

# **BAROYECA GOLD & SILVER INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended May 31, 2022 and 2021**

*(Expressed in Canadian dollars)*

## Independent Auditor's Report

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To the Shareholders of:  
**BAROYECA GOLD & SILVER INC.**

### Opinion

We have audited the consolidated financial statements of Baroyeca Gold & Silver Inc. ("the Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and 2021 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,840,691 during the year ended May 31, 2022, and as of that date, had accumulated losses since inception of \$10,312,483. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

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

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

### 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.

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

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

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



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

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

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

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

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

*WDM*

*Chartered Professional Accountants*

Vancouver, B.C.

September 27, 2022

**Baroyeca Gold & Silver Inc.**  
**Consolidated Statements of Financial Position**  
**As at May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

	Note	2022 \$	2021 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		1,408,762	2,168,830
Term deposit		50,000	-
Marketable securities	5	-	93,697
GST receivable		67,131	32,719
Prepaid expenses		103,640	6,271
		<b>1,629,533</b>	<b>2,301,517</b>
Exploration advances		204,100	170,321
Exploration and evaluation assets	6	7,363,673	2,669,367
		<b>9,197,306</b>	<b>5,141,205</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	7	166,802	280,282
Due to related parties	9	71,533	48,936
		<b>238,335</b>	<b>329,218</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	17,802,909	12,498,574
Share-based payment reserve		1,478,596	784,371
Deficit		(10,312,483)	(8,471,792)
Accumulated other comprehensive (loss) income		(10,051)	654
		<b>8,958,971</b>	<b>4,811,987</b>
		<b>9,197,306</b>	<b>5,141,205</b>

**NATURE AND CONTINUANCE OF OPERATIONS (Note 1)**  
**COMMITMENTS (Note 12)**

Approved on behalf of the Board on September 27, 2022:

*“Richard Wilson”*

Richard Wilson – Director

*“Douglas Eacrett”*

Douglas Eacrett – Director

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

**Baroyeca Gold & Silver Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

	Note	Number of Common Shares	Share Capital \$	Share Subscriptions Received \$	Share-Based Payment Reserve \$	Deficit \$	Accumulated Other Comprehensive Income (Loss) \$	Total Shareholders' Equity (Deficiency) \$
<b>Balance, May 31, 2020</b>		5,376,994	4,749,373	5,000	784,371	(6,228,579)	-	(689,835)
Shares issued for cash	8(b)(viii)(ix) (x)(xiii)	19,830,034	4,060,510	(5,000)	-	-	-	4,055,510
Shares issued for cash upon exercise of warrants	8(b)(xiv)	175,000	28,875	-	-	-	-	28,875
Shares issued for exploration and evaluation assets	8(b)(xii)	6,000,000	1,680,000	-	-	-	-	1,680,000
Shares issued for debt settlement	8(b)(xi)	6,000,000	2,100,000	-	-	-	-	2,100,000
Share issuance costs		-	(120,004)	-	-	-	-	(120,004)
Net loss for the year		-	-	-	-	(2,243,213)	-	(2,243,213)
Translation adjustment		-	-	-	-	-	654	654
<b>Balance, May 31, 2021</b>		37,382,028	12,498,754	-	784,371	(8,471,792)	654	4,811,987
Shares issued for cash	8(b)(ii)	9,189,709	3,216,398	-	-	-	-	3,216,398
Shares issued for cash upon exercise of warrants	8(b)(iv)(v)(vi)	2,864,882	793,615	-	-	-	-	793,615
Shares issued for exploration and evaluation assets	8(b)(i)(iii)	3,243,320	1,222,328	-	-	-	-	1,222,328
Shares issued for cash upon exercise of options	8(b)(vii)	500,000	213,011	-	(105,511)	-	-	107,500
Share issuance costs	8(b)(ii),8(d)	-	(141,197)	-	36,683	-	-	(104,514)
Share-based compensation	8(c)	-	-	-	763,053	-	-	763,053
Net loss for the year		-	-	-	-	(1,840,691)	-	(1,840,691)
Translation adjustment		-	-	-	-	-	(10,705)	(10,705)
<b>Balance, May 31, 2022</b>		53,179,939	17,802,909	-	1,478,596	(10,312,483)	(10,051)	8,958,971

