CERRO DE PASCO RESOURCES INC.

Condensed Interim Consolidated Financial Statements

(Unaudited and unreviewed by the Company's Independent Auditors)

Three-month and six-month periods ended
June 30, 2022 and 2021

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements of Cerro de Pasco Resources Inc., (the "Company") for the three-month and six-month periods ended June 30, 2022 and 2021 have been prepared by and are the responsibility of the Company's management. In accordance with National Instrument 51 - 102 - *Continuous Disclosure Obligations*, the Company discloses that its independent auditor has not performed a review of these condensed consolidated interim financial statements.

CERRO DE PASCO RESOURCES INC.

Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2022 and December 31, 2021
(in Canadian dollars)

	Notes	June 30 2022	December 31 2021
		$	$
Assets			
Current assets:			
Cash and cash equivalents	6	4,840,678	12,633,042
Cash and cash equivalents – restricted	6	6,833,077	1,387,795
Accounts receivable		6,245,256	11,428,665
Other financial assets		119,217	119,217
Other receivables		1,192,531	1,060,843
Income and mining taxes receivable		957,191	957,191
Inventories	7	3,387,391	2,958,095
Prepaid expenses	8	2,897,122	829,079
Total current assets		26,472,463	31,373,927
Non-current assets:			
Cash and cash equivalents – restricted		1,246,759	1,246,759
Deferred income tax asset		521,943	-
Property, plant & equipment, net	9	6,998,269	7,436,281
Mining properties, exploration, and evaluation assets	10	11,596,163	8,503,488
Other intangibles		6,012	18,969
Total non-current assets		20,369,146	17,205,497
Total assets		46,841,609	48,579,424
Current liabilities:			
Trade accounts payable and other liabilities	12	19,968,484	18,931,940
Promissory note	14	1,181,391	1,331,391
Balance of purchase payable		2,145,027	2,145,027
Current portion of provisioning for rehabilitation and mine closure	13	4,314,441	1,142,845
Current portion of loan	16	1,732,828	1,640,848
Convertible debenture	15	1,379,837	1,379,837
Embedded derivative on convertible debenture		66,185	66,185
Total current liabilities		30,788,193	26,638,073
Non-current liabilities:			
Loan	16	895,092	812,193
Contingent consideration payable		1,412,160	1,412,160
Provisioning for rehabilitation and mine closure	13	14,593,986	17,478,614
Warrants - Liability		37,607	37,607
Deferred income tax liability		-	67,575
Total non-current liabilities		16,938,845	19,808,149
Total liabilities		47,727,038	46,446,222
Equity (deficiency):			
Share capital	17	30,805,959	30,615,645
Warrants	17	1,168,634	1,171,034
Share options	17	1,998,385	1,925,585
Contributed surplus		882,642	880,242
Deficit		(35,640,175)	(32,570,898)
Accumulated other comprehensive income		(78,078)	111,594
Total shareholders' equity (deficiency) attributable to owners of the parent company		(862,633)	2,133,202
Non-controlling interest		(22,796)	-
Total shareholders' equity (deficiency)		(885,429)	2,133,202
Total liabilities and shareholders' equity (deficiency)		46,841,609	48,579,424

Going concern, see Note 2.

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

CERRO DE PASCO RESOURCES INC.

Condensed Interim Consolidated Statements of Comprehensive Profit & Loss

Three-month and six-month periods ended June 30, 2022 and 2021

(in Canadian dollars)

	Three-month period ended		Six-month period ended	
	June 30 2022	**June 30 2021**	**June 30 2022**	**June 30 2021**
Income:				
Sales	9,059,123	-	27,279,288	-
Cost of sales	10,781,069	-	22,933,343	-
Gross Profit	(1,721,946)	-	4,345,945	-
Expenses:				
Selling Expenses	926,125	-	1,854,340	-
Research and development expenses	(14,578)	-	162,771	-
General and administrative expenses	3,046,433	1,006,983	4,992,587	2,189,871
Operating income (loss) before other expenses and income tax	(5,679,925)	(1,006,983)	(2,663,754)	(2,189,871)
Other revenue (expenses):				
Finance expenses	(455,028)	(150,820)	(870,833)	(233,554)
Non-recoverable sales taxes	-	(10,330)	-	(7,857)
Change in fair value of marketable securities in a quoted company	-	10,782	-	3,594
Change in fair value of warrants and embedded derivative on convertible debenture	-	46,686	-	76,308
Gain on settlement of payables	-	94.685	-	94,685
Gain on convertible debenture financing	-	8,879	-	8,879
Government assistance	-	12,170	-	12,170
Exchange loss (gain)	79,262	(5,080)	31,829	(38,927)
	(375,766)	6,972	(839,005)	(84,702)
Income (loss) before income taxes	(6,055,691)	(1,000,011)	(3,502,758)	(2,274,573)
Income taxes	(658,468)	-	(403,288)	-
Net Income (loss)	(5,397,224)	(1,000,011)	(3,099,471)	(2,274,573)
Other comprehensive income (loss)				
Items that will be reclassified subsequently to profit or loss Currency translation adjustment	212,998	88,323	(188,769)	162,341
Other comprehensive income (loss) net of tax	212,998	88,323	(188,769)	162,341
Total comprehensive income (loss)	(5,184,225)	(911,688)	(3,288,240)	(2,112,232)
Net income (loss) attributable to:				
Shareholders of Cerro de Pasco Resources Inc.	(5,402,622)	(1,000,011)	(3,069,277)	(2,274,573)
Non-controlling interests	5,398	-	(30,194)	-
	(5,397,224)	(1,000,011)	(3,099,471)	(2,274,573)
Other comprehensive income (loss) attributable to:				
Shareholders of Cerro de Pasco Resources Inc.	213,338	88,323	(189,672)	162,341
Non-controlling interest	(339)	-	903	-
	212,998	88,323	(188,769)	162,341
Total comprehensive income (loss) attributable to:				
Shareholders of Cerro de Pasco Resources Inc.	(5,189,284)	(911,688)	(3,258,949)	(2,112,232)
Non-controlling interest	5,059	-	(29,291)	-
	(5,184,225)	(911.688)	(3,288,240)	(2,112,232)
Basic and diluted weighted average number of common shares outstanding	287,795,282	273,282,030	287,523,961	270,006,580
Basic income (loss) per share:	(0.02)	0.00	(0.01)	(0.01)

