b>\$ 1,763</b>	<b>\$ (75,657)</b>	<b>\$ 25,968</b>
Shares cancelled	(208)	(289)	-	-	(206)	(495)
Common shares issued on DSU vesting	20	51	(51)	-	-	-
Share-based compensation	-	-	535	-	-	535
Net loss	-	-	-	-	(11,977)	(11,977)
Other comprehensive loss	-	-	-	(361)	-	(361)
<b>Balance at December 31, 2022</b>	<b>65,743</b>	<b>\$ 88,021</b>	<b>\$ 12,087</b>	<b>\$ 1,402</b>	<b>\$ (87,840)</b>	<b>\$ 13,670</b>

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Expressed in thousands of United States dollars

For the year ended	Note	December 31, 2022	December 31, 2021
			<i>(Restated Note 3 (p))</i>
<b>Operating activities</b>			
Net (loss) income for the year	\$	(11,977)	\$ 9,963
Non-cash items:			
Accretion and interest expense		79	19
Depreciation, depletion and amortization		20,452	7,231
Change in provision for reclamation and rehabilitation		(185)	311
Writedown of inventory		2,200	-
Lease interest		7	-
Financing costs		565	143
Change in fair value of derivative liability		(71)	89
Gain on gold stream derivative asset		202	(547)
Gain on disposal of subsidiaries		-	(12,009)
Interest expense		1,673	926
Share-based payments		544	340
Unrealized foreign exchange loss		(343)	24
	\$	13,146	\$ 6,490
Changes in non-cash working capital	19	3,234	(3,917)
Net cash provided by operating activities		16,380	2,573
<b>Investing activities</b>			
Cash proceeds received, net of cash given up on disposal of subsidiaries		-	(13)
Expenditures on mineral property, plant and equipment		(8,799)	(6,288)
Net cash used in investing activities	\$	(8,799)	\$ (6,301)
<b>Financing activities</b>			
Purchase of common shares - NCIB		(495)	-
Drawdown on term loans		-	14,001
Repayment of term loans		(8,467)	(11,507)
Payments on lease liability		(24)	-
Proceeds on exercise of options		-	621
Net cash (used in) provided by financing activities	\$	(8,986)	\$ 3,115
Effect of foreign exchange on cash and cash equivalents		(16)	(76)
<b>Change in cash and cash equivalents</b>		<b>(1,421)</b>	<b>(689)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>1,944</b>	<b>2,633</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>523</b>	<b>\$ 1,944</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

All tabular amounts are in thousands of United States dollars unless otherwise stated

### 1. NATURE OF OPERATIONS

Mako Mining Corp. (“Mako” or the “Company”) was incorporated on April 1, 2004, under the laws of the Yukon Territory and continued into British Columbia under the British Columbia Corporations Act. The Company is listed on the TSX Venture Exchange (“TSX-V”) under the symbol MKO. The address of the Company’s corporate office and principal place of business is Suite 700 – 838 West Hastings Street, Vancouver, BC, V6C 0A6, Canada.

Mako is a gold mining and exploration company. The Company’s primary asset is the San Albino mine, an open pit mine located in Nicaragua, which commenced commercial production on July 1, 2021. In addition to its mining operation, Mako continues to explore its other concessions in Nicaragua.

On March 8, 2023, the Company effected the consolidation of all of its issued and outstanding common shares on the basis of one new common share for ten previously issued and outstanding common shares (the “Share Consolidation”). All share and per share amounts in these consolidated financial statements have been adjusted retroactively to reflect this change.

### 2. BASIS OF PRESENTATION

#### (a) Statement of compliance

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

These consolidated financial statements were approved for issuance by the Board of Directors on April 10, 2023.

#### (b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value.

#### (c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions, balances, revenues and expenses have been eliminated upon consolidation.

Subsidiaries are included in the consolidated financial statements from the date of acquisition or control until the date of disposition or until control ceases. Control exists when the Company has exposure or rights to variable returns from its involvement with an entity, and the ability to affect those returns through its power over the entity.

The consolidated financial statements of the Company include the following subsidiaries:

Subsidiary	Referred to as	Place of incorporation	Ownership interest	Principal activity
Gold Belt, S.A.	“Gold Belt”	Nicaragua	100%	Holds mineral interest in Nicaragua, exploration activities.
Marlin Gold Mining Ltd.	“Marlin”	Canada	100%	Parent of Marlin Trading, Oro Gold and Prestadora. Disposed on March 31, 2021
Marlin Gold Trading Inc.	“Marlin Trading”	Barbados	100%	Commodity streaming company. Disposed on March 31, 2021
Nicoz Resources, S.A.	“Nicoz”	Nicaragua	100%	Holds mineral interest in Nicaragua, San Albino mine and exploration activities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

All tabular amounts are in thousands of United States dollars unless otherwise stated

Subsidiary	Referred to as	Place of incorporation	Ownership interest	Principal activity
Oro Gold de Mexico, S.A. de C.V.	"Oro Gold"	Mexico	100%	Holds mineral interest in Mexico, La Trinidad mine. Disposed on March 31, 2021
Prestadora de Servicios Zacatecas, S.A. de C.V.	"Prestadora"	Mexico	100%	Performs payroll functions in Mexico. Dissolved on August 2, 2022.
Mako US Corp.	"Mako US"	United States	100%	Incorporated on June 19, 2019, service company

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Cash and cash equivalents

Cash and cash equivalents include cash, term deposits and short-term highly liquid investments with an original term to maturity of three months or less.

#### (b) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated statement of income and comprehensive income immediately. Transaction costs are expensed as incurred.

#### (c) Functional and presentation currency

The financial statements of each company within the consolidated group are measured using their functional currency which is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, Mako, is the Canadian dollar and the functional currencies of its subsidiaries are:

- Marlin (disposed on March 31, 2021) – Canadian dollar ("C\$");
- Mako US, Gold Belt, Nicoz, Oro Gold (disposed on March 31, 2021) and Marlin Trading (disposed on March 31, 2021)– United States dollar ("US dollar"); and
- Prestadora – Mexican peso (dissolved on August 2, 2022).

The presentation currency of these consolidated financial statements is the US dollar.

#### *Transactions and balances*

Transactions in currencies other than the entity's functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the financial reporting date while non-monetary assets and liabilities are translated at historical rates. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statement of income and comprehensive income.

#### *Parent and subsidiary companies*

The financial statements of entities that have a functional currency different from the presentation currency are translated into US dollars as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position; and



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

All tabular amounts are in thousands of United States dollars unless otherwise stated

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- income and expenses are translated at the average rate for the applicable period (as this is considered a reasonable approximation to actual rates); items such as depreciation are translated at the monthly average exchange rate.

All resulting changes are recognized in other comprehensive income as currency translation differences and taken into a separate component of equity. These differences are recognized in the consolidated statement of loss in the period in which the operation is disposed of.

### (d) Inventories

Inventories are valued at the lower of weighted average cost and net realizable value (“NRV”). NRV is the estimated selling price, less the estimated costs of completion and selling expenses. For supplies and spare parts NRV is estimated based on replacement costs. Any write-downs of inventory to NRV are recorded as cost of sales in the consolidated statement of income or loss. If there is a subsequent increase in the value of inventories, the previous write-downs to NRV are reversed to the extent that the related inventory has not been sold.

Inventory includes work in progress inventory in the form of stockpiled ore and ore in-circuit inventory, finished goods inventory, and supplies and spare parts.

- Stockpiled ore represents unprocessed ore that has been mined and is available for future processing. Stockpiled ore is measured by estimating the number of tonnes through physical surveys and contained ounces through grade reconciliation via the ore control process.
- Ore in-circuit inventory represents material that is currently being processed to extract the contained gold into a saleable form, typically unrefined doré. The amount of gold in-circuit is determined by assay values and by measure of the various gold bearing materials in the recovery process.
- Finished metal inventory consists of gold in doré awaiting refinement, or bullion.
- Supplies and spare parts inventory consists of consumables used in operations, such as fuel, chemicals, reagents and spare parts.