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

**Baroyeca Gold & Silver Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

	Note	2022 \$	2021 \$
<b>EXPENSES</b>			
Advertising, promotion and marketing		200,489	18,023
Advisors and directors fees	9	25,106	275,426
Insurance		13,413	4,229
Interest and bank charges		2,406	1,881
Management and consulting fees	9	461,772	92,177
Meals and entertainment		22,769	4,895
Office		94,577	10,378
Professional fees	9	249,303	205,740
Share-based compensation	8(c), 9	763,053	-
Transfer agent and filing fees		57,244	52,808
<b>Loss before other items</b>		<b>(1,890,132)</b>	<b>(665,557)</b>
Foreign exchange (loss) gain		(422)	17,811
Gain (Loss) on write off of accounts payable	9	43,555	(1,605,000)
Interest income		6,308	707
Loss on write off of investments and intercompany loans upon deconsolidation	6	-	(2)
Unrealized gain on marketable securities	5	-	8,828
<b>NET LOSS FOR THE YEAR</b>		<b>(1,840,691)</b>	<b>(2,243,213)</b>
Translation adjustment		(10,705)	654
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(1,851,396)</b>	<b>(2,242,559)</b>
Basic and diluted loss per share for the year		(0.04)	(0.13)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		<b>41,610,721</b>	<b>17,347,680</b>

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

**Baroyeca Gold & Silver Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

	2022	2021
	\$	\$
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(1,840,691)	(2,243,213)
Items not involving cash:		
Loss on write off of investments and intercompany loans upon deconsolidation	-	2
Loss (gain) on write off account payable	(43,555)	1,605,000
Foreign exchange loss (gain)	422	(17,776)
Unrealized gain on marketable securities	-	(8,828)
<b>Net changes in non-cash working capital items:</b>		
Increase in GST receivable	(34,359)	(28,918)
Increase in marketable securities	-	(6,896)
Increase in advance receivable	-	(250,000)
Increase in prepaid expenses	(97,369)	(6,271)
(Decrease) increase in accounts payable and accrued liabilities	(63,503)	393,428
Increase (decrease) in due to related parties	22,596	(350,450)
<b>NET CASH USED IN OPERATIONS</b>	<b>(2,056,459)</b>	<b>(913,922)</b>
<b>FINANCING ACTIVITIES</b>		
Advances payable	-	(20,000)
Subscription received in advance	-	(5,000)
Shares issued for cash, net of cost	4,776,052	3,969,381
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>4,776,052</b>	<b>3,944,381</b>
<b>INVESTING ACTIVITIES</b>		
Exploration	(3,471,978)	(909,447)
Exploration advances	(33,779)	-
Proceeds from sale of marketable securities	86,801	42,027
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(3,418,956)</b>	<b>(867,420)</b>
<b>NET EFFECT OF FOREIGN EXCHANGE RATE</b>	<b>(10,705)</b>	<b>654</b>
<b>(DECREASE) INCREASE IN CASH FOR THE YEAR</b>	<b>(710,068)</b>	<b>2,163,693</b>
CASH, BEGINNING OF YEAR	2,168,830	5,137
<b>CASH AND TERM DEPOSIT, END OF YEAR</b>	<b>1,458,762</b>	<b>2,168,830</b>

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

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

**NOTE 1 - NATURE AND CONTINUANCE OF OPERATIONS**

Baroyeca Gold & Silver Inc. (the "Company") was incorporated under the laws of British Columbia on February 17, 2006. The Company's registered office is located at Suite 1008 - 409 Granville Street, Vancouver, British Columbia. The Company's principal business activities include the acquisition and exploration of its exploration and evaluation assets. During the year ended May 31, 2008, the Company incorporated a wholly-owned subsidiary, Baroyeca Gold & Silver de Mexico, S.A. de C.V. under the laws of Mexico.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration and evaluation programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is primarily dependent upon its ability to generate such financing. These uncertainties may cast significant doubt on the entity's ability to continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated statements of financial position. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

	<b>2022</b>	2021
	\$	\$
Working capital	<b>1,391,198</b>	1,972,299
Net loss	<b>(1,840,691)</b>	(2,243,213)
Deficit	<b>(10,312,483)</b>	(8,471,792)

As of the date of these Consolidated Financial Statements, the ongoing coronavirus pandemic, COVID-19, has not had a determinable impact on the Company's ability to access capital and conduct exploration and evaluation activities. However, the ongoing COVID-19 pandemic continues to develop and may impact the Company's ability to raise funding or explore its properties should travel restrictions related to COVID-19 be extended or expanded in scope.