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

CERRO DE PASCO RESOURCES INC.
Condensed Interim Consolidated Statements of Changes in Equity
Six-month periods ended June 30, 2022 and 2021
(in Canadian dollars)

	Notes	Number of shares outstanding	Share capital	Warrants	Share options	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total attributable to the owners of the parent company	Non-controlling interest	Total equity (deficiency)
			$	$	$	$	$	$	$	$	$
Balance as at December 31 2021		287,044,280	30,615,645	1,171,034	1,925,585	880,242	(32,570,898)	111,594	2,133,202	-	2,133,202
Shares and units issued:											
As payment of consulting fees	17	766,654	190,314	-	-	-	-	-	190,314	-	190,315
Share options granted		-	-	-	72,800	-	-	-	72,800	-	72,800
Warrants expired		-	-	(2,400)	-	2,400	-	-	-	-	-
Non-controlling interest		-	-	-	-	-	-	-	-	(22,796)	(22,796)
Transactions with owners		766,654	190,314	(2,400)	72,800	2,400	-	-	263,114	(22,796)	240,318
Net loss and comprehensive income for the period		-	-	-	-	-	(3,069,277)	(189,672)	(3,258,949)	-	(3,258,949)
Balance as at June 30, 2022		287,810,934	30,805,959	1,168,634	1,998,385	882,642	(35,640,175)	(78,078)	(862,633)	(22,796)	(885,429)
Balance as at December 31 2020		266,636,294	25,356,132	716,811	1,929,737	749,130	(29,957,648)	230,214	(975,624)	-	(975,624)
Shares and units issued:											
Private placements		8,566,557	2,753,434	244,861	-	-	-	-	2,998,295	-	2,998,295
As payment of consulting fees	17	160,000	58,650	-	-	-	-	-	58,650	-	58,650
Share issuance costs		-	(183,620)	-	-	-	-	-	(183,620)	-	(183,620)
Share options granted		-	-	-	47,340	-	-	-	47,340	-	47,340
Conversion options from convertible debenture financing		-	-	-	-	58,800	-	-	58,800	-	58,800
Transactions with owners		8,726,557	2,628,464	244,861	47,340	58,800	-	-	2,979,465	-	2,979,465
Net loss and comprehensive income for the period		-	-	-	-	-	(2,274,573)	162,341	(2,112,232)	-	(2,112,232)
Balance as at June 30, 2021		275,362,851	27,984,596	961,672	1,977,077	807,930	(32,232,221)	392,555	(108,391)	-	(108,391)

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

CERRO DE PASCO RESOURCES INC.

Condensed Interim Consolidated Statements of Cash Flows

Six-month periods ended June 30, 2022 and 2021

(in Canadian dollars)

	Notes	Six-month period ended June 30 2022	June 30 2021
		$	$
Operating activities:			
Net income (loss)		(3,069,277)	(2,274,573)
Adjustments for:			
Income taxes		(403,288)	-
Consulting fees paid through issuance of shares		190,315	58,650
Share-based compensation		72,800	47,340
Unrealized exchange loss		-	(26,205)
Change in fair value of marketable securities in a quoted company		-	(3,594)
Change in fair value of warrants and embedded derivative on convertible debenture		-	(76,308)
Gain on settlement of payables		-	(94,685)
Gain on convertible debenture refinancing		-	(8,879)
Interest on lease liabilities		-	1,215
Effective interest on loan		-	(267)
Presumed interest on convertible debenture		-	109,352
Write-off of property, plant, and equipment	9	103,602	-
Depreciation of mining properties, exploration, and evaluation assets		129,726	-
Depreciation of right-of-use assets		-	40,947
Depreciation of property, plant, and equipment	9	1,147,503	9,350
Depreciation of other intangibles		9,520	-
Operating activities before changes in working capital items		(1,819,098)	(2,217,657)
Change in trade and other receivables		5,167,479	(30,312)
Change in inventories		(370,200)	-
Change in prepaid expenses		(1,554,146)	46,763
Change in trade accounts payable and accrued liabilities		264,351	(433,571)
Change in cash and cash equivalents - restricted		(5,319,660)	-
Change in provisioning for rehabilitation and mine closure		(50,937)	-
Change in working capital items		(1,863,112)	(417,120)
Cash flows used for operating activities		(3,682,209)	(2,634,777)
Financing activities:			
Proceeds from private placements		-	2,998,295
Proceeds from loan		865,815	10,000
Lease liabilities repayments		-	(25,532)
Repayment of promissory note	14	(150,000)	-
Repayment of loan		(724,533)	
Interest paid on lease liabilities		-	(1,215)
Proceeds from issuance of convertible debenture		-	500,000
Share issuance costs		-	(179,917)
Transactions with minority interests in subsidiaries		(30,194)	-
Cash flows from financing activities		(38,912)	3,301,631
Investing activities:			
Investment in H2Sphere		(28,872)	-
Acquisition of property, plant and equipment	9	(813,094)	-
Acquisition of mining property		-	(49,615)
Investment in mining concessions and mining development		(3,032,101)	-
Cash flows used for investing activities		(3,873,977)	(49,615)
Net change in cash and cash equivalents		(7,595,098)	617,239
Cash and cash equivalents, beginning of period		12,604,267	897,979
Effect of exchange rate fluctuations on cash held in foreign currencies		(166,802)	155,396
Cash and cash equivalents, end of period		4,840,678	1,670,614
Interest paid		33,758	66,197

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

1. Reporting entity and nature of operations:

Cerro de Pasco Resources Inc. and its subsidiaries (hereafter the “Company” or “Cerro de Pasco” or “CDPR”) is a natural resource company engaged in the acquisition, exploration, development of mineral properties. The Company produces zinc and lead-silver concentrates from the Santander mine in Peru.