Cost of work in progress inventory and finished goods includes all direct costs incurred in production including mining; crushing, leaching and processing; site administration costs; and allocated indirect costs, including depreciation and amortization of mineral property, plant and equipment. Inventory costs are charged to production costs on the basis of the quantity of metal sold. Cost of supplies and spare parts inventory include acquisition, freight and other directly attributable costs.

### (e) Exploration and evaluation expenditures

All exploration and evaluation expenditures are expensed, except for costs related to the acquisition of exploration and evaluation assets which are capitalized.

Management reviews the capitalized costs on its exploration and evaluation assets to consider if there is an impairment to take into consideration arising from current exploration results and management’s assessment of the exploration results and of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. Indicators of impairment considered by management include: (i) the duration which the Company has the right to explore in the area has expired during the year or will expire in the near future, (ii) substantive expenditure on further exploration for an evaluation of mineral resources in the area is neither budgeted nor planned, (iii) based on the technical reports prepared by management’s experts, whereby sufficient data exists to support that extracting the mineral resources will not be technically feasible or commercially viable and (iv) other facts and circumstances suggest that the carrying amount exceeds the



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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recoverable amount. If a property is abandoned, or considered to have no future economic potential, the acquisition and accumulated exploration and evaluation costs are written off to the statement of income. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are tested for impairment and then reclassified to development assets within mineral property, plant and equipment.

(f) Right-of-use asset and lease liabilities

The Company assesses whether a contract is or contains a lease at inception of a contract. The Company recognizes a right-of-use asset ("ROU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease, with the following exceptions:

- the Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months or
- for leases of low value.

The ROU asset is initially measured based on the present value of lease payments, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured at cost less accumulated amortization and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments and any variable lease payments where variability depends on an index or rate, less any lease incentives. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the ROU assets and lease liabilities. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the consolidated statements of loss and comprehensive loss.

(g) Mineral property, plant and equipment

*Mineral properties*

Mineral properties are carried at cost, less accumulated depletion and any accumulated impairment charges. Costs include:

- The fair value of mineral properties acquired;
- The carrying value, less impairments, of exploration and evaluation assets reclassified to development assets;
- Development costs on an area of interest once management has determined the property has achieved technical feasibility and commercial viability. Development expenditures include operating and site administration costs;
- Development costs are capitalized when it is probable that additional economic benefit will be derived from future operations.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All tabular amounts are in thousands of United States dollars unless otherwise stated

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Mining properties are depleted over the economic life of the property on a units-of-production basis based on recoverable ounces from the estimated measured and indicated and inferred resources that are reasonably expected to be converted to proven and probable reserves.

Capitalization of costs incurred ceases when the mining property is capable of commencement of mining operations in the manner intended by management. Costs incurred prior to this point, including depreciation of related plant and equipment, are capitalized. The Company applies judgment in its assessment of when a mine is capable of operating in the manner intended by management which takes account of the design of the mine and the nature of the initial commissioning phase of the mine. Costs incurred after the property is placed into production that increase production volume or extend the life of a mine are capitalized.

### *Deferred Stripping*

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping.

During the development stage of the mine, stripping costs are capitalized as part of the cost of building, developing and constructing the mine and are amortized once the mine has entered the production stage.

During the production stage of a mine, stripping costs are recorded as a part of the cost of inventories unless these costs are expected to provide a future economic benefit and, in such cases, are capitalized to mineral property, plant and equipment.

Production stage stripping costs provide a future economic benefit when:

- It is probable that the future economic benefit (e.g., improved access to the ore body) associated with the stripping activity will flow to the Company;
- The Company can identify the component of the ore body for which access has been improved; and
- The costs relating to the stripping activity associated with that component can be measured reliably.

Capitalized production stage stripping costs are amortized over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

### *Plant and equipment*

Plant and equipment are carried at cost, less accumulated amortization and impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Amortization is calculated over the useful life on a straight-line basis as follows: • Building - 10 years; • Equipment - 2 - 5 years. The plant was depreciated on a units-of-production basis based on recoverable ounces from the estimated measured, indicated and inferred resources through September 30, 2022 when the Company changed its depreciation method to straight-line. This was done to best reflect the expected pattern of consumption of the future economic benefits of the asset as well as its best estimate of the remaining useful life of the asset being 2 years from October 1, 2022.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### (h) Impairment of non-current assets

At each reporting period, the Company assesses whether there is an indication that an asset or group of assets may be impaired. When impairment indicators exist, or when the decision to proceed with the development of a particular project is taken based on its technical and commercial viability, the Company estimates the recoverable amount of the asset or group of assets and compares it against the carrying amount. The recoverable amount is the higher of the fair value less costs of disposal and the asset's value in use. If the carrying value exceeds the recoverable amount, an impairment loss is recorded in the consolidated statement of comprehensive income for the period.

In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. The cash flows are based on best estimates of expected future cash flows from the continued use of the asset.

### (i) Provision for reclamation and rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when the environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the dismantling, remediation and ongoing treatment and monitoring of a mine and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operation license conditions and, when applicable, the environment in which the mine operates. Discount rates using a pre-tax rate that reflects the time value of money and the risk associated with the liability are used to calculate the net present value. These costs are capitalized and then charged against the consolidated statement of loss over the economic life of the related asset, through amortization using the unit-of-production. The corresponding liability is progressively increased as the effect of discounting unwinds creating a finance expense in the consolidated statement of income.

Decommissioning costs are also adjusted at each reporting date for changes in estimates. These may include revised expected cash flows, the timing of the cash flows and discount rate. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in the consolidated statement of income. The operations of the Company have been, and may in the future be, affected by changes in environmental regulations, including those for site restoration costs.

### (j) Share-based payments awards

The grant date fair value of the estimated number of share-based payments awarded to employees, officers and directors that will eventually vest, is recognized as share-based compensation expense over the vesting period of the stock options with a corresponding increase to equity. The grant date fair value of each stock option is estimated on the date of the grant using the Black-Scholes option-pricing model and is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest and adjusts the amount of recorded compensation expense accordingly. The impact of the revision of the original





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estimates, if any, is recognized in the statement of operations or capitalized in mining properties such that the accumulated expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

For transactions with non-employees, the fair value of equity settled awards is measured at the fair value of the goods or services received, at the date the goods or services are received by the Company. In cases where the fair value of goods or services received cannot be reliably estimated, the Company estimates the fair value of the awards at the date of grant.

### (k) Revenue recognition

The Company's primary source of revenue is from the sale of gold. The refiners who received doré from the Company, refine the materials on the Company's behalf.

Refined metals are sold at spot prices and revenue is recognized on the trade settlement date.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when control has transferred, which is generally considered to occur when title passes to the customer. Once the title has passed to the customer, the significant risks and rewards of ownership have been transferred and the customer is able to direct the use of and obtain substantially all of the remaining benefits from the goods. Revenue from the sale of silver is accounted for as a by-product and is recorded as a credit to production costs.

### (l) Borrowing costs

Borrowing costs are recognized as interest expense in the period in which they are incurred except where they are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use are capitalized as part of the cost of the asset. Capitalization of borrowing costs begin when there are borrowings and activities commence to prepare an asset for its intended use. Capitalization of borrowing costs ends when substantially all activity necessary to prepare a qualifying asset for its intended use are complete. Borrowing costs directly attributable to the construction of the San Albino Property have been capitalized within construction in progress costs.

### (m) Income tax

Income tax is recognized in net income (loss) for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity, respectively.

Deferred tax is provided using the balance sheet method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



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Mining taxes and royalties are considered to have the characteristics of an income tax when they are imposed under government authority and the amount payable is calculated by reference to taxable income. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are recognized as current provisions and included in cost of sales.

### (n) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments are initially recorded at fair value, adjusted for directly attributable transaction costs. The Company determines each financial instrument's classification upon initial recognition. Measurement in subsequent periods depends on the financial instrument's classification.