**NOTE 2 – STATEMENT OF COMPLIANCE**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on September 27, 2022.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of Presentation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

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**b) Basis of Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, the “Company”). Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

The following companies have been consolidated within these consolidated financial statements:

Entity	Country of Incorporation	Voting Control	Functional Currency
Baroyeca Gold & Silver Inc.	Canada	Parent Company	Canadian Dollar
Baroyeca Gold & Silver de Mexico, SA de CV	Mexico	100%	Mexican Peso

**c) Foreign currency**

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. Each subsidiary determines its own functional currency (Note 3(b)) and items included in the financial statements of each subsidiary are measured using that functional currency.

**i) Transactions and Balances in Foreign Currencies**

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rate at the date when fair value was determined.

**ii) Foreign Operations**

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the reporting date and their revenues and expenses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings and recognized as part of the gain or loss on disposal.

**d) Cash and cash equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at May 31, 2022 and May 31, 2021 the Company had no cash equivalents on hand.

**e) Exploration and Evaluation Assets and Expenditures**

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred. All costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as resource assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment at each financial statement date or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Interest on borrowings incurred to finance resource assets is capitalized until the asset is capable of carrying out its intended use.

From time to time the Company may acquire or dispose of a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

# **Baroyeca Gold & Silver Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the Years Ended May 31, 2022 and 2021**

(Expressed in Canadian dollars)

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The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

Revenues from saleable material produced during the exploration phase are applied as a reduction to capitalized exploration and evaluation assets.

#### **f) Long Term Investment and Investment in Associate**

If the Company has significant influence over an investee as defined under IAS 28 – Investments in Associates and Joint Ventures, the investment is initially recognized at cost and is adjusted periodically to reflect the Company's portion of the investees' comprehensive profit or loss through the Company's statement of operations and comprehensive income (loss). The Company's share of profit or loss of an associate is shown on the face of the statement of operations and comprehensive income (loss).

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss in the statement of operations and comprehensive income (loss).

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and process from disposal is recognized in profit or loss.

#### **g) Share Capital**

The Company records proceeds from share issuances, net of commissions and issuance costs. Shares issued for other than cash consideration are valued at either: (i) the fair value of the asset acquired or the fair value of the liability extinguished at the measurement date under current market conditions, or (ii) the quoted price on the Over-the-Counter Bulletin Board in the United States based on the earliest of: the date the shares are issued, or the date the agreement to issue the shares is reached.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. Proceeds from the issue of units, consisting of common shares and share purchase warrants, are first allocated to common shares based on the quoted market value of the common shares at the time the units are priced, and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds prorated to common shares and share purchase warrants.

#### **h) Share-based payments**

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

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of stock options and other share-based payments is recorded based on the estimated fair value using the Black-Scholes option pricing model at the grant date and charged to profit over the vesting period. The amount recognized as an expense is adjusted to reflect the number of equity instruments expected to vest. Upon the exercise of stock options and other share-based payments, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

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**i) Impairment**

The Company reviews and evaluates its property, including exploration and evaluation assets, and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**j) Financial Instruments**

The following is the Company's accounting policy for financial instruments under IFRS 9:

**i) Classification**

The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification under IFRS 9:

<b>Financial assets</b>	<b>Classification under IFRS 9</b>
Cash	Amortized cost
Marketable securities	FVTPL
Other receivables	Amortized cost
<b>Financial liabilities</b>	<b>Classification under IFRS 9</b>
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Other financial liabilities	Amortized cost

# Baroyeca Gold & Silver Inc.

## Notes to the Consolidated Financial Statements

### For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

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#### ii) Measurement

##### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

##### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the Consolidated Statements of Comprehensive Income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the Consolidated Statements of Comprehensive Income in the period in which they arise.

#### iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the Consolidated Statements of Comprehensive Income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### k) Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. The Company's translation of its foreign subsidiaries into Canadian dollars is the only item currently affecting comprehensive income (loss) for the years presented.

#### l) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

##### i) Current Income Tax

Current income tax assets and liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

##### ii) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

# Baroyeca Gold & Silver Inc.

## Notes to the Consolidated Financial Statements

### For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

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Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

#### m) Earnings (loss) per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares issued and outstanding during the reporting period. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

#### n) Leases

The Company adopted all of the requirements of IFRS 16, effective January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. There was no impact on the Company's consolidated financial statements upon the adoption of this new standard.

#### o) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's consolidated statements of financial position include 'Share Subscriptions Received', 'Share-based Payment Reserve', and 'Deficit'.

