



Condensed Interim Consolidated Financial Statements

September 30, 2023 and 2022

Unaudited

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Minera Alamos Inc. ("Minera Alamos" or the "Company") are the responsibility of management and the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Minera Alamos Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

| | Notes | September 30, 2023 | December 31, 2022 |
|---|-------|-----------------------|----------------------|
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 6,573,453 | 13,153,828 |
| Restricted cash | | 31,380 | 30,781 |
| Accounts receivable | 16 | 387,766 | 424,004 |
| Leach pad ore inventory | 7 | 6,286,929 | 6,022,716 |
| Work-in-process inventory | 7 | 1,055,583 | 2,789,558 |
| Supplies inventory | 7 | 349,139 | 335,051 |
| Prepaid and other | | 2,956,057 | 2,668,761 |
| Taxes receivable | | 6,073,746 | 2,155,551 |
| Total current assets | | 23,714,052 | 27,580,249 |
| Taxes receivable | | 1,268,940 | 5,707,040 |
| Mineral Properties and Property, Plant, and Equipment | 8, 9 | 20,015,308 | 19,995,503 |
| | | 44,998,300 | 53,282,792 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 16 | 2,564,870 | 3,699,024 |
| Current portion of lease payable | 10 | 88,072 | 82,920 |
| Deferred revenue | 7 | 1,392,956 | 5,514,069 |
| Total current liabilities | | 4,045,898 | 9,296,013 |
| Lease payable | 10 | 222,289 | 289,046 |
| Provision for Asset Retirement Obligation | 13 | 582,320 | 491,217 |
| | | 4,850,507 | 10,076,276 |
| Shareholders' Equity | | | |
| Share capital | 11 | 105,033,540 | 104,863,540 |
| Contributed surplus | | 3,769,713 | 3,769,713 |
| Options reserve | 12 | 4,428,534 | 2,944,704 |
| Cumulative translation adjustment | | (3,447,475) | (1,094,566) |
| Deficit | | (69,636,519) | (67,276,875) |
| | | 40,147,793 | 43,206,516 |
| | | 44,998,300 | 53,282,792 |

Basis of Presentation and Going Concern (note 2)
Work-in-process inventory and deferred revenue (note 7)
Subsequent event (note 17)

Approved by the Board:

Signed: "Bruce Durham"

Director

Signed: "Darren Koningen"

Director

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(Expressed in Canadian dollars)

| | Notes | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|--------|---|-------------|--|-------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Revenues | 4c | 1,790,245 | 9,094,324 | 11,654,580 | 21,523,592 |
| Cost of sales: | | | | | |
| Mining, processing, royalties | | 1,902,114 | 4,437,463 | 9,240,925 | 9,951,559 |
| Depletion | | 161,445 | - | 269,243 | - |
| | | 2,063,559 | 4,437,463 | 9,510,168 | 9,951,559 |
| (Loss) income from mine operations | | (273,313) | 4,656,861 | 2,144,413 | 11,572,033 |
| Expenses | | | | | |
| Depreciation | | 37,329 | 26,138 | 103,501 | 65,579 |
| Accretion | 13 | 13,141 | - | 37,978 | - |
| Exploration and evaluation | 8 | 2,775,423 | 1,492,271 | 3,750,597 | 2,047,652 |
| Insurance | | 24,854 | 20,795 | 75,083 | 62,822 |
| Interest on lease liability | | 6,505 | 8,159 | 20,547 | 25,329 |
| Investor relations | | 108,251 | 116,839 | 281,164 | 279,881 |
| Office and administration | | 395,772 | 174,566 | 765,820 | 493,565 |
| Professional fees | | 242,627 | 116,533 | 694,444 | 433,930 |
| Salaries and compensation | 16 | 396,917 | 376,100 | 1,217,033 | 951,872 |
| Share-based compensation | 12, 16 | 561,282 | 295,477 | 1,483,830 | 886,431 |
| Transfer agent regulatory fees | | 12,030 | 10,561 | 84,111 | 107,511 |
| Travel | | 51,747 | 38,761 | 146,684 | 129,550 |
| | | 4,625,878 | 2,676,180 | 8,660,792 | 5,484,122 |
| (Loss) income from operations | | (4,899,192) | 1,980,681 | (6,516,380) | 6,087,911 |
| Other Items | | | | | |
| FVTPL adjustment on marketable securities | 6 | - | - | - | 280,250 |
| Foreign exchange loss (gain) | | 430,421 | (994,702) | (3,735,315) | (964,758) |
| Other income | | (356,127) | (64,193) | (421,420) | (65,228) |
| | | 74,293 | (1,058,893) | (4,156,736) | (749,736) |
| Net (loss) income for the period | | (4,973,485) | 3,039,574 | (2,359,644) | 6,837,647 |
| Foreign currency translation | | 441,481 | - | (2,352,909) | - |
| Net (loss) income and comprehensive (loss) income for the period | | (4,532,004) | 3,039,574 | (4,712,553) | 6,837,647 |
| Net Income per share: | | | | | |
| Basic and diluted | | (0.011) | 0.007 | (0.005) | 0.015 |
| Weighted average number of common shares outstanding: | | | | | |
| Basic and diluted | | 462,242,549 | 455,938,201 | 462,005,177 | 450,633,853 |