#### Financial assets

Financial assets are classified and measured at: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. Measurement and classification of financial assets is dependent on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset i.e. whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

#### *Financial assets at amortized cost (debt instruments)*

The Company measures financial assets at amortized cost if both of the following conditions: the financial asset is held with the objective to collect contractual cash flows; and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI"). This is referred to as the SPPI test.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognized as part of finance income. Gains and losses are recognized when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include: cash equivalents; and receivables.

#### *Financial assets at FVTPL*

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value i.e. that fail the SPPI test. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at FVTPL in its entirety.

The Company's financial assets at FVTPL include: gold stream derivative.

#### *Impairment*

An expected credit loss ("ECL") impairment model applies which requires a loss allowance to be recognized based on ECLs. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the



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asset, discounted at the financial asset's original EIR, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

### Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

#### *Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments.

Gains or losses on financial liabilities at FVTPL are recognized in the consolidated statement of income.

The Company's financial liabilities at FVTPL include: derivative liability.

#### *Loans and borrowings and payables*

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income. Gains and losses are recognized when the financial liability is derecognized.

The Company's financial liabilities at amortized cost include:

- accounts payable; and
- term loan

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive loss.

#### (o) Fair value measurement

From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or a cash generating unit at fair value less cost of disposal ("FVLCD").

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.



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(p) Adoption of new accounting policy

(i) Mineral property, plant and equipment - proceeds before intended use

On January 1, 2022, the Company adopted Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16). The amendments prohibit an entity from deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

These condensed interim consolidated financial statements now reflect the reversal of the pre-commercial revenue of \$4,562,494 and related cost of sales of \$3,622,640 which was previously recorded against mineral property, plant and equipment during the year ended December 31, 2021.

The adoption of this accounting policy is made retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

There was no impact on the consolidated statement of financial position as at January 1, 2021.

Impact on the consolidated statement of financial position as at December 31, 2021, is as follows:

	<b>As previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Mineral property, plant and equipment	42,912	850	43,762
Total assets	54,122	850	54,972
Accumulated other comprehensive income	1,751	12	1,763
Deficit	(76,495)	838	(75,657)
Total shareholder's equity	25,118	850	25,968
Total liabilities and shareholder's equity	54,122	850	54,972

Impact on the consolidated statement of loss and comprehensive loss and the consolidated statement of cash flows for the year ended December 31, 2021, is as follows:

	<b>As previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Revenue	30,934	4,563	35,497
Cost of sales	(19,414)	(3,623)	(23,037)
Income for the year	9,125	838	9,963
Comprehensive income for the year	7,242	850	8,092

	<b>As previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Net income for the year	9,125	838	9,963
Changes in non-cash working capital	(3,916)	(1)	(3,917)
Net cash provided (used by) operating activities	137	2,436	2,573
Net cash used in (funded by) investing activities	(3,864)	(2,437)	(6,301)



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### (q) Accounting pronouncements not yet adopted

The following is a listing of amendments, revisions and new international financial reporting standards issued but not yet effective. The Company is currently assessing the impact of adopting the following standard on the consolidated financial statements, as described below:

- *IAS 1 - Presentation of financial statements ("IAS 1")*: On January 23, 2020, the IASB issued an amendment to IAS 1 providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity, instruments, and other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1 2023 and are to be applied retrospectively, with early adoption permitted. The Company is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Outlined below are all of the areas which require management to make significant estimates and assumptions in determining carrying values.

### (a) Commercial production

The determination of when a mine is in the condition necessary for it to be capable of operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgment. In making this determination, management will consider several factors, including:

- when the mine is substantially complete and ready for its intended use;
- the mine has the ability to sustain ongoing production at a steady or increasing level;
- the mine has reached a level of predetermined percentage of design capacity;
- mineral recoveries are at or near the expected production level, and;
- a reasonable period of testing of the mine plant and equipment has been completed.

On July 1, 2021, these conditions were met at the San Albino mine and the Company declared commercial production.

### (b) Estimated mineral resources

Mineral resources are estimates of the amount of metal that can be extracted from the Company's properties, considering both economic and legal factors. The Company estimates the quantity and/or grade of its mineral



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resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires judgments to interpret the complex geological data. Calculating mineral resources is based upon factors such as estimates of metallurgical recoveries along with geological assumptions and judgments made in estimating the size, and grade of the ore body. Changes in the mineral resources may affect the Company's financial position in a number of ways, including:

- asset carrying values may be affected due to changes in estimated future cash flows;
- depreciation charges in the Company's consolidated statement of comprehensive loss may change when such charges are determined by the unit-of-production basis, or when the useful lives of assets change; and
- provision for reclamation liabilities balances may be affected as the estimated timing of reclamation activities is adjusted for changes in the estimated mine life as determined by the available mineral resources.

### (c) Deferred income taxes

The determination of income tax expense and deferred income tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretation of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred income taxes or the timing of tax payments.

### (d) Impairment of non-current assets

Management applies significant judgment in its assessment and evaluation of asset or cash generating units at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral properties, plant and equipment. External sources of information considered are changes in the Company's economic, legal and regulatory environment, which it does not control, but affect the recoverability of its mining assets. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Calculating the fair value less costs of disposal of cash generating units for impairment tests requires management to make estimates and assumptions with respect to future production levels, operating, capital and closure costs, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair values could impact the impairment analysis.

### (e) Reclamation and remediation provisions

Reclamation and remediation provisions represent the present value of estimated future costs for the reclamation of the Company's mines and properties. These estimates include assumptions as to the cost of services, timing of the reclamation work to be performed, inflation rates, foreign exchange rates and interest rates. The reclamation and closure estimates are more uncertain the further into the future the activities are to be performed.

The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mine. Management periodically reviews the reclamation requirements as new information becomes available and will assess the impact of new regulations and laws as they are enacted. Any changes to assumptions will result in an adjustment to the provision which affects the Company's liabilities and either its mineral property, plant and equipment or statement of income.



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### (f) Depreciation, depletion and amortization

The Company uses the units of production method to deplete mineral properties and the straight-line method to amortize plant and equipment. The calculation of the unit of production rate and the useful life and residual values of plant and equipment, and therefore the annual depletion and depreciation expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of changes in the Company's mine plans, changes in the estimation of mineral resources and changes in the estimated remaining life or residual value of plant and equipment.

### (g) Functional currency determination

The functional currency is the currency of the primary economic environment in which the parent entity and each of its subsidiaries operate. Determination of functional currency may involve certain judgments to identify the primary economic environment. Management reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

### (h) Stockpiled ore and ore in-circuit net realizable value

Management applies significant judgment in developing the NRV of stockpiled ore and ore in-circuit inventory, including assumptions related to estimated recoverable ounces of gold within stockpiled ore and ore in-circuit inventory, the estimated forecasted gold price per ounce, estimated costs of completion and selling expenses.

## 5. DISPOSAL OF SUBSIDIARIES

On March 31, 2021, Mako completed the transaction whereby GR Silver acquired 100% of the shares in the Company's wholly-owned subsidiary, Marlin ("GR Silver Transaction"). Marlin (incorporated in Canada) is the parent company of Oro Gold (incorporated in Mexico), which owns the La Trinidad mine in Sinaloa, Mexico; and Marlin Trading (incorporated in Barbados) (collectively, the "Marlin Group"). Mako will continue to be responsible for all necessary reclamation obligations until it receives an acknowledgement from SEMARNAT (the Mexican environmental authority) that Oro Gold's closure plan is complete (refer to note 13) and the final installment of the settlement agreement entered into in October 2019 with the Company's mining contractor in Mexico (paid on September 29, 2021). In consideration for the sale of the common shares of Marlin to GR Silver, Mako received C\$50,000 in cash, a 1% NSR on all concessions currently owned by Oro Gold and the assumption of liability by GR Silver of approximately US\$9.5 million in unpaid concession taxes. GR Silver was also granted the right to purchase the NSR at any time upon making a one-time payment of US\$2,000,000.