- 'Share Subscriptions Received' is used to recognize the value of cash received towards share subscriptions that have not been issued by year-end.
- 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants and warrants prior to exercise, expiry or cancellation and the fair value of other share-based consideration paid at the date of payment.
- 'Deficit' is used to record the Company's change in deficit from earnings from period to period.

#### p) Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. These reclassifications have no effect on the net loss for the year ended May 31, 2021.

## NOTE 4 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

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**a) Exploration and Evaluation Assets**

The carrying amount of Company's exploration and evaluation assets does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's mineral properties.

To the extent that any of management's assumptions change, there could be a significant impact on the Company's future financial position, operating results and cash flows.

**b) Deferred Tax Assets**

Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

**c) Share-based Compensation**

The fair value of share-based compensation is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

**NOTE 5 – MARKETABLE SECURITIES**

On March 22, 2019, the Company received 100,000 Aztec common shares at a total fair value of \$19,000 to satisfy one of the terms of the option agreement. On March 25, 2020, the Company received an additional 300,000 Aztec common shares at a total fair value of \$15,000 in accordance with the option agreement. During the year ended May 31, 2022, the Company sold 290,000 Aztec shares for total proceeds of \$86,801 (2021 - 110,000 Aztec common shares for total proceeds of \$42,027).

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

**NOTE 6 – EXPLORATION AND EVALUATION ASSETS**

Total expenditures on the Company’s mineral property in Colombia are as follows:

	\$
<b>Balance, May 31, 2020</b>	<b>-</b>
Acquisition cost	2,380,000
Automobile	2,284
Consulting and geologists	103,095
Exploration, lab and survey	106,298
Equipment, tools and materials	15,966
Legal	14,920
Repairs and maintenance	2,930
Taxes	415
Travel and accommodations	3,436
Sample	298
Wages, benefits and contractors	96,365
Gold sample (recovery)	(57,308)
Foreign currency translation	668
<b>Total acquisition and exploration costs during the year</b>	<b>2,669,367</b>
<b>Balance, May 31, 2021</b>	<b>2,669,367</b>
Acquisition cost	2,723,506
Automobile	44,734
Consulting and geologists	78,610
Exploration, lab and survey	594,691
Equipment, tools and materials	110,743
License and Dues	41,758
Professional fees	49,493
Rent	20,111
Repairs and maintenance	16,631
Taxes	39,385
Travel and accommodations	97,657
Wages, benefits and contractors	878,200
Foreign currency translation	(1,213)
<b>Total acquisition and exploration costs during the year</b>	<b>4,694,306</b>
<b>Balance, May 31, 2022</b>	<b>7,363,673</b>

**Colombia**

- a) During the year ended May 31, 2021, the Company entered into 2 option agreements with Malabar Gold Corp (“Malabar”) whereby Baroyeca will acquire 100% interest in two mineral properties (Santa Barbara and Atocha Property) located in Colombia, South America, along with all of the machinery, equipment, surface rights, license, permits, data and records relating to the properties and held by Malabar.

To earn a 100% interest in the properties, the Company must complete the following:

**i) Santa Barbara Property**

Pursuant to the agreement, the Company must make cash payments of \$1,750,000, and issue 7,000,000 common shares of the Company and must incur expenditures of \$500,000 on the property over a three-year period as follows:

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

		Number of Shares	Cash \$
Within 7 days of signing On Closing	(Paid)	-	50,000
	(Paid and Issued – fair valued at \$980,000)	3,500,000	400,000
Within 10 days following the first anniversary of closing;	(Paid and Issued – fair valued at \$656,250)	1,750,000	825,000
Within 10 days following the second anniversary of closing		1,750,000	475,000
		<b>7,000,000</b>	<b>1,750,000</b>

**ii) Atocha Property (Formerly Falan Property)**

Pursuant to the agreement, the Company must make cash payments of \$1,050,000 and issue 5,000,000 common shares of the Company over a three-year period as follows:

		Number of Shares	Cash \$
Within 7 days of signing On Closing	(Paid)	-	50,000
	(Paid and Issued – fair valued at \$700,000)	2,500,000	200,000
Within 10 days following the first anniversary of closing;	(Paid and Issued – fair valued at \$468,750)	1,250,000	500,000
Within 10 days following the second anniversary of closing		1,250,000	300,000
		<b>5,000,000</b>	<b>1,050,000</b>

- b)** During the year ended May 31, 2022, the Company entered into a Property Purchase Agreement (“PPA”) with certain Colombian private vendors (“Vendors”) whereby the Vendors agreed to sell and transfer to the Company a 100% interest in and to a mineral property, the Santa Barbara Extension, comprised of approximately 215 hectares to the south and immediately contiguous to the existing Santa Barbara Property.