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Condensed Interim Consolidated
Statement of Changes in Equity
(Expressed in Canadian Dollars)

| | Note | Share capital | | Contributed surplus | Options reserve | Cummulative translation reserve | Deficit | Total equity |
|------------------------------------|--------|--------------------|-----------------------|---------------------|---------------------|---------------------------------|---------------------|----------------------|
| | | Number of shares | Amount | | | | | |
| Balance, January 1, 2022 | | 446,196,353 | \$ 98,183,612 | \$ 3,711,913 | \$ 3,243,475 | \$ - | (72,886,268) | 32,252,732 |
| Shares issued for mineral property | 11 | 500,000 | 242,500 | - | - | - | - | 242,500 |
| Shares issued | | 7,950,000 | 4,372,500 | - | - | - | - | 4,372,500 |
| Share issue cost | | - | (38,072) | - | - | - | - | (38,072) |
| Options issued | 12 | - | .. | - | 886,431 | - | - | 886,431 |
| Options exercised | 11, 12 | 3,037,500 | 801,000 | - | (381,000) | - | - | 420,000 |
| Net income for the period | | - | - | - | - | - | 6,837,647 | 6,837,647 |
| Balance, September 30, 2022 | | 449,733,853 | \$ 103,561,540 | \$ 3,711,913 | \$ 3,748,906 | \$ - | (66,048,621) | \$ 44,973,738 |
| Balance, January 1, 2023 | | 461,883,853 | \$ 104,863,540 | \$ 3,769,713 | \$ 2,944,704 | (1,094,566) | (67,276,875) | 43,206,516 |
| Shares issued for mineral property | 11 | 500,000 | 170,000 | - | - | - | - | 170,000 |
| Options issued | 12 | - | - | - | 1,483,830 | - | - | 1,483,830 |
| Net income for the period | | - | - | - | - | (2,352,909) | (2,359,644) | (4,712,553) |
| Balance, September 30, 2023 | | 461,883,853 | \$ 105,033,540 | \$ 3,769,713 | \$ 4,428,534 | (3,447,475) | (69,636,519) | \$ 40,147,793 |

Please see accompanying notes to the consolidated financial statements

Minera Alamos Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

| | | For the nine months ended September 30, | |
|---|-------|--|-------------------|
| | Notes | 2023 \$ | 2022 \$ |
| Cash flows from operating activities | | | |
| Net income for the period | | (2,359,644) | 6,837,647 |
| Adjustments to reconcile net loss to net cash flows: | | | |
| Non-cash adjustments: | | | |
| Shares issued for property acquisition | 8 | 170,000 | 242,500 |
| Depreciation | 9 | 103,501 | 132,029 |
| Accretion | 13 | 37,798 | - |
| Depletion | | 269,243 | - |
| Interest on lease liability | | 20,547 | 25,329 |
| Share-based compensation | | 1,483,830 | 886,431 |
| FVTPL adjustment on marketable securities | 6 | - | 280,250 |
| Unrealized foreign exchange gain | | (4,477,395) | - |
| | | (4,751,941) | 8,404,186 |
| Changes in non-cash operating adjustments: | | | |
| Accounts receivable | | 36,238 | (79,818) |
| Prepaid expenses | | (287,296) | (543,667) |
| Inventory | | 1,455,674 | (2,182,757) |
| Taxes receivable | | 519,905 | (2,654,314) |
| Accounts payable and accrued liabilities | | (1,134,153) | 210,295 |
| Deferred revenue | | (4,121,113) | - |
| Net cash (used in) provided from operating activities | | (8,282,686) | 3,944,032 |
| Cash flows from investing activities | | | |
| Acquisition of property plant and equipment | 9 | (350,235) | (2,997,816) |
| Proceeds on sale of marketable securities | | - | 2,056,150 |
| Restricted cash | | 599 | 75 |
| Net cash (used in) provided from investing activities | | (349,636) | (941,591) |
| Cash flows from financing activities | | | |
| Issuance of common shares | | - | 4,372,500 |
| Share issue costs | | (82,152) | (38,072) |
| Lease payments | 10 | - | (74,480) |
| Exercise of options | 12 | - | 420,000 |
| Net cash (used in) provided from financing activities | | (82,152) | 4,679,948 |
| Effect of changes in foreign exchange | | 2,134,099 | - |
| Net (decrease) / increase in cash and cash equivalents | | (6,580,375) | 7,682,389 |
| Cash and cash equivalents, beginning of period | | 13,153,828 | 7,042,790 |
| Cash and cash equivalents, end of period | | 6,573,453 | 14,725,179 |