	\$
Cash consideration (C\$50,000), received	40
Carrying value of the Marlin Group net liabilities disposed on March 31, 2021:	10,022
	10,062
Out of pocket expenses	(75)
Reclassification of cumulative translation adjustment from AOCI upon disposal of subsidiaries	2,022
Gain on disposal of subsidiaries	12,009



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### 6. RECEIVABLES

As at	December 31, 2022	December 31, 2021
Trade receivable	\$ 1,098	\$ 6
Other	82	32
	\$ 1,180	\$ 38

### 7. INVENTORIES

As at	December 31, 2022	December 31, 2021
		(Restated)
Stockpiled ore	\$ 5,737	\$ 4,190
Ore in-circuit	1,566	1,567
Finished metal	261	164
Supplies and spare parts	2,407	943
	\$ 9,971	\$ 6,864

As at December 31, 2022, ore in-circuit and finished metal were recorded at cost, and stockpiled ore was recorded at NRV. During the year ended December 31, 2022, stockpiled ore was written down by \$2,163,090. As at December 31, 2021, stockpiled ore, ore in-circuit and finished metal were recorded at cost.

The comparative December 31, 2021, inventory classification has been restated from the classification in the December 31, 2021 annual financial statements, whereby stockpile ore increased by \$2,622,735 and ore-in circuit decreased by \$2,622,735.

### 8. GOLD STREAM DERIVATIVE ASSET

Gold stream derivative asset arises from the amended gold stream agreement the Company entered into with Sailfish Royalty Corp ("Sailfish") (also refer to note 15 (e)) in November 2018 whereby the Company received \$1,096,051 (the "Gold Stream Advance") which was recorded as a credit to the mineral property. At that time, it was determined to be a disposition of mineral interest. In return for the Gold Stream Advance, the Company is required to deliver 4% of gold production to Sailfish and is to receive a payment at 25% of the market price of the gold delivered. Effectively the Company sold 4% of the property and is being paid for services relating to the processes required to obtain the finished metal. As the price of gold is not closely related to the price of the services being provided, the contract to provide these services contains an embedded derivative that requires separation from the host contract.

The contract to deliver to Sailfish its 4% of gold production, in return for 25% of the market value of the gold delivered, contains an embedded derivative that was previously of minimal value. This derivative consists of a "swap" of the variable payment based on the price of gold for the fixed price implied by the contract. As at December 31, 2022, this derivative was determined to be an asset of \$345,696 (2021 - \$547,468) based on current spot and future gold prices, and projected deliveries under the contract of which \$345,696 (2021 - \$284,126) is disclosed as a current asset and \$nil (2021 - \$263,342) as non-current asset in the statement of financial position.

For the year ended December 31, 2022, the Company delivered a total of 1,467 (2021 - 845) ounces of gold to Sailfish, pursuant to this agreement. In exchange the Company received \$659,030 (2021 - \$378,439), resulting in a fair value movement on the derivative of \$12,952 (2021 - \$670,106) for the year ended December 31, 2022.





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### 9. EXPLORATION AND EVALUATION ASSETS

The following exploration and evaluation assets (acquisition costs) are located in Nicaragua:

	Potrerrillos	El Jicaro	Total
Balance, December 31, 2022 and December 31, 2021	\$ 645	\$ 120	\$ 765

### 10. MINERAL PROPERTY, PLANT AND EQUIPMENT

	Mineral property	Plant	Construction in progress	Land and Building	Equipment	Right-of-use asset	Total
<b>Cost</b>							
As at December 31, 2020	\$ -	\$ -	\$ 43,009	\$ 2,005	\$ 1,187	\$ -	\$ 46,201
Additions	256	507	4,140	1,242	475	-	6,620
Asset retirement obligation	871	349	(733)	-	-	-	487
Foreign currency translation adjustment	105	33	(184)	-	-	-	(46)
Transfer to mineral property	9,077	-	(9,077)	-	-	-	-
Transfer to plant	-	37,155	(37,155)	-	-	-	-
Reclass	-	-	-	-	-	-	-
<b>As at December 31, 2021</b>	<b>\$ 10,309</b>	<b>\$ 38,044</b>	<b>\$ -</b>	<b>\$ 3,247</b>	<b>\$ 1,662</b>	<b>\$ -</b>	<b>\$ 53,262</b>
<i>(Restated, note 3 (p))</i>							
Additions	-	780	-	2,144	1,916	353	5,193
Asset retirement obligation	499	-	-	-	-	-	499
Foreign currency translation adjustment	(259)	(82)	-	-	-	-	(341)
Deferred stripping	4,259	-	-	-	-	-	4,259
<b>As at December 31, 2022</b>	<b>\$ 14,808</b>	<b>\$ 38,742</b>	<b>\$ -</b>	<b>\$ 5,391</b>	<b>\$ 3,578</b>	<b>\$ 353</b>	<b>\$ 62,872</b>
<b>Accumulated depreciation</b>							
As at December 31, 2020	\$ -	\$ -	\$ -	\$ 114	\$ 789	\$ -	\$ 903
Depreciation	2,679	5,635	-	10	312	-	8,636
Foreign currency translation adjustment	(36)	(3)	-	-	-	-	(39)
<b>As at December 31, 2021</b>	<b>\$ 2,643</b>	<b>\$ 5,632</b>	<b>\$ -</b>	<b>\$ 124</b>	<b>\$ 1,101</b>	<b>\$ -</b>	<b>\$ 9,500</b>
<i>(Restated, note 3 (p))</i>							
Depreciation	6,695	14,554	-	22	787	29	22,087
Foreign currency translation adjustment	(179)	(35)	-	-	-	-	(214)
<b>As at December 31, 2022</b>	<b>\$ 9,159</b>	<b>\$ 20,151</b>	<b>\$ -</b>	<b>\$ 146</b>	<b>\$ 1,888</b>	<b>\$ 29</b>	<b>\$ 31,373</b>
Net book value as at December 31, 2020	\$ -	\$ -	\$ 43,009	\$ 1,891	\$ 398	\$ -	\$ 45,298
Net book value as at December 31, 2021	\$ 7,666	\$ 32,412	\$ -	\$ 3,123	\$ 561	\$ -	\$ 43,762
Net book value as at December 31, 2022	\$ 5,649	\$ 18,591	\$ -	\$ 5,245	\$ 1,690	\$ 324	\$ 31,499



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*La Trinidad Mine, Mexico*

On March 31, 2021, the Company completed the sale of Mako’s wholly-owned subsidiary, Marlin to GR Silver. GR Silver acquired 100% of the common shares of Marlin from the Company. Marlin owns, amongst other assets, Oro Gold, a Mexican company that owns the La Trinidad mine.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

<b>As at</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Accounts payable and accrued liabilities	\$ 10,897	\$ 4,399
Lease liability (Note 11 (a))	99	-
Income taxes payable (Note 20)	208	-
Sailfish Loan payment accrual (Note 12 (c))	368	366
Surface rights acquisitions	1,050	-
Due to related parties (Note 15)	56	219
<b>Total current liabilities</b>	<b>\$ 12,678</b>	<b>\$ 4,984</b>
<i>Non-current liability</i>		
Surface rights acquisitions	200	-
Lease liability (Note 11 (a))	238	-
Accrued liabilities (Note 11 (b))	693	368
<b>Total non-current liabilities</b>	<b>1,131</b>	<b>368</b>
<b>Total</b>	<b>\$ 13,809</b>	<b>\$ 5,352</b>

(a) Lease liability

	<b>\$</b>
As at December 31, 2021	-
Additions	354
Lease payments made	(24)
Finance charges	7
	337
Less: current portion	(99)
<b>As at December 31, 2022</b>	<b>238</b>

The lease liability was discounted at a discount rate of 6%.

	<b>\$</b>
Total lease payments payable for the next twelve months	99
Total lease payments payable for the next 1-3 years	206
Total lease payments payable for the next 4-5 years	72

(b) Severance Obligation

Non-current accrued liabilities include severance obligation for employees at the Company’s operations in Nicaragua of \$ 410,482 (2021 - \$205,548). The severance is computed based on the years of service at the average



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salary of the last six months of employment. Employees that work less than ten years have a maximum benefit of five months salaries. In some cases, those with more than ten consecutive years of service can receive an additional severance benefit of ten to twenty months salary when leaving the Company. The calculation is in line with labor regulations in Nicaragua.