**i) Santa Barbara Property (Extension)**

Pursuant to the terms of the PPA, the Company will pay the Vendors a total of US\$250,000 in cash and issue US\$250,000 worth of shares of the Company over three tranches as follows:

		Common Share Equivalent (In USD\$)	Cash (In USD\$)
On Closing	(Paid and Issued – fair valued at \$97,328)	\$75,000	\$75,000
Upon the Colombian Mining Agency issuing an Official Resolution approving the transfer	(Paid and Issued – subsequent to year end)	\$75,000	\$75,000
Upon registration of the mining title to the benefit of the Company in the Colombian Mining Registry		\$100,000	\$100,000
		<b>\$250,000</b>	<b>\$250,000</b>

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

**Title to mineral properties**

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

**NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2022	2021
	\$	\$
Trade accounts payable	120,802	214,282
Accrued liabilities	46,000	66,000
	<b>166,802</b>	<b>280,282</b>

A total of \$NIL (2021 - \$125,128 (US\$103,651) assumed from the US Subsidiaries deconsolidated was included in trade accounts payable above.

**NOTE 8 – SHARE CAPITAL**

**a) Authorized Share Capital**

The Company is authorized to issue an unlimited number of common shares without par value.

**b) Issued Common Shares**

During the year ended May 31, 2022, the Company has issued a total of 15,797,911 shares of its capital stock, as follows:

- i) 3,000,000 common shares at \$0.375 per share for acquisition of the interests in the mineral property options from Malabar (Note 6a));
- ii) 9,189,709 units of its securities at \$0.35 per unit, each unit consisting of one common share and one-half a non-transferable share purchase warrant, each whole warrant (a “Warrant”), entitling the holder to acquire one additional common share of the Company at a price of \$0.50 per share for a period of one year; The Company incurred \$104,514 in share issuance costs related to this financing and issued 298,610 finder’s warrants;
- iii) 243,320 common shares at \$0.40 per share for acquisition of additional interest in the mineral property in Colombia (Note 6b));
- iv) 835,000 common shares at \$0.165 pursuant to the exercise of warrants;
- v) 1,717,382 common shares at \$0.30 pursuant to the exercise of warrants;
- vi) 312,500 common shares at \$0.45 pursuant to the exercise of warrants;
- vii) 500,000 common shares at \$0.215 pursuant to the exercise of options.

During the year ended May 31, 2021, the Company has issued a total of 32,005,034 shares of its capital stock, as follows:

- viii) 2,000,000 common shares pursuant to a private placement at \$0.05 per share;
- ix) 3,000,000 units of its securities (3,000,000 common shares and 3,000,000 warrants) pursuant to a private placement at \$0.825 per unit, each unit consisting of one common share and one non-transferable share purchase warrant (a “Warrant”), with each such Warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.165 per share for a period of two years;

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

- x) 9,200,000 units of its securities (9,200,000 common shares and 9,200,000 warrants) pursuant to a private placement at \$0.22 per unit, each unit consisting of one common share and one non-transferable share purchase warrant (a “Warrant”), with each such Warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.30 per share for a period of two years;
- xi) 6,000,000 common shares at \$0.35 per share pursuant to a settlement of debts;
- xii) 6,000,000 common shares at \$0.28 per share for acquisition of the interests in the mineral property options from Malabar;
- xiii) 5,630,034 units of its securities at \$0.30 per unit, each unit consisting of one common share and one-half a non-transferable share purchase warrant, each whole warrant (a “Warrant”), entitling the holder to acquire one additional common share of the Company at a price of \$0.45 per share for a period of one year; and
- xiv) 175,000 common shares at \$0.165 pursuant to the exercise of warrants.

**c) Stock options**

The Board of Directors is authorized, pursuant to the Company’s Stock Option Plan, to grant options to directors, officers, consultants or employees to acquire up to 10% of issued and outstanding common shares. The exercise price of options granted shall not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction. The options can be granted for a maximum term of 5 years and are subject to such vesting terms and conditions as may be specified by the Board of Directors.

The award of stock options is at the discretion of the Board of Directors. The Company has no formal objectives or criteria and relies on the recommendations of the Board of Directors.

The Company’s options outstanding as at May 31, 2022 and the changes for the years then ended are as follow.