Please see accompanying notes to the consolidated financial statements

1. GENERAL INFORMATION

Minera Alamos Inc. (the “Company”) is a junior mining and exploration company engaged directly and indirectly through its subsidiaries in the acquisition, exploration, and development of mineral properties located in Mexico.

These consolidated financial statements include the accounts of the Company, its Mexican subsidiaries Minera Alamos de Sonora S.A. de C.V., Molibdeno Los Verdes S.A. de C.V., Cobre 4H S.A. de C.V., Minera Mirlos, S. de R.L. de C.V., and Corex Global S de RL de SV. The Company’s head office is located at 55 York Street East, Suite 402, Toronto, Ontario, Canada, M5J 1R7.

2. BASIS OF PRESENTATION AND GOING CONCERN

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current development and exploration programs will result in profitable mining operations. This is dependent upon the discovery of economically recoverable reserves, the ability of the Company to raise financing, the achievement of profitable operations or, alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

These condensed interim consolidated financial statements have been prepared on a basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue to do so is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations. There are no assurances that the Company will be successful in achieving these goals.

There is no guarantee that the Company won’t incur further losses going forward as the Company pursues its ramp up of operations and exploration activities on its other properties. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

3. STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 29, 2023, the date the Board of Directors approved these condensed interim consolidated financial statements.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2022.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of measurement

These consolidated financial statements are presented in Canadian dollars and are prepared on the historical cost basis, modified by the measurement at fair value of certain financial instruments.

b) Adoption of New Accounting Policy and Restated Comparative Information

During the first quarter of 2022, the Company adopted Amendments to International Accounting Standard (“IAS”) 16, Property, Plant & Equipment, Proceeds Before Intended Use (“IAS 16”). The amended standard prohibits the Company from deducting any proceeds from selling items produced from the cost of building an item of mineral interest, plant, and equipment, while bringing that asset to be capable of operating in the manner intended by management. The Company adopted the accounting policy retrospectively with respect to applicable transactions occurring on or after the earliest period presented herein, being January 1, 2021. With the adoption of the amended standard, pre-commercial production sales of gold and silver produced and sold, and related costs while bringing a mine into a condition necessary for it to be capable of operating in the manner intended by management, are recognized in profit or loss in accordance with applicable standards to the extent those sales occurred on or after January 1, 2021. The entity measures the cost of those items applying the measurement requirements of IAS 2, Inventories (“IAS 2”). Prior to adoption of this amendment, all costs and proceeds from sale were capitalized to mineral properties and property, plant, and equipment.

c) Revenue recognition

The Company earns revenue primarily from the sale of gold. Other metals, such as silver, produced as part of the extraction process are considered to be by-products arising from the production of gold. Revenue relating to the sale of metals is recognized when control of the metal is transferred to the customer in an amount that reflects the consideration the Company expects to receive in exchange for the metal.

When considering whether the Company has satisfied its performance obligation, it considers performance indicators of the transfer of control, which include, but are not limited to, whether the Company has a present right to payment; the customer has legal title to the metal; the Company has transferred physical possession of the metal to the customer; and the customer has the significant risks and rewards of ownership of the metal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Inventory

The Company predominantly produces gold. The recovery of gold from the ore is achieved through a heap leach process. Costs are added to leach pad inventory based on current mining costs, including applicable overhead, depletion, and depreciation relating to mining operations. Costs are removed from leach pad inventory as ounces are recovered, based on the average cost per ounce of recoverable gold stacked and are carried as work-in-process inventory as the recovered gold undergoes the final stages of refinement. The costs of extracting the gold from the ore on the leach pads and refining the recovered gold are included in work-in-process inventory.

The value of all production inventories includes direct production costs and attributable overhead incurred to bring the materials to their current point in the processing cycle. All inventories are valued at the lower of cost and net realizable value, with net realizable value determined with reference to market prices, less estimated future production costs to convert inventories into saleable form. If carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exists.

