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**MONTERO MINING AND EXPLORATION LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Six Months Ended June 30, 2023 and 2022  
Expressed in Canadian Dollars**

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## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Montero Mining and Exploration Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars - unaudited)

	Notes	June 30, 2023	December 31, 2022
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		7,747	4,718
Other receivables		3,924	4,336
Prepaid expenses and deposits		38,889	29,086
<b>Total current assets</b>		<b>50,560</b>	<b>38,140</b>
<b>Non-current assets</b>			
Plant and equipment	4	528	624
Exploration and evaluation assets	5	760,957	559,694
<b>Total non-current assets</b>		<b>761,485</b>	<b>560,318</b>
<b>TOTAL ASSETS</b>		<b>812,045</b>	<b>598,458</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	6,9	1,063,074	702,530
Loans payable	7,9	179,418	56,762
<b>Total current liabilities</b>		<b>1,242,492</b>	<b>759,292</b>
<b>SHAREHOLDERS' DEFICIT</b>			
Share capital	8	18,116,063	18,116,063
Share based payment reserve	8	8,836,549	8,836,549
Foreign currency translation reserve		1,047,560	1,047,560
Accumulated deficit		(28,430,619)	(28,161,006)
<b>Total shareholders' deficit</b>		<b>(430,447)</b>	<b>(160,834)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		<b>812,045</b>	<b>598,458</b>

**Note 1** - Nature and continuance of operations

**Note 14** – Subsequent event

**On behalf of the Board:**  
"Antony Harwood"  
Antony Harwood, Director

"Andrew Thomson"  
Andrew Thomson, Director

See accompanying notes to the condensed interim consolidated financial statements.

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars - unaudited)

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
				\$	\$
<b>EXPENSES</b>					
Consulting, administrative and management fee	9	59,902	50,852	121,009	103,652
Directors' fee	9	9,875	9,875	19,750	19,750
Depreciation	4	48	70	96	141
General and administrative	9	32,323	49,027	69,259	75,298
Professional fees		23,142	29,038	37,568	54,957
Project investigation costs		18,333	401	18,333	12,014
Shareholder and regulatory		3,875	4,904	9,102	6,989
<b>OPERATING EXPENSES</b>		<b>(147,498)</b>	<b>(144,167)</b>	<b>(275,117)</b>	<b>(272,801)</b>
<b>OTHER ITEMS</b>					
Interest expense	9	(1,814)	(624)	(2,639)	(1,240)
Foreign exchange gain		(148)	1,954	8,143	2,871
<b>TOTAL OTHER ITEMS</b>		<b>(1,962)</b>	<b>1,330</b>	<b>5,504</b>	<b>1,631</b>
<b>NET AND COMPREHENSIVE LOSS</b>		<b>(149,460)</b>	<b>(142,837)</b>	<b>(269,613)</b>	<b>(271,170)</b>
Loss per share, basic and diluted	8	(0.00)	(0.00)	(0.01)	(0.01)
Weighted average number of shares outstanding		38,647,485	38,647,485	38,647,485	38,647,485

See accompanying notes to the condensed interim consolidated financial statements

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT**  
(Expressed in Canadian dollars - unaudited)

	Share Capital						Total Deficit
	Number of shares	Amount	Warrants	Share Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Deficit	
		\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2021</b>	38,647,485	18,116,063	756,506	8,080,043	1,047,560	(27,667,751)	332,421
Net loss and comprehensive loss	-	-	-	-	-	(271,170)	(271,170)
<b>Balance, June 30, 2022</b>	38,647,485	18,116,063	756,506	8,080,043	1,047,560	(27,938,921)	61,251
Net loss and comprehensive loss	-	-	-	-	-	(222,085)	(222,085)
Expired warrants	-	-	(756,506)	756,506	-	-	-
<b>Balance, December 31, 2022</b>	38,647,485	18,116,063	-	8,836,549	1,047,560	(28,161,006)	(160,834)
Net loss and comprehensive loss	-	-	-	-	-	(269,613)	(269,613)
<b>Balance, June 30, 2023</b>	38,647,485	18,116,063	-	8,836,549	1,047,560	(28,430,619)	(430,447)

See accompanying notes to the condensed interim consolidated financial statements.