**12. TERM LOANS**

As at	December 31, 2022	December 31, 2021
Wexford Loan (Note 12 (a))		
Accrued interest and cash bonus interest accrual	\$ 5,405	\$ 3,735
	5,405	3,735
Principal	15,150	15,150
Principal repayments made	(8,285)	(4,285)
	6,865	10,865
Total Wexford Loan	\$ 12,270	\$ 14,600
Sailfish Loan (Note 12 (c))	2,789	6,764
Total Term Loans	\$ 15,059	\$ 21,364
<i>Disclosed as follows:</i>		
Current liabilities	\$ 2,789	\$ 3,981
Non-current liabilities	12,270	17,383
	\$ 15,059	\$ 21,364

(a) Wexford Loan

On February 20, 2020, the Company entered into a \$15,150,000 unsecured loan facility (the “Wexford Loan”) from Wexford Catalyst Trading Limited, Wexford Spectrum Trading Limited and Debello Trading Limited (collectively, the “Lenders”), each private investment funds managed by the Company’s controlling shareholder, Wexford Capital LP (“Wexford Loan Agreement”). The Wexford Loan may be prepaid at any time, in whole or in part, at par plus accrued but unpaid interest, without penalty or premium (“Obligations Termination Date”). The Wexford Loan bears interest at the rate of 10% per annum thereafter, which interest is payable semi-annually on June 30th and December 31st each year. The Company paid a non-refundable up-front fee of \$150,000 to the Lenders on the closing of the Wexford Loan. On August 12, 2022, the Lenders extended the maturity date from February 21, 2023 to March 31, 2024.

As at December 31, 2022 and 2021, the Wexford Loan was fully drawn.



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As at December 31, 2022, the accrued interest and cash bonus interest accrual, after the Company having received five waivers was as follows:

	\$
Accrued interest until June 30, 2021	1,659
Cash Bonus Interest – cash equivalent of 500 ounces of gold	933
Cash Bonus Interest – cash equivalent of 178.75 ounces of gold	332
Further Deferred Payment Amount	2,924
Accrued interest from July 1 to December 31, 2021	811
Accrued interest and cash bonus interest accrual as at December 31, 2021	3,735
Accrued interest	1,093
Cash Bonus Interest – cash equivalent of 321.25 ounces of gold	577
<b>Accrued interest and cash bonus interest accrual as at December 31, 2022</b>	<b>5,405</b>

In accordance with the Wexford Loan Agreement, as the Wexford Loan was not repaid in full on the first anniversary of the closing date, then the Company must pay to the Lenders a cash bonus interest equal to the cash equivalent of 500 ounces of gold on each successive anniversary of the closing date (“Cash Bonus Interest”). This resulted in the initial accrual of \$933,493 and a further accrual of \$331,264 in 2021. During the year ended December 31, 2022, the Company accrued an additional \$577,203. To date, the Company has accrued for the cash equivalent of 1,000 ounces of gold.

The applicable formula set out in the Wexford Loan Agreement is the principal amount less any principal repayments divided by the total loan facility multiplied by the price of gold based on the closing London Bullion Market monthly average.

During the year ended December 31, 2022, the Company recorded \$1,668,984 of accrued interest and cash bonus interest on the Wexford Loan all of which has been expensed.

During the year ended December 31, 2021, the Company recorded \$2,829,850 of accrued interest on the Wexford Loan, of which \$2,007,661 was capitalized to construction in progress and \$822,189 of interest has been expensed.

#### *Fourth waiver*

On December 31, 2021, the Company received a fourth waiver from the Lenders extending the maturity date from August 20, 2021 to February 21, 2023 when all amounts will be due and repayable in full.

#### *Fifth waiver*

On August 12, 2022, the Company received a fifth waiver from the Lenders extending the maturity date from February 21, 2023 to March 31, 2024 when all amounts will be due and repayable in full.

#### *Repayments*

During the year ended December 31, 2022, the Company made voluntary principal repayments of \$3,999,970. During the year ended December 31, 2021, the Company made voluntary principal repayments of \$4,284,746.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### (b) Nebari Loan

On March 2, 2021, the Company completed a financing arrangement with Nebari Natural Resources Credit Fund I, LP (“Nebari”), whereby Nebari provided financing of \$6,340,000 (the “Principal Amount”) (the “Nebari Loan”). The interest rate on the Principal Amount is 8% with an original issue discount of 5.3% and a maturity date of March 31, 2022. There are no prepayment penalties. The interest rate increases to 20% on any unpaid amount owing in an event of default. The Company has paid Nebari a fee of \$10,000 to provide the bridge loan. The Financing is secured by a pledge of shares in favour of Nebari of the Company’s Nicaraguan subsidiaries, Gold Belt and Nicoz. The Nebari Loan further provides that if the Company makes any prepayment under the Wexford Loan (the “Wexford Repayment Amount”), the Company shall make a mandatory prepayment to Nebari (the “Lender Prepayment Amount”) in at least the amount necessary such that to the quotient obtained by dividing the Lender Prepayment Amount by the Wexford Repayment Amount is greater to or equal to 0.418 and such prepayment shall be applied against the Principal Amount.

On July 29, 2021, the Company made a voluntary principal prepayment of \$209,000 on the Nebari Loan and on August 30, 2021, the Nebari Loan was repaid in full. As at December 31, 2022 and 2021, the Nebari Loan outstanding was \$nil.

During the year ended December 31, 2021, the Company paid \$537,202 interest.

### (c) Sailfish Loan and Derivative Liability

On August 27, 2021, the Company entered into a \$8,000,000 unsecured gold-linked two-year term loan with Sailfish Royalty Corp. (“Sailfish”), a company related by common shareholders and director (the “Sailfish Loan”). The Sailfish Loan is to be repaid with 24 monthly payments, with each monthly payment equal to the cash equivalent of 205 ounces of gold at the average market gold price subject to a minimum price of \$1,750 and a maximum price of \$2,000 (the “Price Parameters”).

Management determined that the Sailfish Loan is a debt contract with an embedded derivative. By fixing the number of ounces that would have to be repaid to satisfy the debt obligation, the Company is essentially entering into a commodity forward. As the price of gold is not closely related to the host debt contract, the forward is required to be separated from the host contract and accounted for at fair value, with any movements going through the statement of income.

The embedded derivative being the fact that the cash payment is variable as it is linked to the fluctuating price of gold with the Price Parameters of a cap at \$2,000 and a floor at \$1,750 acting as call and put options respectively.

As at December 31, 2022, the Company revalued the embedded derivative within the Sailfish Loan and determined a \$17,605 (2021 - \$88,710) fair value. Assumptions associated with the revaluation includes expected future consensus gold price per ounce ranging from \$1,738 - \$1,797 (2021 - \$1,669 to \$1,797), volatility of gold futures ranging from 14.8% to 18.9% (2021 - 6.02% to 16.4%), risk free rate of 4.07% (2021 - 0.91%), and the gold price at \$1,828 (2021 - \$1,827) per ounce. As at December 31, 2022, the Company included in accounts payable an accrual of \$368,332 for the Sailfish Loan payment that was made in cash on January 5, 2023 based on the average gold price of \$1,797 per ounce. As at December 31, 2021, the Company included in accounts payable an accrual of \$366,263 for the Sailfish Loan payment that was made in cash on January 6, 2022, based on the December 2021 average gold price of \$1,787 per ounce.



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During the year ended December 31, 2022, the Company paid 12 monthly instalment repayments totaling \$4,466,792.

During the year ended December 31, 2021, the Company paid three monthly instalment repayments totaling \$1,101,740.

During the year ended December 31, 2022, the Company recorded \$493,850 of finance expense accretion on the Sailfish Loan, and \$17,497 and \$71,105 of fair value adjustment on the Sailfish Loan.