Quantities of gold ore are assessed primarily through surveys and assays. Certain estimates, including expected metal recoveries, are calculated using available industry, engineering, and scientific data, and are periodically reassessed, taking into account technical analysis and historical performance.

e) Accounting standards and interpretations effective in future periods

IAS 1, Presentation of Financial Statements ("IAS 1") and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in January 2020 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after November 1, 2023. Earlier adoption is permitted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Property, Plant, and Equipment

Property, Plant, and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of property, plant, or equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Where an item of property, plant, and equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, are capitalized. The Company provides for depreciation of its equipment at the following annual rates:

| | |
|------------------------------------|--|
| Mineral property and project costs | - Units of production based on mineral resource estimate |
| Mining equipment | - 5 to 10 years straight line basis |
| Office equipment | - 20% to 45% declining balance and 10 years straight line basis |
| Vehicles | - 30% declining balance and 4 years straight line basis |
| Leasehold improvements | - Lesser of 5 years or lease term, straight line basis |
| Right-of-use assets | - Lesser of expected useful life or the lease term (including expected renewal periods), straight line basis |

g) Mineral properties and exploration and evaluation costs

The Company expenses all costs relating to the acquisition of, exploration for, and development of mineral properties in the exploration stage. Such costs include, but are not limited to, geological, geophysical studies, exploratory drilling, and sampling. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized; this includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit. During the prior year, the Company changed its judgment of the stage of the project and prospectively, began to capitalize expenditures incurred on the Santana project.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Foreign currencies

The functional and presentation currency of the Company is the Canadian dollar and the functional currency of the Company's Mexican subsidiaries is the Mexican Peso.

Transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statements of income (loss) and comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- a. Assets and liabilities are translated at the closing rate at the end of the financial reporting period;
- b. Income, expenses, and cash flows are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- c. Equity transactions are translated using the exchange rate at the date of the transaction; and
- d. All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange.

On January 1, 2022, commensurate with the significant increase in the Company's extraction operations, the Company re-evaluated the functional currency of its Mexican subsidiaries and determined that a change in their functional currency from Canadian dollars to Mexican pesos was appropriate. Accordingly, the Company recorded a translation adjustment on January 1, 2022, to reflect the impact of translating the Company's Mexican assets and liabilities into Canadian Dollars (the presentation currency) at the opening spot rate for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Provisions

A provision is recognized in the condensed interim consolidated statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Asset retirement obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against consolidated statement of income (loss) and comprehensive income (loss) over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed interim consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both current and future periods.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions for the period in which such determination is made.

Asset retirement obligation

Asset retirement obligations have been created based on the estimated settlement amounts. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed quarterly and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to liability on a quarterly basis. Actual rehabilitation costs ultimately depend on actual future settlement amount for rehabilitation costs which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

Deferral of stripping costs

Stripping of waste materials takes place throughout the production phase of a surface mine or pit. The identification of components within a mine and of the life of component strip ratios requires judgment and is dependent on an individual mine's design and the estimates inherent within that. Changes to that design may introduce new components and/or change the life of component strip ratios. Changes in other technical or economic parameters that impact ore reserves may also have an impact on the life of component strip ratios, even if they do not affect the mine's design. Changes to the life of component strip ratios are accounted for prospectively.

The Company's judgment as to whether multiple pit mines are considered separate or integrated operations determines whether initial stripping of a pit is deemed to be pre-production or production phase stripping and, therefore, the amortization base for those costs. The analysis depends on each mine's specific circumstances and requires judgment: another mining company could make a different judgment even when the fact pattern appears to be similar.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Mineral resources

Mineral reserves are estimates of the amount of mineable ore that can be economically and legally extracted from the Company’s mining properties. The Company estimates its mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101, Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable resources is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves or resources. Changes in the mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

Net investment in foreign operation

The Company has determined that the funding provided to its subsidiary Corex Global S de RL de SV, which is operating the Santana mine, is likely to be repaid in the foreseeable future. Accordingly, the unrealized foreign exchange gains or losses on these inter-company loans are recognized in income (loss).

6. MARKETABLE SECURITIES

In 2022, the Company sold 590,000 (December 31, 2021 – 1,250,000) common shares of Prime Mining Inc. (“Prime”) (formerly ePower Corp.) for net proceeds of \$2,056,150 (2021 - \$4,532,500).

| Fair Value Hierarchy | Shares \$ Level 1 |
|------------------------------------|-------------------------|
| Balance, December 31, 2022 | 2,336,400 |
| Sale of shares | (2,056,150) |
| Fair value adjustments | (280,250) |
| Balance, September 30, 2023 | - |

7. DEFERRED REVENUE AND INVENTORIES

In late September 2023, the Company received \$1,392,956 in exchange for the sale of gold which had been extracted from the leach pad and was undergoing further refinement. The gross proceeds are recorded as deferred revenue until the gold has been recovered through the stripping and refinement process and then delivered, in full, to the customer. The carrying value of the respective inventory was \$1,055,583 which is included in work-in-process inventory.