**MONTERO MINING AND EXPLORATION LTD.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars - unaudited)

	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(269,613)	(271,170)
Adjustments for non-cash items:		
Depreciation	96	141
Unrealized foreign exchange gain	8,143	-
Interest expense	2,656	1,240
Net changes in non-cash working capital items:		
Other receivables	412	(88)
Prepaid expenses and deposits	(1,845)	16,234
Trade and other payables	135,906	299,364
<b>Net cash provided by (used in) operating activities</b>	<b>(124,245)</b>	<b>45,721</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on exploration and evaluation assets	(200,784)	(257,347)
<b>Net cash used in investing activities</b>	<b>(200,784)</b>	<b>(257,347)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advance from related party	208,058	-
Loans from related party	120,000	-
<b>Net cash provided by financing activities</b>	<b>328,058</b>	<b>-</b>
<b>NET DECREASE IN CASH</b>	<b>3,029</b>	<b>(211,626)</b>
<b>CASH, BEGINNING OF THE PERIOD</b>	<b>4,718</b>	<b>241,178</b>
<b>CASH, END OF THE PERIOD</b>	<b>7,747</b>	<b>29,552</b>

See accompanying notes to the condensed interim consolidated financial statements.

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Montero Mining and Exploration Ltd (“Montero” or the “Company”) was incorporated on October 5, 2006, under the laws of British Columbia, Canada. Montero is engaged in the acquisition and exploration of mineral properties.

Montero is a publicly listed company with its shares listed on the TSX Venture Exchange (“TSX-V”). The Company’s registered office is located at 1040 West Georgia Street, Suite 1900, Vancouver, BC, V6E 4H3 and its head office address is 750 West Pender Street, Suite 401, Vancouver, BC V6C 2T7.

### **Going Concern**

These condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at June 30, 2023, the Company had not advanced its exploration and evaluation assets to commercial production and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions give rise to significant doubt about the Company’s ability to continue as a going concern. When further funds are required, they will be financed through a private placement of common shares or by debt instruments.

In late February 2022, Russia launched a large-scale military attack on Ukraine. The invasion significantly amplified already existing geopolitical tensions among Russia, Ukraine, Europe, NATO and the West, including Canada. In response to the military action by Russia, various countries, including Canada, the United States, the United Kingdom and European Union issued broad-ranging economic sanctions against Russia. Such sanctions (and any future sanctions) and other actions against Russia may adversely impact, among other things, the Russian economy and various sectors of the economy, including but not limited to, financials, energy, metals and mining. Accordingly, the actions discussed above and the potential for a wider conflict could increase financial market volatility and cause severe negative effects on regional and global economic markets.

While the Company expects any direct impacts to its business to be limited, the indirect impacts on the economy and on the mining industry and other industries in general could negatively affect the business and may make it more difficult for the Company to raise equity or debt financing. In addition, the impact of other current macro-economic factors on the business, which may be exacerbated by the war in Ukraine – including inflation, supply chain constraints and geopolitical events – is uncertain.

## **2. BASIS OF PREPARATION**

### **Statement of Compliance**

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed interim consolidated financial statements do not contain all of the information required for full annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

The preparation of condensed interim consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed in Note 3.

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2023 AND 2022**  
(Expressed in Canadian dollars - unaudited)

**2. BASIS OF PREPARATION (continued)**

**Statement of Compliance (continued)**

The condensed interim consolidated financial statements for the six months ended June 30, 2023 were authorized for issue on August 21, 2023 by the Audit Committee of the Company.

**Basis of Measurement**

These condensed interim consolidated financial statements have been prepared on an accrual basis and are based on the historical cost basis as modified by any revaluation of financial assets measured at fair value. The condensed interim consolidated financial statements are presented in Canadian dollars ("CAD"), which is also the Company's functional currency.