During the year ended December 31, 2021, the Company recorded \$143,469 of finance expense accretion on the Sailfish Loan, and \$88,710 of fair value adjustment on the Sailfish Loan.

	<b>Sailfish Loan \$</b>	<b>Derivative Liability \$</b>	<b>Total \$</b>
Fair value, at inception	8,000	-	8,000
Finance expense	143	-	143
Fair value adjustment	-	89	89
Loan repayments made	(1,102)	-	(1,102)
Accrual of loan payment (Note 11 (c))	(366)	-	(366)
As at December 31, 2021	6,675	89	6,764
Finance expense	565	-	565
Fair value adjustment	-	(71)	(71)
Loan repayments made	(4,467)	-	(4,467)
Change in accrual loan payment (Note 11 (c))	(2)	-	(2)
As at December 31, 2022	2,771	18	2,789
<i>Disclosed as follows:</i>			
Current liabilities	2,771	18	2,789
Non-current liabilities	-	-	-
	2,771	18	2,789



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 13. RECLAMATION AND REHABILITATION OBLIGATIONS

	San Albino Mine	La Trinidad Mine	Total
Balance, December 31, 2020	\$ 744	\$ 896	\$ 1,640
Acquired through business combination	-	-	-
Cash outflows for reclamation and rehabilitation activities	-	(170)	(170)
Changes in estimate	488	311	799
Accretion expense	14	5	19
<b>Balance, December 31, 2021</b>	<b>\$ 1,246</b>	<b>\$ 1,042</b>	<b>\$ 2,288</b>
Cash outflows for reclamation and rehabilitation activities	-	(49)	(49)
Changes in estimate	499	(185)	314
Accretion expense	75	5	80
<b>Balance, December 31, 2022</b>	<b>\$ 1,820</b>	<b>\$ 813</b>	<b>\$ 2,633</b>
<b>As at</b>		<b>December 31 2022</b>	<b>December 31 2021</b>
<i>Disclosed as follows:</i>			
Current portion		\$ 689	\$ 1,043
Long-term portion		1,944	1,245
		<b>\$ 2,633</b>	<b>\$ 2,288</b>

The Company has recognized liabilities relating to the La Trinidad mine and the San Albino Project and has determined that no significant closure and reclamation liabilities exist in connection with the activities on its other properties. The Company has calculated the present value of the closure and reclamation provision as at December 31, 2022, using the undiscounted estimate of cash outflows associated with reclamation activities as \$3,028,358 (2021 - \$2,070,847), with \$848,043 associated to the La Trinidad mine and \$2,180,315 associated with the San Albino Project. The provision was determined using a discount rate of 4.11% - 4.74% (2021 - 0.39%-1.15%) and an inflation rate of 2.44% - 2.52% (2021 - 2.26%). The Company intends to complete the reclamation activities on La Trinidad by the end of 2024.

### 14. SHARE CAPITAL

- (a) Authorized – Unlimited number of common shares, without par value.
- (b) Issued
  - (i) On March 8, 2023, the Company consolidated its shares on a ten-for-one basis.. All share and per share amounts in these consolidated financial statements have been adjusted retroactively to reflect this change.
  - (ii) On October 19, 2021, the Company commenced a normal course issuer bid (“NCIB”) whereby the Company intended to purchase up to a maximum of 3,296,545 common shares (32,965,449 pre-Share



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Consolidation) in the capital of the Company. All common shares acquired by the Company under the NCIB are to be subsequently cancelled. Purchases under the NCIB ended on October 18, 2022.

During the year ended December 31, 2022, the Company purchased 208,100 common shares (2,081,000 pre-Share Consolidation) for \$494,815 (C\$633,515) and allocated \$289,238 (C\$358,265) to deficit. These common shares were cancelled.

As at December 31, 2021, no common shares of the Company were purchased.

(iii) On November 30, 2022, 20,600 common shares (206,000 pre-Share Consolidation) of the Company were issued on the vesting of 20,600 deferred share units (206,000 pre-Share Consolidation) and the fair value of \$50,812 was transferred from contributed surplus to share capital (refer to note 14 (f)).

(iv) During the year ended December 31, 2021, the Company issued 317,750 common shares (3,177,500 pre-Share Consolidation) on the exercise of 317,750 stock options (3,177,500 pre-Share Consolidation) for gross proceeds of \$621,599 (C\$763,006). The carrying value associated with these options was \$376,258 which was transferred from contributed surplus to share capital.

(c) Share purchase warrants

On January 16, 2022, 3,550,000 share purchase warrants (35,500,000 pre-Share Consolidation), exercisable at C\$0.60 per warrant and 150,000 Broker Warrants (1,500,000 pre-Share Consolidation), exercisable at C\$0.40 per warrant expired unexercised.

As at December 31, 2022, the Company had no share purchase warrants outstanding.

(d) Share options

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Number of options	WAEP	Number of options	WAEP
Opening balance	3,364,500	C\$2.67	4,828,250	C\$2.60
Granted	70,000	3.70	200,000	3.53
Forfeited	(5,000)	5.10	(445,750)	2.87
Exercised <sup>(1)</sup>	-	-	(317,746)	2.40
Expired	(59,500)	3.30	(900,254)	2.59
<b>Ending balance</b>	<b>3,370,000</b>	<b>C\$2.68</b>	<b>3,364,500</b>	<b>C\$2.67</b>
Options exercisable	3,240,000	C\$2.63	2,487,875	C\$2.62
Weighted average remaining contractual life (in years)	1.59		2.61	

WAEP = Weighted average exercise price

(1) The weighted average share price at the date of exercise for the year ended December 31, 2021 C\$0.38.

On February 1, June 13, August 21, and October 7, 2022, 25,000, 2,000, 17,500 and 15,000 options, (250,000, 20,000, 175,000 and 150,000 pre-Share Consolidation) exercisable at C\$3.70, C\$1.95, C\$2.60 and C\$3.50 per option, respectively, expired unexercised.





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On March 9, 2022, the Company granted 70,000 stock options (700,000 pre-Share Consolidation) of the Company exercisable to acquire one common share of the Company at an exercise price of C\$3.70 per share for a term of five years, expiring on March 9, 2027. The options vest as to 25% on the date of grant, and as to 25% on each of the first, second and third anniversary of the date of grant. The fair value of these options was calculated as \$101,856 (C\$130,800) using the Black-Scholes model.

During the year ended December 31, 2021, 445,750 unvested options (4,457,500 pre-Share Consolidation), with a weighted average exercise price of C\$2.87 per option, were forfeited, 49,754 vested options (497,500 pre-Share Consolidation), with a weighted average exercise price of C\$3.00 per option, expired unexercised and 850,500 (8,505,000 pre-Share Consolidation) vested options with an exercise price of C\$2.56 were cancelled.

On July 26, 2021, the Company granted 100,000 stock options (1,000,000 pre-Share Consolidation) of the Company exercisable to acquire one common share of the Company at an exercise price of C\$3.70 per share for a term of five years, expiring on July 26, 2026. The stock options vest as to 25% on the date of grant, and as to 25% on each of the first, second and third anniversary of the date of grant. The fair value of these options was calculated as \$151,120 (C\$189,784) using the Black-Scholes model.

On August 17, 2021, 61,250 stock options (612,500 pre-Share Consolidation) were exercised at a weighted average exercise price of C\$3.00 for gross proceeds to the Company of \$145,695 (C\$183,750). The weighted average share price at the date of exercise was C\$3.25.

In June 2021, 98,800 stock options (988,000 pre-Share Consolidation) were exercised at a weighted average exercise price of C\$2.45 for gross proceeds to the Company of \$200,857 (C\$242,500). The weighted average share price at the date of exercise was C\$4.11.

In May 2021, 95,200 stock options (952,000 pre-Share Consolidation) were exercised at a weighted average exercise price of C\$2.51 for gross proceeds to the Company of \$198,132 (C\$239,100). The weighted average share price at the date of exercise was C\$3.90.