IAS 2 requires allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The following is a breakdown of items in inventory:

| Inventory | September 30, 2023 \$ | December 31, 2022 \$ |
|-----------------|-----------------------------|----------------------------|
| Leach pad ore | 6,286,928 | 6,022,716 |
| Work-in-process | 1,055,583 | 2,789,558 |
| Supplies | 349,139 | 335,051 |
| Total | 7,691,650 | 9,147,324 |

8. MINERAL PROPERTIES AND EXPLORATION EXPENSE

| | For the nine months ended September 30, | |
|----------------------|--|-----------|
| | 2023 | 2022 |
| | \$ | \$ |
| Santana, Mexico | 989,093 | - |
| Cerro de Oro, Mexico | 2,196,432 | 1,605,826 |
| La Fortuna, Mexico | 333,603 | 223,303 |
| Los Verdes, Mexico | 231,469 | 180,712 |
| Other | - | 37,811 |
| Total | 3,750,597 | 2,047,652 |

Santana project, State of Sonora, Mexico

The Santana Property consists of nine mining claims and covers approximately 3,100 hectares and is located approximately 200 kilometers east-southeast of Hermosillo, Sonora, Mexico. Additionally, the Company holds a 100% interest in two contiguous mining concessions that cover approximately 350 hectares, referred to as Santa Lucia and Hilda 35 Fraccion 1, located in Sonora State, Mexico. The Hilda 35 Fraccion 1 is also subject to a 1% net smelter return royalty (“NSR”).

During the period ended September 30, 2023, the Company continued mining and development activities at the Santana project.

8. MINERAL PROPERTIES AND EXPLORATION EXPENSE (Continued)

Cerro de Oro, State of Sonora, Mexico

In September 2020 the Company finalized definitive option agreements through its subsidiary Minera Mirlos S. De R.L. DE C.V., and an arm’s length party (the “Vendor”) to acquire 100% of the Cerro de Oro project comprising the Zacatecas I and Zacatecas II concessions near Concepcion del Oro, Zacatecas, Mexico. The acquisition of the two core claims increases the Company’s total claim holdings to approximately 6,500 ha in the Concepcion del Oro district which contains a significant gold prospect.

Upon completion of the option payments, the agreements convey 100% irrevocable ownership to the Company with no underlying royalties subject to meeting a schedule of payments. Failure by the Company to make any of the cash payments or share issuances would result in the property being returned to the vendors with no residual interest being retained by the Company.

The payment schedule is as follows:

| Amount (USD) | Installment Due Date |
|---|------------------------|
| 400,000 cash + 2,000,000 shares ^(b) | Paid on Closing |
| 300,000 cash ^(a) + 500,000 shares ^(c) | Paid in 2021 |
| 400,000 cash ^(a) + 500,000 shares ^(d) | Paid in 2022 |
| 800,000 cash ^(a) + 500,000 shares ^(e) | Paid in 2023 |
| 1,000,000 cash ^(a) + 500,000 shares | 48 months from Closing |

- a) Installment payments will be in the form of cash. Alternately, should both parties agree a portion or the entire cash amount can be replaced with the issuance of an equivalent dollar value of shares. Shares, if issued, will be priced at the prior days closing on the TSX Venture Exchange (the “Exchange”), ending on the installment date listed in the table above and in accordance with the rules and requirements of securities laws and the Exchange.
- b) The Company paid \$400,000 USD on signing of this agreement and the Company issued 2,000,000 shares on September 17, 2020. The fair value of these shares was \$1,440,000.
- c) The Company paid \$300,000 USD and issued 500,000 shares on September 17, 2021. The fair value of these shares was \$285,000.
- d) The Company paid \$400,000 USD and issued 500,000 shares on August 4, 2022. The fair value of these shares was \$242,500.
- e) The Company paid \$800,000 USD and issued 500,000 shares on July 26, 2023. The fair value of these shares was \$170,000.

In addition to the earn-in commitments in the table above, a final bonus payment of \$1,000,000 USD will be payable to the Vendor upon the production of 50,000 ounces of gold from the Cerro de Oro project.

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8. MINERAL PROPERTIES AND EXPLORATION EXPENSE (Continued)

La Fortuna project, State of Durango, Mexico

On May 4, 2016, the Company announced the completion of the acquisition, by its subsidiary Minera Alamos de Sonora S.A. de C.V., of 100% of the mineral claims known as the “La Fortuna” gold project located in the State of Durango, Mexico from Argonaut Gold Inc., consisting of 4 claims totaling 994 hectares. The project is permitted and is awaiting a decision on construction.