Certain comparative figures have been reclassified to conform with the current year account classifications.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Areas requiring a significant degree of estimation relate to the recoverability of deferred tax assets, fair value measurements of financial instruments and share-based payments.

**4. PLANT AND EQUIPMENT**

	<b>Field Equipment</b>	<b>Furniture and Fixtures</b>	<b>TOTAL</b>
	\$	\$	\$
<b>Cost:</b>			
Balance, December 31, 2022 and June 30, 2023	39,994	3,086	43,080
<b>Accumulated Depreciation:</b>			
Balance, December 31, 2022	39,397	3,060	42,456
Depreciation	90	6	96
Balance, June 30, 2023	39,487	3,066	42,552
<b>Net Book Value</b>			
Balance, December 31, 2022	598	26	624
<b>Balance, June 30, 2023</b>	<b>507</b>	<b>20</b>	<b>528</b>

**5. EXPLORATION AND EVALUATION PROJECTS**

**a) CHILE**

**Isabella Gold Silver Project**

On August 5, 2020, the Company signed a Binding Purchase and Sale Agreement to acquire a 100% interest in a private Chilean company Minera Joy SpA ("ChileCo"). At that time ChileCo directly held 100% of the mineral rights to 38 mineral exploration concessions and has two subsidiaries with additional minerals rights. The 38 mineral exploration concessions were not renewed and have been allowed to lapse.

**5. EXPLORATION AND EVALUATION PROJECTS (continued)**

**a. CHILE (continued)**

**Isabella Gold Silver Project (continued)**

The Company, through ChileCo, held 85% equity interest in Subsidiary 1 which held 16 exploration mining concessions ("Isabelle West Concessions"). Subsidiary 1 had the right to purchase the remaining 15% interest by making a payment of US \$100,000 but this was not exercised by the Company. The 16 concessions were not renewed and have been allowed to lapse.

Due to poor drilling results, during the year ended December 31, 2022, the Company recorded an impairment of \$294,965 relating to costs incurred on the Isabella West exploration mining concessions that were allowed to lapse. The carrying value of the Isabella Gold Silver Project at December 31, 2022 consists of costs relating to the Roy Claims.

The Company, through ChileCo, holds 100% interest in Subsidiary 2 (Minera Joy East SpA) which was earning an 85% interest in 151 exploration mining concessions ("Isabella East Concessions") held by a local party, by making cash payments totaling US \$450,000 by August 2022. Minera Joy East further had the option to acquire the remaining 15% interest by granting a 2% Net Smelter Return Royalty ("NSR") to the local party which could be purchased for a cash payment of US \$2,000,000.

Due to poor drilling results on the Isabella East Concessions the Company elected to terminate the earn-in option agreement and rights to the Isabella East concessions on August 31, 2021 resulting in an impairment of \$1,018,964. ChileCo now only holds 6 mining concessions (the "Roy Claims") east of the Isabella east concessions.

During the period ended June 30, 2023, the Company capitalized \$13,126 in costs related to the Isabella Gold Silver project (December 31, 2022 - \$97,917).

**Avispa Copper Molybdenum Project**

The Company applied for exploration mining concessions in northern Atacama in October 2019 to explore for copper and molybdenum and these were awarded in October 4, 2020. The Company submitted further applications in April 2021 and on March 14, 2022, and was awarded further exploration concessions that includes the original Avispa and recently awarded and adjacent Abeja exploration concessions.

During the period ended June 30, 2023, the Company capitalized \$188,136 in costs related to the Avispa Copper Molybdenum Project (December 31, 2022 - \$281,907).