	<b>Options Outstanding Numbers</b>	<b>Weighted average exercise price \$</b>
<b>Balance, June 1, 2021</b>	-	-
Granted – June 24, 2021	3,350,000	0.215
Granted – July 15, 2021	150,000	0.265
Granted – February 2, 2022	250,000	0.35
Exercised	(500,000)	0.215
<b>Balance, May 31, 2022</b>	<b>3,250,000</b>	<b>0.228</b>

During the year ended May 31, 2022, the Company has granted 3,750,000 options as follows:

- i) 3,350,000 shares purchase option at an exercise price of \$0.215 per share until June 24, 2026.

Using the Black-Scholes Option Pricing Model, the Company determined the fair value of the options granted to be \$706,925. The Company used the following assumptions: average volatility of 209.95%; share price of \$0.215; exercise price of \$0.215; average risk-free rate of .87%; and expected life of five years. Accordingly, \$706,925 was recorded as share-based compensation to share-based payment reserves.

# Baroyeca Gold & Silver Inc.

## Notes to the Consolidated Financial Statements

### For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

- ii) 150,000 shares purchase option at an exercise price of \$0.265 per share until July 15, 2026.

Using the Black-Scholes Option Pricing Model, the Company determined the fair value of the options granted to be \$34,317. The Company used the following assumptions: average volatility of 210.19%; share price of \$0.265; exercise price of \$0.265; average risk-free rate of .39%; and expected life of five years. Accordingly, \$34,317 was recorded as share-based compensation to share-based payment reserves.

- ii) 250,000 shares purchase option at an exercise price of \$0.35 per share until May 2, 2023.

Using the Black-Scholes Option Pricing Model, the Company determined the fair value of the options granted to be \$67,467. The Company used the following assumptions: average volatility of 179.51%; share price of \$0.385; exercise price of \$0.35; average risk-free rate of 1.22%; and expected life of one year and 3 months. Accordingly, \$21,811 was recorded as share-based compensation to share-based payment reserves based on the vested options.

The following table displays outstanding and exercisable options at May 31, 2022:

<b>Expiry date</b>	<b>Number outstanding</b>	<b>Number exercisable</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life</b>
	#	#	\$	Years
May 2, 2023	250,000	62,500	0.35	0.92
June 24, 2026	2,850,000	2,850,000	0.215	4.07
July 15, 2026	150,000	150,000	0.265	4.13
	<b>3,250,000</b>	<b>3,062,500</b>	<b>0.228</b>	<b>3.83</b>

#### d) Warrants

As at May 31, 2022, warrants outstanding were as follows:

- i) 1,990,000 share purchase warrants at an exercise price of \$0.165 per share until September 15, 2022.
- ii) 6,933,089 share purchase warrants at an exercise price of \$0.30 per share until January 14, 2023.
- iii) 756,911 share purchase warrants at an exercise price of \$0.30 per share until January 25, 2023.
- iv) 4,594,853 share purchase warrants at an exercise price of \$0.50 per share until February 18, 2023.
- v) 298,610 share purchase warrants at an exercise price of \$0.50 per share until February 18, 2023.
- vi) 2,502,517 share purchase warrants at an exercise price of \$0.45 per share expired April 23, 2022.

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

A summary of the Company's issued and outstanding warrants as at May 31, 2022 is presented below:

	<b>Warrants Outstanding Numbers</b>	<b>Weighted average exercise price \$</b>
<b>Balance, June 1, 2020</b>	-	-
Warrants issued under Finder's fee	207,382	0.300
Warrants issued under private placement	14,840,017	0.303
<b>Balance, May 31, 2021</b>	<b>15,047,399</b>	<b>0.303</b>
Warrants issued under Finder's fee	298,610	<b>0.500</b>
Warrants issued under private placement	4,594,853	<b>0.500</b>
Warrants exercised	(2,864,882)	<b>0.277</b>
Warrants expired	(2,502,517)	<b>0.450</b>
<b>Balance, May 31, 2022</b>	<b>14,573,463</b>	<b>0.349</b>

In connection with the private placement, the Company issued 298,610 finder's warrants exercisable at \$0.50 expiring on February 18, 2023. Using the Black-Scholes Option Pricing Model, the Company determined that the fair value of the warrants granted to be \$36,683. The Company used the following assumptions: average volatility of 115.63%; share price of \$0.355; exercise price of \$0.50; average risk-free rate of 1.49% and expected life of one year. Accordingly, \$36,683 was recorded as share issue costs to share based payment reserves.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