Los Verdes project, State of Sonora, Mexico

The Company holds a 100% interest in a mining property known as Los Verdes, a molybdenum-copper property located in the State of Sonora, Mexico. Included in the Los Verdes project is the Bacanora claim totaling 55 hectares acquired on January 31, 2007. Included in the consideration paid for the Bacanora claim is a 2% Net Smelter Royalty on the gross amount sold, less specific costs, of all or a portion of the ores or concentrate derived from the property. In 2012, the Company acquired title to the Potreritos molybdenum-copper deposit concessions in Sonora, Mexico. The property is situated approximately 2 km to the north of the Los Verdes property and referred to as the North Deposit. The Company is currently considering strategic alternatives for this project based on current industry/market expectations and a resizing of the planned operation.

9. MINERAL PROPERTIES AND PROPERTY PLANT AND EQUIPMENT

| Cost | Mineral Properties | Plant Equipment | Office Equipment | Vehicles | Right of Use Building | Total |
|---|--------------------|------------------|------------------|----------------|-----------------------|-------------------|
| Balance at January 1, 2022 | 13,022,802 | 902,975 | 185,651 | 235,628 | 739,030 | 15,086,086 |
| Effect of change in functional currency January 1, 2022 | (92,436) | 68,197 | 3,992 | (31,759) | - | (52,006) |
| Change in provision asset retirement obligation | 442,817 | - | - | - | - | 442,817 |
| Additions (disposals) | 3,951,449 | 419,267 | - | - | - | 4,370,716 |
| Effect of change in functional currency | 1,882,727 | 924 | 11,579 | 13,362 | - | 1,908,592 |
| Balance at December 31, 2022 | 19,207,359 | 1,391,363 | 201,222 | 217,231 | 739,030 | 21,756,205 |
| Additions (disposals) | 225,016 | 83,778 | - | 39,876 | - | 348,670 |
| Balance at September 30, 2023 | 19,432,375 | 1,475,141 | 201,222 | 257,107 | 739,030 | 22,104,875 |

| Accumulated Depreciation & Depletion | Mineral Properties | Plant Equipment | Office Equipment | Vehicles | Right of Use Building | Total |
|---|--------------------|-----------------|------------------|----------------|-----------------------|------------------|
| Balance at January 1, 2022 | 358,835 | 70,918 | 148,023 | 124,333 | 303,421 | 1,005,530 |
| Effect of change in functional currency January 1, 2022 | - | (9,589) | 10,471 | (31,022) | - | (30,140) |
| Depreciation | - | 44,598 | 13,463 | 38,039 | 88,600 | 184,700 |
| Depletion | 600,613 | - | - | - | - | 600,613 |
| Balance at December 31, 2022 | 959,448 | 105,927 | 171,957 | 131,350 | 392,021 | 1,760,703 |
| Depreciation | 52,873 | 7,040 | 11,420 | 32,169 | 66,450 | 169,951 |
| Depletion | 158,912 | - | - | - | - | 158,912 |
| Balance at September 30, 2023 | 1,171,233 | 112,967 | 183,377 | 163,519 | 458,471 | 2,089,567 |

Carrying amounts

| | | | | | | |
|--------------------------------------|-------------------|------------------|---------------|---------------|----------------|-------------------|
| Balance at January 1, 2022 | 12,663,967 | 832,057 | 37,628 | 111,295 | 435,609 | 14,080,556 |
| Balance at December 31, 2022 | 18,247,911 | 1,285,436 | 29,265 | 85,881 | 347,009 | 19,995,502 |
| Balance at September 30, 2023 | 18,261,142 | 1,362,174 | 17,845 | 93,588 | 280,559 | 20,015,308 |

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10. LEASE PAYABLE

| | September 30, 2023 | December 31, 2022 |
|---|-----------------------|----------------------|
| Maturity Analysis – contractual undiscounted cash flows | \$ | \$ |
| Less than one year | 109,536 | 101,864 |
| Remaining life | 241,720 | 331,544 |
| Total undiscounted lease liabilities | 351,256 | 440,408 |
| Effect of discounting | (40,895) | (61,442) |
| Present value of lease payments | 310,361 | 371,966 |
| Less current portion | (88,072) | (82,920) |
| Long-term lease liabilities | 222,289 | 289,046 |

The following table summarizes the lease activity:

| | September 30, 2023 | December 31, 2022 |
|------------------------------|-----------------------|----------------------|
| | \$ | \$ |
| Balance, beginning of period | 371,966 | 440,744 |
| Additions | - | - |
| Accretion | 20,547 | 33,086 |
| Lease payments | (82,152) | (101,864) |
| Balance, end of period | 310,361 | 371,966 |

11. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized – unlimited number of common shares without par value

Issued and outstanding – 462,383,853 at September 30, 2023, and December 31, 2022.