Cerro de Pasco Resources Inc. is a company located in Canada. The Company was incorporated on June 6, 2003 under the Business Corporations Act (Alberta).

The Company's head office, which is also the main establishment is located at 22 Lafleur Avenue North, suite 203, Saint-Sauveur, Québec, Canada J0R 1R0 and its web site is www.pascoresources.com. The Company is trading on the Canadian Securities Exchange (CSE) under symbol “CPDR”.

Prior to the acquisition of Cerro de Pasco Resources Subsidiaria del Perú S.A.C. (formerly Trevali Peru S.A.C.) (”Santander”) the Company had been in pre-operative stage company. As of December 3, 2021 with the acquisition of Santander, the Company engaged in the development of all types of mining activities, without exception, which include the exploration and exploitation of mining rights, processing and sale of minerals and metals, such as lead, zinc and silver in the Santander mining unit that is located in Santa Cruz de Andamarca, province of Huaral, Lima, Peru.

2. Going Concern:

The accompanying interim consolidated financial statements have been prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

Management is aware, in making its assessment, of material uncertainties related to events and conditions that may cast a doubt on the Company’s ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

For the six-month period ended June 30, 2022, the Company recorded a net loss of $3,099,471 ($2,274,573 for the six-month period ended June 30, 2021) due mainly to the continuing investment made in the EL Metalurgista Project that has generated and has an accumulated deficit of $35,640,175 as at June 30, 2022 ($32,570,898 as at December 31, 2021) due to the purchase, on December 3, 2021 of their first operating unit (Santander). As at June 30, 2022, the Company had a negative working capital of $4,315,730 ($4,735,854 as at December 31, 2021) consisting of cash and cash equivalents of $4,840,678 ($12,633,042 as at December 31, 2021). Management believes that while these funds may be adequate to operate the Santander mine, it may not be sufficient to meet the obligations and commitments of the Company as a whole. These uncertainties cast significant doubt regarding the Company's ability to continue as a going concern; unless any funding shortfall may be met in the future in a number of ways, including but not limited to, the issuance of new equity instruments. In the year ended December 31, 2021, the Company raised $2,998,295 from private placements consisting of common shares to fund exploration works and working capital ($19,025,757 net cash achieved in the acquisition of the Santander mining operations). While management has been successful in raising financing in the past, there is no assurance that it will succeed in obtaining additional financing in the future operations. The recovery of the cost of exploration and evaluation assets as well as other tangible and intangible assets, is subject to certain conditions: the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to continue the exploration, evaluation, development, construction and ultimately disposal of these assets.

3. Basis of Preparation:

Statement of compliance:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board ("IASB") in accordance with IAS 34, Interim Financial Reporting.

Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed interim consolidated financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2021

Basis of measurement:

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for where IFRS requires recognition at fair value.

Basis of consolidation:

A subsidiary is an entity over which the Company has control. The Company controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is acquired and de-consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The subsidiaries have a reporting date of December 31. The Company attributes total comprehensive loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. All intra-group transactions and balances are eliminated in full on consolidation.

Subsidiary	Status	Jurisdiction of incorporation	Principal activity	% of Ownership
Cerro de Pasco Resources Sucursal del Perú	Active	Peru	Exploration	100%
Cerro de Pasco Resources Subsidiaria del Perú S.A.C. *(formerly Trevali Peru S.A.C.,” Santander*”)	Active	Peru	Production	100%
H2-SPHERE GmbH (H2 Sphere”)	Active	Germany	Research	80%
Subsidiary 1 - Zippler Inc. (“Zippler”)	Inactive	Canada	None	100%
Subsidiary 2 - Zencig Corp. (“Zencig”)	Inactive	USA	None	70%

Functional and presentation currency:

The consolidated interim financial statements are presented in Canadian dollars. The functional currency of Cerro de Pasco Resources Inc. and Subsidiary 1 is the Canadian dollar. The functional currency of Cerro de Pasco Resources Sucursal del Peru, Santander and Subsidiary 2 is the US dollar. The functional currency of H2-Sphere GmbH is the Euro.

Use of estimates and judgments:

Critical judgments in applying the accounting policies of the Company in the preparation of these condensed interim consolidated financial statements and key assumptions related to these estimation uncertainties are the same as the ones listed and described in the annual audited consolidated financial statements of the Company as at December 31, 2021.

4. Changes in accounting policies:

There were no accounting changes in accounting policy to disclose during the period ended June 30, 2022.

5. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

Revenue recognition

The principal activity from which the Corporation generates its revenue is the sale of zinc and lead-silver concentrates to third parties. Revenue is measured based on the consideration specified in the contract with the customer. Revenue of sales concentrate is recognized at a point of time when the Corporation transfers control of a product to the customer, which generally occurs when the concentrate is transferred to the carrier transporting the product.

Non-controlling interests:

Non-controlling interests ("NCI") represent equity interests owned by outside parties. NCI may be initially measured either at fair value or at the NCI's proportionate share of the recognized amounts of the acquirees identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity.

Total Comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the NCI even if this results in the NCI having a deficit balance. Changes in the parent company’s ownership interest that do not result in a loss of control are accounted for as equity transactions.