**a) Compensation of key management**

Key management includes the Company's directors. Key management compensation for the years ended May 31, 2022 and 2021, comprised:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Director fees	<b>7,200</b>	6,175
Management fees	-	10,000
Consulting fees	<b>368,610</b>	69,314
Share-based compensation	<b>390,392</b>	-
	<b>766,202</b>	85,489

**b) Other related party transactions**

In addition to the compensation paid to directors, the Company had the following transactions with related parties:

- i) In fiscal 2021, the Company issued 1,200,000 common shares fair valued at \$420,000 to settle debt owed with carrying value of \$99,000 (original face value was \$378,500). A loss on settlement of debt for \$321,000 was recorded in fiscal year 2021.
- ii) During the year ended May 31, 2022, the Company incurred legal fees of \$111,110 (2021 - \$119,428) to a law firm of which a director of the Company is a principal. As at May 31, 2022, the Company had a balance payable of \$52,400 (2021 - \$25,000) to this law firm, which was included in due to related parties.

In fiscal 2021, the Company issued 1,200,000 common shares fair valued at \$420,000 to settle debt owed with carrying value of \$99,000 (original face value was \$211,648). A loss on settlement of debt for \$321,000 was recorded in fiscal year 2021.

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

iii) As at May 31, 2022, the Company owed \$NIL (2021 - \$1,200) to a company controlled by a director for expense reimbursements, and is included in due to related parties.

In fiscal 2021, the Company issued 1,200,000 common shares fair valued at \$420,000 to settle debt owed with carrying value of \$99,000 (original face value was \$188,749). A loss on settlement of debt for \$321,000 was recorded in fiscal year 2021.

iv) During the year ended May 31, 2022, the Company incurred consulting fees of \$97,500 (2021 – \$10,000) to a director of the Company. As at May 31, 2022 the Company had a balance payable of \$12,290 (2021 - \$2,971) to this director which was included in due to related parties.

v) During the year ended May 31, 2022, the Company incurred director’s fees of \$7,200 (2021 - \$3,000) to a director of the Company. As at May 31, 2022 the Company had a balance payable of \$3,000 (2021 - \$3,000) to this director which was included in due to related parties.

In fiscal 2021, the Company issued 1,200,000 common shares fair valued at \$420,000 to settle debt owed with carrying value of \$99,000 (original face value was \$273,265). A loss on settlement of debt for \$321,000 was recorded in fiscal year 2021.

vi) As at May 31, 2022, the Company owed \$483 (2021 - \$483) to a former director of the Company, who resigned on September 28, 2012, which is included in due to related parties.

vii) As at May 31, 2022, the Company incurred consulting fees of \$160,000 (2021 - \$69,314) to a company owned by a director of the Company. As at May 31, 2022, \$3,360 (2021 - \$NIL) was payable to this Company and is included in due to related parties.

viii) As at May 31, 2022, the Company owed \$NIL (2021 - \$16,350) to a director of the Company.

The amounts due to/from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

**NOTE 10 – INCOME TAXES**

**a) Provision for current tax**

No provision has been made for current income taxes, as the Company has no taxable income.

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

	2022	2021
	\$	\$
Net loss for the year	<b>(1,840,691)</b>	(2,243,213)
Income tax expense	-	-
Income (loss) excluding income tax	<b>(1,840,691)</b>	(2,243,213)
Income tax expense (recovery) using the Company’s domestic tax rate	<b>(497,000)</b>	(606,000)
Change in deferred tax rates	-	(154,000)
Adjustment to prior year’s tax provision	<b>(28,000)</b>	59,000
Permanent Differences	<b>209,000</b>	-
Others	<b>3,000</b>	28,000
Change in unrecognized temporary differences	<b>313,000</b>	673,000
	-	-

The Company’s Canadian corporate tax rate is 27% (2021 - 27%) and effective tax rate is NIL (2021 - NIL).

**Baroyeca Gold & Silver Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended May 31, 2022 and 2021**  
(Expressed in Canadian dollars)

**b) Provision for deferred tax**

As future taxable profits of the Company are uncertain, no deferred tax asset has been recognized.

As at May 31, 2022, the Company has unused non-capital loss carry forward of approximately \$6,760,671 (2021 - \$5,642,599) in Canada and \$1,786,598 (2021 - \$1,786,598) in Mexico.

In addition, the Company has approximately \$12,236,962 (2021 - \$7,407,102) of resource tax pools available, which may be used to shelter certain resource income in Canada.