(b) Transactions

- (i) On July 15, 2022, the Company issued 7,950,000 common shares of the Company at a price of \$0.55 per common share for gross proceeds of \$4,372,500.
- (ii) On August 4, 2022, the Company issued 500,000 common shares in relation to the Cerro de Oro Project acquisition agreement. The fair value of the shares issued was \$242,500 (see note 8).
- (iii) On July 26, 2023, the Company issued 500,000 common shares in relation to the Cerro de Oro Project acquisition agreement. The fair value of the shares issued was \$170,000 (see note 8).

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12. SHARE-BASED PAYMENTS – STOCK OPTION PLAN

The Company has a stock option plan (the “Plan”) available to its employees, officers, directors and consultants which has been approved as amended by the shareholders on February 16, 2023. The number of common shares is limited to 10% of the Company’s issued and outstanding shares.

During the period ended September 30, 2023, the Company issued 9,150,000 stock options (December 31, 2022 – Nil).

At September 30, 2023, the following options were outstanding:

| Grant Date | Number of Stock Options | Exercise Price | Expiration | Remaining Years | Grant Date Fair Value | Number Exercisable Stock Options |
|--------------------|--------------------------------|-----------------------|-------------------|------------------------|------------------------------|---|
| October 24, 2018 | 842,000 | \$0.15 | October 24, 2023 | 0.07 | \$0.08 | 842,000 |
| July 30, 2019 | 7,650,000 | \$0.16 | July 30, 2024 | 0.83 | \$0.09 | 7,650,000 |
| July 14, 2020 | 700,000 | \$0.54 | July 14, 2025 | 1.79 | \$0.38 | 700,000 |
| August 10, 2020 | 600,000 | \$0.67 | August 10, 2025 | 1.86 | \$0.47 | 600,000 |
| March 18, 2021* | 7,250,000 | \$0.72 | March 18, 2026 | 2.42 | \$0.44 | - |
| July 26, 2021* | 500,000 | \$0.72 | July 26, 2026 | 2.83 | \$0.36 | - |
| February 23, 2023* | 2,250,000 | \$0.51 | February 23, 2028 | 4.40 | \$0.18 | - |
| February 23, 2023* | 6,900,000 | \$0.45 | February 23, 2028 | 4.40 | \$0.19 | - |
| | 26,692,000 | \$0.45 | | | | 9,792,000 |

- The stock options are subject to certain vesting conditions and will be recognized as exercisable when conditions have been met.

A summary of stock option activity during the period ended September 30, 2023 and the year ended December 31, 2022, is as follows:

| | September 30, 2023 | | December 31, 2022 | |
|---------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Number of Stock Options # | Average Exercise Price \$ | Number of Stock Options # | Average Exercise Price \$ |
| Outstanding beginning of period | 17,542,000 | 0.44 | 25,219,500 | 0.35 |
| Granted | 9,150,000 | 0.46 | - | - |
| Expired | - | - | (440,000) | 0.15 |
| Exercised | - | - | (7,237,500) | 0.16 |
| Outstanding end of period | 26,692,000 | 0.45 | 17,542,000 | 0.44 |

13. PROVISION FOR ASSET RETIREMENT OBLIGATION

The decommissioning liability is estimated based on the timing of costs to be incurred in future years. The Company made the following changes to its decommissioning liability:

| | |
|----------------------------|---------|
| | \$ |
| Opening January 1, 2022 | 48,400 |
| Change in Estimate | 442,817 |
| Closing December 31, 2022 | 491,217 |
| Accretion | 37,978 |
| Change in foreign exchange | 53,125 |
| Closing September 30, 2023 | 582,320 |

The provision for site reclamation and closure consists of mine closure costs, reclamation and retirement obligations for mine facilities and infrastructure.

The present value of the Santana Project future rehabilitation liability was estimated at \$582,320 as at September 30, 2023 (December 31, 2022 – \$491,217).

As at September 30, 2023, estimates include inflation rate of 7.86% and a discount rate of 10.5%.

14. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a) Credit risk management

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing to the Company. Management's assessment of the Company's credit risk is low as it is primarily attributable to funds held in Canadian banks, sales tax recoverable from the federal government of Canada and value added tax recoverable from the government of Mexico, where taxes are included in amounts receivable.