Foreign currency transactions and balances:

The interim consolidated financial statements are presented in Canadian dollars (see Note on Functional and presentation currency). Foreign currency transactions and balances are translated in their respective functional currency using the following method:

- Monetary assets and liabilities in foreign currency are translated at the closing exchange rate in effect at the reporting date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date.
- Revenues and expenses are translated at the average rate in effect during the year.
- Gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year end exchange rates are included in profit or loss.
- Non-monetary items are not re-translated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Assets, liabilities, and transactions of the subsidiary with a functional currency other than those in Canadian dollars are translated into Canadian dollars on consolidation. On consolidation, assets and liabilities are translated into Canadian dollars at the closing rate of the reporting date. Income and expenses are translated under the Company's presentation currency at the average rate over the reporting year. Exchange differences are presented as other comprehensive loss and recognized in Accumulated other comprehensive loss in deficiency. On disposal of a foreign operation, the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal.

Goodwill, intangibles, and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and translated at the rate in effect at the statement of financial position date.

5. Significant accounting policies (continued)

Financial instruments:

(a) Recognition and derecognition:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expired.

(b) Classification and initial measurement of financial assets:

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets are classified into the following categories:

- amortized cost;
- fair value through profit or loss ("FVTPL");
- fair value through other comprehensive income ("FVOCI").

In the periods presented, the Company does not have any financial assets categorized as fair value through other comprehensive income.

- The classification is determined by both:
- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance expenses, finance income or other financial items, except for impairment of trade receivables which is presented within general and administrative expenses.

(c) Subsequent measurement of financial assets:

(i) Financial assets at amortized cost:

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, short-term investments, and other receivables (except sales tax receivable) fall into this category of financial instruments.

(ii) Financial assets at fair value through profit or loss (FVTPL):

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

5. Significant accounting policies (continued)

Financial instruments (continued)

The category contains marketable securities in a quoted company. The Company accounts for the investments at FVTPL and did not make the irrevocable election to account for the investment in Genius Metal Inc. and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirement of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Compound financial instruments:

The component parts of compound financial instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity component in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the liability component is recognized at fair value, which is estimated using the borrowing rate available for similar non-convertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest method until extinguished upon conversion or at maturity.

The value of the conversion option classified as equity component is determined at the date of issue by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. When and if the conversion option is exercised, the equity component of convertible debentures will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debentures, the equity component of the convertible debentures will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option.

Transaction costs related to the issue of convertible debentures are allocated to the liability and equity component in proportion to the initial carrying amounts. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debenture using the effective interest method.

Impairment of financial assets:

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses - the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included other receivables (except sales tax receivable).

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Stage 1: financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk;
- Stage 2: financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not
- Stage 3: there is objective evidence of impairment as at the reporting date (using the criteria currently included in IAS 39).

A 12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

5. Significant accounting policies (continued)

Classification and measurement of financial liabilities:

The Company's financial liabilities at amortized cost include trade accounts payable and other liabilities, convertible debenture and loan. The Company's financial liabilities designated at FVTPL include warrants and embedded derivative on convertible debenture.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest- related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance expenses or finance income.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Business Acquisitions:

The Company accounts for its acquisitions using the acquisition method whereby assets acquired and liabilities assumed are recorded at their estimated fair values with the surplus of the aggregate consideration relative to the fair value for the identifiable net assets recorded as goodwill.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost of consideration is measured as the fair value of the assets provided, equity instruments issued, liabilities incurred or assumed, and any non-controlling interest acquired at the acquisition date;
- identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed, and any residual difference is recognized directly in net earnings;
- any costs directly attributable to the business combination are expensed as incurred; and
- contingent consideration is measured at fair value at the acquisition date and changes in fair value are recognized in net earnings.

Basic and diluted loss per share:

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting loss attributable to common shareholders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares which include options and warrants. Dilutive potential common shares are deemed to have been converted into common shares at the average market price at the beginning of the year or, if later, at the date of issue of the potential common shares. The diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding warrants and share options.

Cash and cash equivalents:

Cash and cash equivalent consists of cash and cash in trust, as well as other highly liquid short-term investments, easily convertible in a known amount of cash and subject to negligible risk of value impairment. Restricted cash is not available for use by the Company and therefore is not considered highly liquid, for example, cash set aside to cover remediation obligations.

Marketable securities:

Marketable securities comprise of shares of other publicly trading companies and are recorded at fair value as of the date of the statement of financial position. The difference from the original cost base related to share of other public trading companies is recorded in net loss.

(in Canadian dollars)

5. Significant accounting policies (continued)

Inventories

Inventories comprise finished products, stockpile and supplies. Finished products and are valued at cost or net realizable value, whichever is lower. The finished goods and stockpile include all production costs incurred directly, including direct labor and materials, freight and amortization, and directly attributable operating expenses. Supplies to be used in exploration and production are valued at acquisition cost, freight, and other directly attributable costs, which is determined using the weighted average method and the cost of inventories to be received, using the specific cost method.

The impairment of the value of the inventories is determined based on the net realizable value, which is the estimated sale price in the normal course of business, less the costs necessary to finish their production, put the inventories in a condition for sale and carry out their commercialization. For reductions in the book value of the inventories to their net realizable value, a provision for inventory impairment is made with a charge to profit or loss in the period in which such reductions occur.

The devaluation of supplies is calculated annually taking into account the inventory items that have not had movements in the last 12 months, discounting security or critical items. The provision for impairment for the period is recorded with a charge to profit or loss for the year.

Property, plant, and equipment:

Property, plant, and equipment are held at cost less accumulated depreciation and accumulated impairment losses.

Cost includes all costs incurred initially to acquire or construct an item of property, plant and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part thereof.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For the Santander mining unit, depreciation is determined using the units of production method calculated based on the reserves and economically recoverable resources for machinery and plant equipment, mining unit and asset retirement cost. Other operations, the fixed assets including buildings, facilities, other equipment, computer equipment, communication equipment, and furniture and fixtures are depreciated using the straight-line method over the useful life of assets.

Depreciation is recognized on a straight-line basis to write down the cost to its estimated residual value, with a constant charge over the useful life of the asset. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Land and works in progress are not depreciated.