As at May 31, 2022, the Company had the following deductible temporary differences in respect of which no deferred tax asset was recognized:

Expiry	Tax Losses \$	Resource Pools \$	Equipment and Others \$
Within one year	-	-	-
One to five years	-	-	184,960
After five years	8,547,269	-	-
Share issuance costs and others	-	12,236,962	14,765
<b>Net deferred income tax assets</b>	<b>8,547,269</b>	<b>12,236,962</b>	<b>199,725</b>

**NOTE 11 – SEGMENTED INFORMATION**

The Company has reportable segments being exploration and evaluation activities in Mexico and Colombia. As of May 31, 2022 and 2021, the Company's operation in Mexico is inactive.

Geographic information of identifiable assets is as follows:

	Canada \$	Colombia \$	Mexico \$	Total \$
Cash	2,168,830	-	-	2,168,830
Marketable Securities	93,697	-	-	93,697
GST receivable	32,719	-	-	32,719
Prepaid Expense	6,271	-	-	6,271
Exploration Advances	-	170,080	241	170,321
Exploration and evaluation assets	-	2,669,367	-	2,669,367
<b>Total Identifiable Assets as at May 31, 2021</b>	<b>2,301,517</b>	<b>2,839,447</b>	<b>241</b>	<b>5,141,205</b>
Cash	1,408,762	-	-	1,408,762
Term Deposits	50,000	-	-	50,000
GST receivable	67,131	-	-	67,131
Prepaid Expense	103,640	-	-	103,640
Exploration Advances	-	203,859	241	204,100
Exploration and evaluation assets	-	7,363,673	-	7,363,673
<b>Total Identifiable Assets as at May 31, 2022</b>	<b>1,629,533</b>	<b>7,567,532</b>	<b>241</b>	<b>9,197,306</b>

# Baroyeca Gold & Silver Inc.

## Notes to the Consolidated Financial Statements

### For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

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#### NOTE 12 – COMMITMENTS

In May 2021, the Company signed a marketing service agreement with CapWest Investment Corp. for marketing, public relations and advisory services for a two month term for total fees of \$150,000. The Company terminated the agreement in 2022 after a payment of \$50,000 in each of the years ended May 31, 2022 and 2021.

In January 2022, the Company signed with Stockhouse Publishing Ltd. a one year publishing marketing campaign agreement for a fee of \$100,000 (paid).

In February 2022, the Company entered into a one year marketing service agreement for a fee of \$120,000. The Company also issued 250,000 incentive stock options subject to vesting of not more than 25% quarterly for the marketing services.

See also Note 6 herein for the commitments arising from the Mineral Property Option Agreements entered into during the year.

#### NOTE 13 – FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

**a) Fair Value**

The fair value of the Company's amounts receivable, due from related parties, accounts payable and accrued liabilities, advance payable and line of credit approximate carrying value due to their short terms to maturity, which is the amount recorded on the consolidated statement of financial position. The Company's loan payable is recorded at amortized cost, and the Company's cash and marketable securities are recorded at fair value using Level 1 quoted prices in active markets for identical assets or liabilities.

**b) Credit risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. As the Company's cash is held in major financial institutions, and the major component of amounts receivable is GST receivable from the government of Canada, the Company believes it has no significant credit risk.

**c) Liquidity and funding risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2022, the Company had a cash balance of \$1,408,762 to settle current liabilities of \$238,335. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand.

The Company has historically relied on equity and debt financing to satisfy its capital requirements and will continue to depend heavily upon equity capital and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms. The ability of the Company to arrange additional financing in the future will depend, in part, on prevailing market conditions.

**d) Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. As at May 31, 2022, the carrying value of the financial instruments approximates their fair values.

**e) Interest rate risk**

The Company has short-term deposit balance of \$50,000 as at May 31, 2022 and no financial liabilities whose future settlements will vary with changes in interest rates. The effect of fluctuations in interest rates, are considered to be insignificant.

# Baroyeca Gold & Silver Inc.

## Notes to the Consolidated Financial Statements

### For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

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**f) Foreign currency risk**

The Company is exposed to foreign currency risk on fluctuations related to cash, amounts receivable, accounts payable and accrued liabilities and refundable deposit that are denominated in Mexican Pesos and Colombian Peso. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. A 10% change in the foreign exchange rates would affect net loss for the year by approximately \$14,736.

**g) Price risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the prices of commodities, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

#### **NOTE 14 – CAPITAL MANAGEMENT**

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and evaluation of its mineral property interests. Capital is comprised of the Company's shareholders' equity. As at May 31, 2022, the shareholders' equity was \$8,958,971. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended May 31, 2022.