On February 18, 2021, 25,000 stock options (250,000 pre-Share Consolidation) were exercised at C\$1.00 for gross proceeds to the Company of \$19,679 (C\$25,000). The weighted average share price at the date of exercise was C\$3.45.

On February 11, 2021, 18,750 and 18,750 stock options (187,500 and 187,500 pre-Share Consolidation, respectively) were exercised at C\$1.625 and C\$2.25 for gross proceeds to the Company of \$57,236 (C\$72,656). The weighted average share price at the date of exercise was C\$3.60.

On February 4, 2021, the Company granted 100,000 stock options (1,000,000 pre-Share Consolidation) to an officer of the Company exercisable to acquire one common share of the Company at an exercise price of C\$0.345 per share for a term of five years, expiring on February 4, 2026. The stock options vest as to 25% on the date of grant, and as to 25% on each of the first, second and third anniversary of the date of grant. The fair value of these options was calculated as \$149,139 (C\$190,628) using the Black-Scholes model.

During the year ended December 31, 2022, the Company recorded share-based payments expense of \$188,960 (2021 - \$360,668) of which \$188,960 (2021 - \$355,503) is included in general and administrative expenses and \$nil (2021 - \$5,165) is included in construction in progress.



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(e) Restricted share units (“RSU”)

On January 31, 2022, the Company granted 150,380 restricted share units (“RSU”) (1,503,800 pre-Share Consolidation) to senior executives. Each RSU will vest 50% on the first anniversary of the grant date (being January 31, 2023), 25% on the second anniversary of the grant date (being January 31, 2024) and 25% on December 1, 2024. Once vested, each RSU is exercisable into one common share entitling the holder to receive the common share for no additional consideration. The fair value was C\$0.32 per RSU with a total fair value of \$370,925 (C\$473,697) based on the market value of the underlying shares at the date of issuance.

For the year ended December 31, 2022, total share-based compensation relating to RSUs was \$242,237 (C\$309,352) of which all is included in general and administrative expenses.

At December 31, 2022, there were 150,380 RSUs (1,503,800 pre-Share Consolidation) outstanding.

(f) Deferred share units (“DSU”)

On January 31, 2022, the Company granted 131,840 deferred share units (“DSU”) (1,318,400 pre-Share Consolidation) to the Company’s directors. Each DSU will vest on the director’s termination of service and is exercisable into one common share entitling the holder to receive the common share for no additional consideration or receive the cash equivalent or a combination thereof.

The fair value was C\$0.32 per DSU with a total fair value of \$325,196 (C\$415,296) based on the market value of the underlying shares at the date of issuance.

On November 30, 2022, following the departure of a board member, 20,600 DSU (206,000 pre-Share Consolidation) vested and 206,000 common shares of the Company were issued and the fair value of \$50,812 (C\$64,890) was transfer from contributed surplus to share capital.

For the year ended December 31, 2022, total share-based compensation relating to DSUs was \$115,047 (C\$146,921) of which all is included in general and administrative expenses.

At December 31, 2022, there were 111,240 RSUs (1,112,400 pre-Share Consolidation) outstanding.

(g) The fair value of stock options and warrants are estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Options	Warrants	Options	Warrants
Risk-free interest rate	1.65%	N/A	0.64%	N/A
Expected dividend yield	-	N/A	-	N/A
Expected stock price volatility	58.06%	N/A	63.95%	N/A
Expected life in years	5 years	N/A	5 years	N/A
Forfeiture rate	0.00%	N/A	0.00%	N/A
Weighted average fair value	C\$1.91	N/A	C\$1.90	N/A



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### 15. RELATED PARTY TRANSACTIONS

(a) Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company, and comprise the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Directors.

	Year ended December 31,	
	2022	2021
Director fees	\$ 241	\$ 233
Salaries, consulting and management fees	1,223	2,050
Share-based compensation	476	289
Total	\$ 1,940	\$ 2,572

  

As at	December 31,	December 31,
	2022	2021
Amount included in accounts payable	\$ 56	\$ 216

During the year ended December 31, 2022, the Company granted bonuses of \$365,000 to three senior members of management and is disclosed in general and administrative expenses.

During the year ended December 31, 2021, the Company granted bonuses of \$650,000 to three senior members of management and paid severance of \$354,625 to the former Chief Financial Officer and VP Corporate Development. These amounts are disclosed in general and administrative expenses.

(b) Tes-Oro Mining Group, LLC ("Tes-Oro")

Tes-Oro is a private company controlled by the Company's Chief Operating Officer. Tes-Oro is a full-service engineering, procurement and construction management firm working with the Company. During the year ended December 31, 2022, the Company expensed fees relating to consulting services of \$6,141 (2021 - \$89,645), reclamation and rehabilitation expenses of \$21,842 (2021 - \$nil) and \$84,936 (2021 - \$123,092) in general office expenses. Amounts payable to Tes-Oro as at December 31, 2022, were \$nil (2021 - \$nil).

(c) Sonoran Resources, LLC ("Sonoran")

Sonoran is a private company controlled by the Company's Chief Operating Officer. Sonoran is a management, scientific, and technical consulting services industry firm which leases office equipment to the Company. During the year ended December 31, 2022, the Company expensed fees relating to general office expenses of \$2,581 (2021 - \$nil). Amounts payable to Sonoran as at December 31, 2022 were \$nil (2021 - \$nil).

(d) Wexford LP ("Wexford")

Wexford is the Company's controlling shareholder. Except as noted elsewhere in the financial statements, during the year ended December 31, 2022, the Company expensed fees of \$3,308 related to transaction costs (2021 - \$19,631). Amounts payable to Wexford as at December 31, 2022 were \$nil (2021 - \$2,874).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(e) Sailfish Royalty Corp. (“Sailfish”)

Sailfish is a publicly traded company related by common shareholders, officers (till December 17, 2021) and a director. In addition to the Sailfish Loan (note 12(c)), during the year ended December 31, 2022, the Company’s subsidiary Nicoz:

- i. received advances of \$641,018 (2021 - \$372,895) for the purchase of gold ounces;
- ii. sold 1,467 (2021 – 845) ounces of gold to Sailfish for \$659,030 (2021 - \$378,439) of which \$444,306 (2021 - \$255,801) is recorded as production services revenue and \$214,724 (2021- \$122,638) is included in the gain on gold stream derivative asset disclosed in the statement of income and comprehensive income.

As at December 31, 2022, \$23,556 is receivable from Sailfish (2021 –\$5,543).

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value hierarchy

Financial Instruments measured at fair value are classified into one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company’s financial instruments include cash and cash equivalents, receivables, accounts payable and the Term Loans. The carrying values of cash, receivables and accounts payables approximate fair value because of the short-term nature of these instruments or capacity of prompt liquidation.

The Company does not have any financial instruments that are measured using level 3 inputs. During the year ended December 31, 2022 there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

(b) Risk management objectives and policies

The Company’s principal financial liabilities are accounts payable and the term loans. The main purpose of these financial instruments is to manage short-term cash flow. The Company’s principal financial assets comprise cash and cash equivalents and receivables that arise directly from its operations.

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company’s risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The Company’s risk exposure and the impact on the Company’s financial instruments are summarized below:

### **Credit risk**

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.



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The Company is exposed to credit risk with respect to its cash and cash equivalents and receivables. The Company's maximum exposure to credit risk is the amount disclosed in the consolidated statements of financial position.

Credit risk associated with cash and cash equivalents is minimized by placing the majority of these instruments with major financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

Credit risk associated with trade receivables is managed by dealing with reputable international metals trading companies. The Company assesses and monitors risk by performing an aging analysis of its trade receivables.

**Liquidity risk**

Liquidity risk represents the risk that the Company will be unable to meet its obligations associated with its financial liabilities as they fall due. The Company manages liquidity risk by preparing an annual budget for approval by the Board of Directors and preparing cash flow and liquidity forecasts on a regular basis. The Company's objective when managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash on hand through debt financing.