The estimated useful lives are as follows:

	Depreciation method	**Years of useful life**	
		2022	**2021**
Buildings	Straight-line	10	10
Mining unit	PU	4	4
Plant	PU	4	4
Facilities	Straight-line	10	10
Other equipment	Straight-line	10	10
Computer equipment	Straight-line	3 to 5	3 to 5
Communication equipment	Straight-line	5	5
Software	Straight-line	2	2
Furniture and fixture	Straight-line	5 to 10	5 to 10
Asset retirement cost	PU	4	4

The residual value, depreciation method, and useful life of each asset are reviewed at least at each financial year-end.

The carrying amount of an item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

5. Significant accounting policies (continued)

Property, plant, and equipment (continued)

The depreciation of property, plant, and equipment during the six-month and three-month period ended June 30, 2022 was $733,289 and $316.727, respectively, and is recognized as a component of general and administrative expenses.

Mining properties and exploration and evaluation plant assets:

Exploration and evaluation expenditures are costs incurred during the initial search of mineral resources before the technical feasibility and commercial viability of extracting mineral resources are demonstrable. Costs incurred before the legal right to undertake exploration and evaluation activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake exploration and evaluation activities has been obtained, all costs of acquiring mineral rights, expenses related to the exploration and evaluation of mining properties, less refundable tax credits related to these expenses, are recognized as exploration and evaluation assets.

Expenses related to exploration and evaluation include topographical, geological, geochemical, geophysical, exploration drilling, trenching, sampling, general expenses, financial charges, management fees and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the exploration and evaluation phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are written down to their recoverable amounts, the difference is then immediately recognized in profit or loss. When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets related to the mining property are transferred to property, plant and equipment in Mining assets under construction. Before the reclassification, exploration and evaluation assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

Although the Company has taken steps to verify title to the mining properties in which it holds an interest, in accordance with industry practices for the current stage of exploration of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirement.

Impairment of mining properties, exploration and evaluation assets and property, plant and equipment:

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash- generating units). As a result, some assets are tested individually for impairment, and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment.

Impairment reviews for exploration and evaluation assets are carried out on a project-by-project basis, with each project representing a potential single cash-generating unit. An impairment review is undertaken when indicators of impairment arise, but typically when one of the following circumstances apply:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the exploration and evaluation assets of the related mining property are tested for impairment before these items are transferred to property, plant and equipment.

5. Significant accounting policies (continued)

Impairment of mining properties, exploration and evaluation assets and property, plant and equipment (continued):

An impairment loss is recognized in profit or loss for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. An impairment charge is reversed if the assets or cash-generating unit's recoverable amount exceeds its carrying amount.

Provisions, contingent liabilities, and contingent assets:

Provisions are recognized when present legal or constructive obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes, decommissioning, restoration and similar liabilities, or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable, and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible, given that the Company's operations are still in the exploration and evaluation stage. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.
As at June 30, 2022 and December 31, 2021, the Company had the provision for remediation and mine closure.

Income taxes:

When applicable, tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity. However, since the Company is in the exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprise only of deferred tax.

Currently, income tax assets and/or liabilities comprise those obligations to, or claims from, 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 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 year.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

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 assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non- taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

5. Significant accounting policies (continued)

Income taxes (continued)

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

Under the provisions of tax legislation relating to flow-through shares, the Company is required to renounce its right to tax deductions for expenses related to exploration activities to the benefit of the investors. When the Company has renounced to its tax deductions and has incurred its admissible expenditures, the sale of tax deductions is recognized in profit or loss as a reduction to deferred tax expense.

Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of- use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right- of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method and is re- measured when there is a change in future lease payments. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities on the consolidated statements of financial position. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months of less and leases of low- value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease

Share capital:

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs.

If shares are issued following the exercise of share options, or warrants, this account also includes the charge previously accounted to the warrants and share options accounts. Furthermore, if shares are issued following the acquisition of mining property or other non-financial assets, shares are valued at fair value of mining property on the day the agreement was concluded.

Unit placements:

The funds from unit placement are allocated between shares and warrants using the relative fair value method. The fair value of the common shares is recognized in equity based on the share price at the date of issue. The fair value of the warrants is determined using the Black- Scholes valuation model and is recorded separately under "warrants".

(in Canadian dollars)

5. Significant accounting policies (continued)

Other elements of equity:

Warrants and share options accounts include unrealized charges related to share options and warrants until they are exercised, if applicable. Contributed surplus includes compensation expense related to share options and warrants not exercised and expired.

Deficit includes all current and prior year retained losses.

Accumulated other comprehensive loss includes all foreign currency translation adjustments.

Equity-settled share-based compensation:

The Company has an equity-settled share-based compensation plan for its eligible directors, employees, and consultants. The Company's plan is not cash-settled.

All goods and services received in exchange for the grant of any share-based compensations are measured at their fair values unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it must measure their value indirectly by reference to the fair value of the equity instruments granted.

For transactions with employees and with parties providing similar services, the Company evaluates the fair value of services received by reference to the fair value of equity instruments granted.

All equity-settled share-based compensation (except warrants to brokers) are ultimately recognized as an expense in the profit or loss with a corresponding credit to the Share options account. Equity-settled share-based compensation to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to warrants, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

New standards and interpretations that have not yet been adopted:

Since the issuance of the Company’s audited consolidated financial statements for the year ended December 31, 2021, the IASB and IFRIC have issued no additional new and revised standards and interpretations which are applicable to the Company.

6. Cash and cash equivalents:

The restricted cash is primarily due to the annual renewal of the closure bond with the Peruvian Ministry of Energy and Mines issued on February 3, 2022, requiring a 30% cash collateral (see Note 13).