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**5. EXPLORATION AND EVALUATION PROJECTS (continued)**

a) **CHILE (continued)**

**Avispa Copper Molybdenum Project (continued)**

Details of the Company's exploration and evaluation activity for the period ended June 30, 2023 and year ended December 31, 2022 are as follows:

	Isabella Gold/Silver Project	Avispa Copper Molybdenum Project	Total
	\$	\$	\$
Balance, December 31, 2022	97,917	461,777	559,694
Costs incurred during the period			
Assays	-	10,661	10,661
Consultants	12,852	20,110	32,962
Field and camp costs	-	-	-
Licenses and claims	-	149,800	149,800
Project and administration	274	7,566	7,840
Total costs	13,126	188,137	201,263
Balance, June 30, 2023	111,043	649,914	760,957

	Isabella Gold/Silver Project	Avispa Copper Molybdenum Project	Total
	\$	\$	\$
Balance, December 31, 2021	294,965	179,870	474,835
Costs incurred during the year			
Assays	227	29,746	29,973
Cash advances	202	2,646	2,848
Consultants	69,201	82,348	151,549
Drilling	2,795	-	2,795
Field and camp costs	12,675	8,749	21,424
Licenses and claims	8,397	127,718	136,115
Geophysical and maps	-	5,555	5,555
Project and administration	3,633	13,967	17,600
Travel and accommodation	787	11,178	11,965
Total costs	97,917	281,907	379,824
Impairment	(294,965)	-	(294,965)
Balance, December 31, 2022	97,917	461,777	559,694

**5. EXPLORATION AND EVALUATION PROJECTS (continued)**

**b) TANZANIA**

Montero's Wigu Hill Rare Earth Element Retention License was expropriated by the Tanzanian government in 2018 when the Mining (Local Content) Regulations 2018, published on January 10, 2018, cancelled all previously issued Retention Licenses. The Company commenced exploration activities on the project in March 2008 under a prospecting license, before obtaining a five-year Retention License for the property in 2015. On January 10, 2018 the Government of Tanzania cancelled all Retention Licenses at which point they ceased to have any legal effect.

The Company is seeking damages from the Tanzanian government over the expropriation of the Retention Licenses before the International Centre for Settlement of Investment Disputes, part of the World Bank group. An arbitration process is underway, but the outcome remains uncertain at this time (Note 10).

**6. TRADE AND OTHER PAYABLES**

The components of trade and other payables is as follows:

	<b>June 30, 2023</b>	<b>December 31, 2022</b>
	\$	\$
Trade payables	90,791	99,881
Amounts due to related parties (Note 9)	938,121	569,956
Accrued liabilities	34,162	32,693
<b>Total</b>	<b>1,063,074</b>	<b>702,530</b>

**7. LOANS PAYABLE**

On March 19, 2020, the Company received a loan of \$50,000 from an officer of the Company. The loan is unsecured, bear interest at 5% and was due on December 30, 2020. No demand for repayment has been made, therefore, loan remains unpaid and continues to accrue interest.

During the period ended June 30, 2023, the Company received additional loans from an officer of the Company for an aggregate amount of \$120,000. The loans are unsecured, bear interest at 5% per annum and are due and payable in full including accrued interest on or before December 31, 2023.

During the period ended June 30, 2023, the Company recorded accrued interest of \$2,639 on the loans (period ended June 30, 2022 - \$1,240). As at June 30, 2023, the loans payable balance including accrued interest were \$179,418 (December 31, 2022 - \$56,762) (Note 9).

**8. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value.

**Issued and outstanding**

At June 30, 2023 there were 38,647,485 (December 31, 2022 – 38,647,485) issued and fully paid common shares outstanding.

**8. SHARE CAPITAL (continued)**

**Stock options**

The Company has established a Stock Option Plan (the "Plan") for directors, officers, employees and consultants. The number of common shares that are available for grants of options under the Plan shall not at any time exceed 10% of the number of outstanding common shares, calculated at the time of grant. Options granted under the Plan generally have a term of five years and vest on the date of the grant.

A summary of the continuity of the Company's stock options is as follows:

	<b>Period ended June 30, 2023</b>		<b>Year ended December 31, 2022</b>	
	Number of options issuable	Weighted average exercise price	Number of options issuable	Weighted average exercise price
Options outstanding, beginning of period	3,280,000	\$ 0.30	3,280,000	\$ 0.30
Expired	(1,707,500)	\$ 0.30	-	-
Options outstanding and exercisable, end of period	1,572,500	\$ 0.30	3,280,000	\$ 0.30

As at June 30, 2023, the company had 1,572,500 options outstanding and exercisable at a weighted average exercise price of \$0.30.