As at December 31, 2022, the Company had working capital (current assets less current liabilities) of \$2,766,387. For the year ended December 31, 2022, the Company provided cash from operating activities of \$16,380,699 and used cash for investing activities of \$8,798,784.

Based on the Company's forecasted cash flows, the current cash on hand and the headroom available under debt facilities, the Company estimates that it will have sufficient liquidity to meet its working capital requirements for at least the next twelve months.

The following are the contractual maturities of financial liabilities:

<i>At December 31, 2022</i>	Carrying Amount \$	Contractual Cash Flows \$	Within 1 year \$	1 to 2 years \$	2 to 3 years \$	3 to 6 years \$
Accounts payable and accrued liabilities	13,321	13,321	12,190	649	72	410
Term loans and derivative	15,059	15,059	2,789	12,270	-	-
Asset Retirement Obligation	2,633	-	689	-	-	1,944
<b>Total</b>	<b>31,013</b>	<b>28,380</b>	<b>15,668</b>	<b>12,919</b>	<b>72</b>	<b>2,354</b>

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market factors. Market risk comprises three types of risk: price risk, interest rate risk and currency risk.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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### *Price risk*

Price risk is the risk that the fair value of future cash flows of the Company's financial instruments will fluctuate because of changes in market prices.

The Company is exposed to the risk of fluctuations in prevailing market commodity prices for gold which it sells into global markets. The market price of gold is a key driver of the Company's capacity to generate cash flow. The Company is an unhedged producer to provide its shareholders with exposure to the changes in the market price of gold. The Sailfish Loan repayment is based on the monthly average gold price per ounce limited to the Price Parameters. A change of \$100 in the monthly average gold price would result in a change of \$20,500.

### *Interest rate risk*

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk to the extent that the cash maintained at financial institutions is subject to a floating rate of interest. The interest rate risk on cash is considered insignificant due to the low interest rates in the current economic environment and short-term nature of its holdings and as such the Company does not take any actions to manage interest rate risk. The interest rate on the Term Loan is fixed at 10% per annum.

### *Currency risk*

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates.

The Company's currency risk primarily arises from financial instruments denominated in US dollars that are held by Mako, as the functional currency of the Company is Canadian dollars. Conversely for the Company's subsidiaries whose functional currency is the US dollar, currency risk primarily arises from financial instruments denominated in Nicaraguan córdoba that are held at the subsidiary company level. As at December 31, 2022, a 5% change in the exchange rate between the Canadian Dollar and the U.S. dollar would result in a net impact of approximately \$20,000 and a 5% change in the exchange rate between the Nicaraguan córdoba and the U.S. dollar would result in a net impact of approximately \$142,000 in the consolidated statement of income. The Company does not consider the currency risk to be material to the future operations of the Company and, as such, does not have a hedging program or any other programs to manage currency risk.

## **17. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions, its expected funding requirements, and risk characteristics of the underlying assets. The Company's funding requirements are based on cash forecasts.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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In order to maintain or adjust the capital structure, the Company may issue new shares, debt and/or consider strategic alliances. Management reviews its capital management approach on a regular basis. The Company is not subject to any externally imposed capital requirements.

### 18. SEGMENTED INFORMATION

For the year ended December 31, 2022, the Company's principal product was gold sold to the refinery at spot market rates by the Company's subsidiary, Nicoz. The gold was produced at the San Albino mine in Nicaragua. During the year ended December 31, 2022, the Company also sold carbon fines.

For the year ended December 31, 2021, the Company's principal product was gold sold to the refinery at spot market rates by the Company's subsidiary, Nicoz. The gold was produced at the San Albino mine in Nicaragua.

For the year ended December 31, 2022 and for the year ended December 31, 2021, all of the Company's significant non-current assets and revenues were in Nicaragua.

### 19. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital comprise the following:

For the year ended	December 31, 2022	December 31, 2021
		<i>(Restated Note 3)</i>
Change in receivables	\$ (921)	\$ (147)
Change in inventories	3,522	(4,055)
Change in prepaid expenses, and other	(52)	(620)
Change in accounts payable and accrued liabilities	660	716
Change in due to related parties	25	365
Change in provision for reclamation and rehabilitation - current liability	-	(176)
	\$ 3,234	\$ (3,917)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the year ended December 31, 2022**All tabular amounts are in thousands of United States dollars unless otherwise stated***20. GENERAL AND ADMINISTRATIVE EXPENSES**

<b>For the year ended December 31,</b>	<b>2022</b>	<b>2021</b>
Accounting and legal	\$ 816	\$ 1,300
Consulting fees	176	272
Directors' fees	241	233
Depreciation	59	20
General office expenses	233	141
Insurance	418	288
Investor relations and communications	290	164
Rent	19	62
Salaries and benefits	3,091	3,024
Stock-based compensation	544	340
Telephone and IT services	140	178
Transfer agent fees and regulatory fees	55	134
Travel	150	176
	<b>\$ 6,232</b>	<b>\$ 6,332</b>

**21. ACCRETION AND INTEREST EXPENSE**

<b>For the year ended December 31,</b>	<b>2022</b>	<b>2021</b>
Accretion on asset retirement obligation (Note 13)	\$ 78	\$ 19
Interest expense - Wexford Loan (Note 12 (a))	1,670	1,256
Interest expense – other	11	35
Finance costs on derivative liability (Note 12 (c))	565	143
	<b>\$ 2,324</b>	<b>\$ 1,453</b>





**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2022

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**22. INCOME TAX EXPENSE AND DEFERRED TAXES**

- (a) The provision for income taxes differs from the expected amount calculated using the Canadian federal and provincial statutory income tax rates is as follows:

For the year ended	December 31, 2022	December 31, 2021
		<i>(Restated)</i>
Loss for the year before income tax	\$ (9,882)	\$ 10,464
Canadian statutory tax rate	27.0%	27.0%
Computed expected tax (recovery) expense at statutory rates	(2,668)	2,826
Permanent differences	2,822	2,065
Effect of change and difference in tax rates	160	634
Foreign exchange	902	(563)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(743)	(495)
Change in deferred tax assets not recognized	1,622	(3,901)
Other	-	(65)
	\$ 2,095	\$ 501
Current income tax expense	\$ 2,095	\$ 501
Deferred income tax expense	-	-
Total income tax expense	\$ 2,095	\$ 501

- (b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, Expiry date 2022 range	December 31, Expiry date 2021 range
Exploration and evaluation assets	\$ 28,418 No expiry date	\$ 26,109 No expiry date
Mineral property, plant and equipment	60 No expiry date	- No expiry date
Inventories	179 No expiry date	59 No expiry date
Share issue costs	531 2020-2024	726 2020-2024
Allowable capital losses	7,782 No expiry date	7,892 No expiry date
Non-capital losses available for future years	15,875 2024-2041	10,830 2029-2040
Provision for reclamation and rehabilitation	813 No expiry date	1,245 No expiry date
Other	650 No expiry date	928 No expiry date
<b>Unrecognized deductible temporary differences</b>	<b>\$ 54,308</b>	<b>\$ 47,789</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(c) The Company's unused non-capital losses expire as follows:

Country	Unused non-capital losses	Expiry date range
Canada	\$ 15,667	2039 to 2042
Nicaragua	\$ 208	2024 to 2025

### 23. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed in the notes above, the following events took place subsequent to December 31, 2022:

(a) Options

On February 27, 2023, 150,000 stock options with an exercise price of C\$0.51 expired unexercised.

(b) Sailfish Loan

- Two monthly repayment installments totaling \$757,551 were made on the Sailfish Loan.
- On March 2, 2023, the Sailfish Loan was modified whereby the remaining seven payments will be made in physical silver in lieu of cash. On March 10, 2023 and on April 5, 2023, the Company delivered 18,278 and 16,328 ounces of silver in lieu of \$380,181 and \$392,110 cash, respectively.

(c) On March 1, 2023, the Company signed a binding letter of intent with Sailfish for a \$6,000,000 silver stream to refinance existing debt.