	June 30 2022	**December 31 2021**
	$	**$**
Cash and cash equivalents	4,840,678	12,633,042
Cash and cash equivalents – restricted	6,833,077	1,387,795
	11,673,755	**14,020,837**

(in Canadian dollars)

7. Inventories

The amount of inventories recognized as expenses during the year corresponds to the cost of sales presented in the statement of consolidated earnings. A summary of the inventories components can be detailed as follows:

	June 30 2022	December 31 2021
	$	$
Finished products	703,233	388,802
Stockpile	111,418	172,956
Supplies	2,572,740	2,396,337
	3,387,391	**2,958,096**

8. Prepaid expenses

	June 30 2022	December 31 2021
	$	$
Prepaid taxes	1,365,845	594,655
Advances	1,453,417	193,017
Other prepaid expenses	77,860	41,407
	2,897,122	**829,079**

9. Property, Plant and Equipment assets:

The movement of this item and its accumulated depreciation for the years ended December 31,2021 and 2020 has been as follows:

Cost	Balance as of December 31, 2021	Additions	Write-off	Balance as of June 30, 2022
Buildings	9,546,604	2,906	-	9,549,510
Mining Unit	51,005,848	-	-	51,005,848
Plant	21,876,178	-	-	21,876,178
Facilities	9,334,815	-	-	9,334,815
Miscellaneous Equipment	3,196,447	-	-	3,196,447
Computer equipment	162,430	4,948	(1,858)	165,521
Software	10,999	-	-	10,999
Communication equipment	214,639	-	-	214,639
Furniture and Fixtures	334,711	4,250	-	338,961
Work in progress	861,105	800,989	-	1,662,094
Asset Withdrawal Cost	141,406	-	(101,744)	39,662
	96,685,182	**813,094**	**(103,602)**	**97,394,674**

Accumulated Depreciation and Amortization	Balance as of December 31, 2021	Depreciation / Amortization	Depreciation / Amortization	Balance as of June 30, 2022
Buildings	(7,664,241)	(428,965)	-	(8,093,206)
Mining Unit	(48,648,623)	(393,956)	-	(49,042,579)
Plant	(20,956,459)	(141,642)	-	(21,098,101)
Facilities	(8,931,499)	(67,542)	-	(8,999,041)
Miscellaneous equipment	(2,639,852)	(71,124)	-	(2,710,976)
Computer equipment	(148,762)	(4,348)	2,983	(150,127)
Software	(4,151)	(369)	-	(4,520)
Communication	(206,600)	(1,977)	-	(208,577)
Furniture and Fixtures	(301,422)	(3,312)	-	(304,734)
Asset Withdrawal Cost	252,709	(37,253)	-	215,456
	(89,248,900)	**(1,150,487)**	**2,983**	**(90,396,404)**

(in Canadian dollars)

10. Mining properties, exploration, and evaluation assets:

	December 31 2021	Additions	Exchange	June 30 2022
	$	$	$	$
Quiulacocha Tailings and Excelsior Stockpile				
Mining properties	1,600,095	-	26,342	1,626,347
Exploration and evaluation	182,704	-	2,997	185,701
Santander				
Exploration and evaluation	6,720,689	2,901,547	161,879	9,784,115
	8,503,488	**2,901,547**	**191,218**	**11,596,163**

	December 31 2020	Acquisitions	Additions	Exchange	December 31 2021
	$	$	$	$	$
Quiulacocha Tailings and Excelsior Stockpile					
Mining properties	1,362,449	-	260,870	(23,224)	1,600,095
Exploration and evaluation	183,482	-	-	(778)	182,704
Santander					
Exploration and evaluation	-	6,674,736	134,634	(88,681)	6,720,689
	1,545,931	-	**395.504**	**(112,683)**	**8,503,488**

11. Interest in subsidiaries:

The Company's consolidated financial statements include two subsidiaries with a non-significant NCI.

Name	Proportion of ownership interest and voting rights held by NCI	Total comprehensive income (loss) held by NCI	Accumulated NCI
Zencig	30%	-	-
H2 -Sphere GMBH	20%	(29,291)	(29,291)

No dividends were paid to the NCI during the periods ended June 30, 2022 and December 31, 2021.

(in Canadian dollars)

12. Trade accounts payable and other liabilities

Trade accounts payable and other liabilities recognized in the consolidated statements of financial position can be analyzed as follows:

	June 30, 2022	December 31, 2021
	$	$
Trade accounts payable and accrued liabilities:		
Related parties	395,939	267,508
Income and mining taxes	13,958	518,373
Trade accounts payable	15,359,379	14,414,380
Source deductions and contributions	1,803,170	1,434,826
Accrued royalties payable	95,401	518,373
Employee benefits payable	975,520	870,488
Other payables and accrued expenses	1,325,477	907,992
	19,968,484	**18,931,940**

13. Provisioning for rehabilitation and mine closure:

	June 30 2022	December 31 2021
	$	$
Opening Balance	18,621,459	-
Business acquisition	-	18,731,889
Accretion expense	119,9840	5,790
Variation due to change in key assumptions used	(170,095)	141,406
Change due to currency exchange	337,223	(257,626)
	18,908,427	**18,621,459**
Current portion	**4,314,441**	**1,142,845**
Non-current portion	**14,593,986**	**17,478,614**

The Company must comply with environmental regulations in the development of all its activities, in all the jurisdictions in which it operates. It also includes the obligation, at the close of its operations, to remediate the disturbed areas where it has carried out its activities and over which it maintains mining title.

The Company is not aware of any negative effects on the environment arising from any of its properties that may give rise to significant obligations to third parties.

Environmental legislation has regulated the obligation to assume the costs and expenses associated with the closure obligation and, remediation of operations at the time of the conclusion of their activities, which results in financial planning to reduce the impact that these expenses and future costs could bring to the Company. In addition to legislative measures by which the Company must guarantee the necessary funds to carry out the remediation activities.