The maximum credit risk exposure of the financial assets is their carrying value.

14. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interest. The Company intends on fulfilling its obligations.

As of September 30, 2023, the Company had a cash and cash equivalents balance of \$6,573,453 and other current assets of \$17,140,599 (December 31, 2022 – \$13,153,828 and \$14,426,421 respectively) to settle current accounts payable and accrued liabilities of \$2,564,870 (December 31, 2022 – \$3,699,024).

The following table details the Company's anticipated repayment schedule for its financial liabilities as at September 30, 2023:

| | Contractual cash flows | Less than 1 year | 1 -3 years | 4 – 5 years | After 5 years |
|------------------|-------------------------------|-------------------------|-------------------|--------------------|----------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Accounts payable | 2,564,870 | 2,564,870 | - | - | - |
| Lease payable | 310,361 | 88,072 | 222,289 | - | - |
| | 2,875,231 | 2,652,942 | 222,289 | - | - |

c) Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

Price risk

The Company is exposed to price risk with respect to commodity prices as the Company earns revenue from the sale of gold at market prices.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

A 10% change in the price of gold during the nine month period ended September 30, 2023 would have resulted in a change in the value of revenue recognized by approximately \$800,000 (December 31, 2022 – \$2,100,000).

14. FINANCIAL RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Foreign exchange risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures in US dollars. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

Sensitivity analysis

As at September 30, 2023, the Company has monetary assets denominated in US dollars of approximately USD \$1,700,000 (December 31, 2022 – USD \$5,850,000). A 10% change in the value of the US dollar relative to the functional currency of the respective entity would result in a corresponding change in net income of approximately \$230,000 (December 31, 2022 – \$800,000).

Additionally, the Company has inter-company loans that do not form part of its net investment in foreign operations (see note 5). A 10% change between the Canadian dollar and the Mexican Peso would result in unrealized foreign exchange gains or losses of approximately \$5,400,000.

e) Fair values

Financial assets include cash and cash equivalents, restricted cash, marketable securities, and accounts receivable. Financial liabilities include accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities is considered representative of their respective fair values due to the short-term period to maturity.

IFRS 13, Fair value measurement (“IFRS 13”) establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – valuation based on quotes prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents, restricted cash, and marketable securities (shares) are classified as Level 1 and marketable securities (warrants) were classified as Level 3.

15. CAPITAL RISK MANAGEMENT

The Company's objectives for managing capital are:

- (a) to safeguard the Company's ability to continue as a going concern, so that it can continue to add value to its projects, acquire additional projects with potential for resources and provide returns for shareholders;
- (b) to provide an adequate return to shareholders by increasing the value of underlying assets through exploration and development of economic resources; and
- (c) to generate an adequate return to shareholders by constructing and operating economically viable mineral deposits.

The Company considers its capital structure to consist of capital stock and contributed surplus. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration, development and operation of mineral properties; in relation to the risk it faces; and in consideration of changes in economic conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to maintain or adjust the capital structure, the Company may issue new shares, undertake debt, sell its ownership or an interest in its assets or joint venture its projects.

The Company has interest in properties in both, development and exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There are no externally imposed capital requirements for the Company.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2023.

16. RELATED PARTY TRANSACTIONS AND BALANCES

Details of transactions between the Company and other related parties are disclosed below.

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company for the periods ended September 30, is as follows:

| | 2023 | 2022 |
|--------------------------|------------------|----------------|
| | \$ | \$ |
| Aggregate compensation | 486,000 | 360,000 |
| Stock-based compensation | 857,853 | 495,335 |
| | <u>1,343,853</u> | <u>855,335</u> |

Included in accounts payable and accrued liabilities at September 30, 2023, payable to key management of the Company was \$108,000 (December 31, 2022 – \$135,600) in relation to outstanding compensation.

Included in accounts receivable as at September 30, 2023, is an amount of \$153,000 (December 31, 2022 – \$281,837) due from key management of the Company.

17. SUBSEQUENT EVENT

On October 27, 2023, the Company announced it had completed definitive documentation with Auramet International Inc. and Auramet Capital Partners LP on a US\$25 million loan and royalty funding package which will cover the anticipated construction costs of the planned Cerro de Oro gold mine in Zacatecas, Mexico. Subsequent to October 27, 2023, the Company completed a drawdown of US\$5 million under the loan facility.

Subsequent to September 30, 2023, 150,000 stock options to acquire common shares at a price of \$0.15 per share were exercised for total proceeds of \$22,500.

Subsequent to September 30, 2023, 492,000 stock options to acquire common shares at a price of \$0.15 per share expired unexercised.