(in Canadian dollars)

13. Provisioning for rehabilitation and mine closure (continued)

The main assumptions used by the Company to calculate the provision are summarized below:

	June 30 2022	**December 31 2021**
	$	**$**
Estimated costs	18,908,427	18,621,459
Useful life of mine	4	4
Claim period (years)	9	9
Discount rate (Risk free rates)	3.01%	1.26%
Inflation rate(1)	2.90%	6.20%

As at December 31, 2021, in compliance with the provisions of the Regulations for the Closure of Mines approved by Supreme Decree No. 033-2005-EM, the Company's had letters of guarantee issued in favor of the Peruvian Ministry of Energy and Mines for US$11,516,713 ($14,935,000). In February 2022, the Company increased the guarantee to US$14,913,975 ($19,340,000).

(1) Regulations for the Closure of Mines stipulates the use of the average projected inflation rate as published in the Annual Peruvian Central Reserve Bank Report published December 2021.

14. Promissory note:

On November 26, 2021, the Company entered into a promissory note agreement for $1,500,000 which bears interest at 4.5% annually until the maturity date of May 26, 2022. The Company also issued 3,000,000 warrants to the noteholder. The initial fair value of the note of $1,324,086 was determined using an effective interest rate of 30%. The residual value of $175,914 was attributed to the warrants. The Company incurred transactions costs of $32,641. On June 23, 2022 the Company paid the holder of the promissory note $150,000 of principal.

The Company recognized $1,181,391 and $1,331,391 as promissory note liabilities as of June 30, 2022 and December 31, 2021, respectively. Interest expense on promissory notes was $0 and $6,476, as of June 30, 2022 and December 31, 2021, respectively, and is recognized in the P&L as a component of finance expenses.

(in Canadian dollars)

15. Convertible debt

	June 30 2022	December 31 2021
	$	$
Convertible debenture		
Convertible debenture capital of $1,500,000, bearing interest at 10% payable annually and maturing on June 18, 2022	1,379,837	1,379,837
	1,379,837	1,379,837
Current portion of convertible debenture	1,379,837	1,379,837
Non-current portion of convertible debenture	-	-

On October 15, 2020, the Company issued unsecured convertible debenture with a face value of $1,000,000 and 1,857,143 warrants for a total consideration of $1,000,000. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.60 until October 15, 2022. The warrants include an option to allow the Company to change the exercise price, subject to the approval of exchange. For accounting purposes, this option resulted in the warrants being classified as a financial liability at fair value through profit or loss.

The convertible debenture has an effective rate of 32.25% and is convertible at the holder's option at $0.60 per share. The debenture agreement also includes a 5% redemption fee if at maturity the Company's shares are trading at $0.60 or less, based on the average of the last 20 trading days. For accounting purposes, this penalty represents an embedded derivative and must be accounted for separately as a financial liability at fair value through profit or loss.

The Company incurred costs of $69,173 for the issuance of this debenture. The fair value of the convertible debenture measured as at October 15, 2020 is $773,827, net of issuance costs of $69,173, embedded derivative on the convertible debenture of $35,775 and warrants of $121,225. No value was attributed to the conversion option.

The initial value of the warrants was determined using the Black & Sholes evaluation model based on the following assumptions: Share price of $0.37, exercise Price of $0.60, risk-free interest rate of 0.23%, Expected life of 2 years, expected volatility of 61%. The expected volatility used was determined using historical price volatility of the Company.

On June 15, 2021, the Company and the debenture holder agreed to refinance the convertible debenture and to cancel the 1,857,143 warrants issued in October 2020. This refinancing is considered an extinguishment for accounting purposes and the transaction is recorded at fair value. The value on June 15, 2021, was $914,670 for the convertible debenture, $44,797 for the embedded derivative and $ 37,355 for the warrants.

The new terms of the unsecured convertible debenture has a face value of $1,500,000 (an increase of $500,000 as compared to the previous face value of $1,000,000) and 1,857,143 warrants were issued due June 18, 2022, but as of the filing no default notice has been received. Under the new terms of the unsecured convertible debenture the Company shall issue 500,000 warrants to the holder every month following the maturity date until repayment of the debenture. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.50 until June 15, 2023. The warrants include an option to allow the Company to change the exercise price, subject to the approval of exchange. For accounting purposes, this option resulted in the warrants being classified as a financial liability at fair value through profit or loss.

Under the new terms, the fair value of the components as at June 15, 2021 is $1,263,188 for the debenture, $57,125 for the embedded derivative on the convertible debenture , $108,830 for the warrants and $58,800 for the conversion option. The initial values of the warrants and the conversion option were determined using the Black & Sholes evaluation model based on the following assumptions : Share price of $0.33, exercise Price of $0.50, risk-free interest rate of 0.33%, Expected life of 2 and 1 year and expected volatility of 56% and 47%. The expected volatility used was determined using historical price volatility of the Company.

16. Loan

	June 30 2022	December 31 2021
	$	$
Reactiva Peru Loan Program (a)	1,727,322	2,418,258
Canada Emergency Business Account	900,598	34,783
	2,627,920	**2,453,041**
Current portion	1,732,828	1,640,848
Non current	895,092	812,193

(a) In the framework of the Reactiva Perú Program approved by the Peruvian Government and as a way to extend its working capital, the Company signed a long-term borrowing agreement dated May 25, 2020 with a Peruvian financial institution for a total principal of S/10,000,000 (equivalent to CAD 3,193,770) at an annual interest rate of 1.62% in Peruvian soles, and coming due at 3 years, with a grace period. As part of the terms of this loan, the funds cannot be used: (i) to pay and/or pay in advance any past due or current financing before paying the loan; (ii) buy fixed assets, bonds, shares or make capital contributions; or (iii) distribute dividends or earnings during its term, except for the earnings to workers.

The difference between the opening carrying amount of the loan measured at fair value and the income received, has been considered as a government grant and was recognized as deferred income. This grant will be systematically recognized in profit or loss over the periods, deducting the financial expense arose from the loan for which the benefit of the grant is intended to offset.

17. Equity

Authorized:

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares, without par value, issuable in series.

Issued and outstanding:

2021:

On January 7, 2021, the Company issued to service providers 50,000 common shares valued at $19,000 for business development consultancy and consulting fees.

On February 22, 2021, the Company issued to service providers 30,000 common shares valued at $11,400 for business development consultancy and consulting fees.

2022:

On January 24, 2022, the Company issued to a service provider 60,000 common shares valued at $15,000 for business development consultancy and consulting fees.

On February 9, 2022, extended the terms of 2,343,500 common share purchase warrants pursuant to private placement offerings between February 28, 2020 and March 6, 2020 which entitled its holder to purchase one common share of the Corporation at an exercise price is $0.65 for a period of two years to February 28, 2023 and reduced the exercise price of $0.50, except for 53,150 warrants held by insiders of the Corporation which remained at an exercise price of $0.65.

On February 9, 2022, extended the terms of 10,184,588 common share purchase warrants pursuant to private placement offerings between June 15, 2020, June 16, 2020, July 2, 2020, August 21, 2020 and August 28, 2020 which entitled its holder to purchase one common share of the Corporation at an exercise price is $0.50 for a period of two years to February 28, 2023.

On February 17, 2022, the Company issued to two service providers a total of 30,000 common shares valued at $7,500 for business development consultancy and consulting fees.

(in Canadian dollars)

17. Equity (continued)

On March 28, 2022, the Company issued to a service provider 303,797 common shares valued at $79,949 for business development consultancy and consulting fees.

On March 28, 2022, the Company issued to a service provider 303,797 common shares valued at $79,949 as a senior advisor of H2 Sphere for business development consultancy and consulting fees. In addition, the Company issued under this consultancy agreement dated January 1, 2022, options to purchase an aggregate of 340,000 common shares of its capital stock, at $0.40 per share, for a period of five years, as long as he remains employed by H2 Sphere.

On March 28, 2022, the Company issued 342,857 common shares valued at $85,714 to the CEO of H2 Sphere as compensation for services under an employment agreement dated January 1, 2022. In addition, the Company issued under this employment agreement options to purchase an aggregate of 700,000 common shares of its capital stock, at $0.40 per share, for a period of five years, as long as he remains employee of H2 Sphere.

On May 17, 2022, the Company issued to two service providers a total of 30,000 common shares valued at $6,150 for business development consultancy and consulting fees.

a. Warrants

The following table provides outstanding warrants information as at June 30, 2022:

Expiry date	Number of outstanding warrants	Exercise price	Remaining life
		$	(years)
February 28, 2023	53,150	0.65	0.9
February 28, 2023	12,474,938	0.50	0.9
August 28, 2022	250,000	0.37	0.4
April 8, 2023	1,697,500	0.50	1.0
April 22, 2023	1,511,063	0.50	1.1
April 30, 2023	532,214	0.50	1.1
May 27, 2023	542,500	0.50	1.2
June 15, 2023	1,857,143	0.50	1.2
November 26, 2024	3,000,000	0.50	2.7
	22,704,222	0.50	1.2

b. Share-based compensation:

Share option plan:

The Company has a stock option plan whereby the Board of Directors, may grant to directors, officers or consultants of the Company, options to acquire common shares. The Board of Directors has the authority to determine the terms and conditions of the grant of options. The Board of Directors approved a "Rolling" stock option plan reserving a maximum of 10% of the shares of the Company at the time of the stock option grant, with a vesting period allowed of zero up to eighteen months, when the grant of option is made at market price, for the benefit of its directors, officers, employees and consultants. The Plan provides that no single person may hold options representing more than 5% of the outstanding common shares. The number of stock options granted to a beneficiary and the vesting period are determined by the Board of Directors.

The exercise price of any option granted under the Plan is fixed by the Board of Directors at the time of the grant and cannot be less than the market price per common share the day before the grant. The term of an option will not exceed five years from the date of grant. Options are not transferable and can be exercised while the beneficiary remains a director, an officer, an employee or consultant of the Company or up to twelve months after the beneficiary has left.

(in Canadian dollars)

17. Equity (continued)

b. Share-based compensation (continued)

The following table provides outstanding share options information as of June 30, 2022:

Expiry date	Number of granted share options	Number of exercisable share options	Exercise price	Remaining life
			$	(years)
December 31, 2022	218,500	218,500	0.40	0.5
March 10, 2023	200,000	200,000	0.40	0.7
August 19, 2023	200,000	200,000	0.40	1.1
August 28, 2023	200,000	200,000	0.40	1.2
March 7, 2024	5,400,000	5,400,000	0.40	1.7
March 29, 2024	50,000	50,000	0.40	1.7
May 6, 2024	200,000	200,000	0.40	1.9
September 16, 2024	200,000	200,000	0.40	2.2
August 28, 2025	4,300,000	4,300,000	0.40	3.2
March 28, 2027	1,040,000	340,000	0.40	4.7
	12,008,500	**12,008,500**	**0.40**	**2.4**

18. Related Party Transactions:

Related parties include the Company's joint key management personnel. Unless otherwise stated, balances are usually settled in cash. Key management includes directors and senior executives. The remuneration of key management personnel includes the following expenses:

	Three-month period ended		Six-month period ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
	$	$	$	$
Management and consulting fees	240,547	668,534	814,320	1,036,622
Salaries and director's fees	113,110	24,962	259,659	47,754
	353,657	693,496	1,073,979	1,084,376

These transactions, entered in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received.

19. Subsequent Events:

On July 18, 2022, the Company issued to 500,000 common share purchase warrants to the lender of its promissory note. The warrants entitle its holder to purchase one common share of the Corporation at an exercise price of $0.50 for a period of three years to July 18, 2025.

On July 26, 2022, the Company issued to 500,000 common share purchase warrants to the lender of its promissory note. The warrants entitle its holder to purchase one common share of the Corporation at an exercise price of $0.50 for a period of three years to July 26, 2025.