On May 14, 2023, 1,707,500 of the stock options expired and on December 21, 2023, 1,572,500 stock options will expire. The weighted average remaining contractual life of the outstanding stock options is 0.48 years.

No stock options were granted during the period ended June 30, 2023.

**Warrants**

The company has no warrants outstanding as at June 30, 2023 and as at year ended December 31, 2022.

**Share Based Payment Reserve**

The Company's share-based payment reserve is comprised of the following:

Expired warrants	\$	6,149,340
Expired stock options		2,206,153
Unexpired stock options		481,056
<b>Balance, June 30, 2023</b>	<b>\$</b>	<b>8,836,549</b>

The share-based payment reserve records items recognized as stock-based compensation expense, the fair value of expired warrants associated with private placements and the fair value of agent's warrants. If the stock options are exercised prior to expiry, the corresponding amount will be transferred to share capital.

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(Expressed in Canadian dollars - unaudited)

**8. SHARE CAPITAL (continued)**

**Loss Per Share**

Basic loss per share amounts are calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. The basic and diluted loss per share are the same since the Company reported a loss for periods ended June 30, 2023 and 2022.

	<b>Period ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Net loss attributable to owners of the parent company	(269,613)	(271,170)
Weighted average number of ordinary shares outstanding	38,647,485	38,647,485
Basic and diluted loss per ordinary share	(0.01)	(0.01)

**9. RELATED PARTY TRANSACTIONS**

The Company incurred the following transactions with management, directors, officers, or companies which have directors in common, or in which the directors have significant influence and interests.

	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	\$	\$
Consulting and management	134,321	89,361
Directors' fee	19,750	19,750
General and administrative	15,702	3,413
Total remuneration of directors and key management personnel	169,773	112,524

The following amounts due to related parties are included in trade and other payables:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2023</b>	<b>2022</b>
	\$	\$
Due to related parties (Note 6)	938,121	569,956
Loans payable (Note 7)	179,418	56,762
Total	1,117,539	626,718

The amounts due to related parties represent amounts due to directors and officers or companies which have directors in common, or in which the directors have significant influence and interests. These amounts are unsecured, non-interest bearing and are due within twelve months.

The promissory notes are interest bearing at 5.0% per annum. The unpaid principal amount, and accrued and unpaid interest from prior year, was due and payable in full on or before December 31, 2023. No demand for repayment has been made.

During the period ended June 30, 2023, the Company received additional loans from an officer of the Company for an aggregate amount of \$120,000. The loans are unsecured, bear interest at 5% per annum and are due and payable in full including accrued interest on or before December 31, 2023 (Note 7).

**MONTERO MINING AND EXPLORATION LTD.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2023 AND 2022**  
(Expressed in Canadian dollars - unaudited)

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## **10.SEGMENTED INFORMATION**

The Company has one business segment being the exploration and evaluation of mineral resources. The Company is organized by geographic area and its reportable geographic segment is located in Chile.

Information regarding the Company's geographic segments is as follows:

As at June 30, 2023

	Chile	Total
	\$	\$
Plant and equipment	528	624
Exploration and evaluation assets	760,957	760,957
<b>Total non-current assets</b>	<b>761,485</b>	<b>761,581</b>

As at December 31, 2022

	Chile	Total
	\$	\$
Plant and equipment	624	624
Exploration and evaluation assets	559,694	559,694
<b>Total non-current assets</b>	<b>560,318</b>	<b>560,318</b>

## **11.COMMITMENTS AND CONTINGENCIES**

The Company has no lease commitments.

On January 8, 2021, Montero completed a Litigation Funding Agreement (the "Agreement") with Omni Bridgeway Canada Limited ("Omni Bridgeway") in the amount of US \$2.32M. The Agreement provides for funds to be drawn from a financing facility to meet all fees and expenses relating to the pursuit of certain claims against the Government of Tanzania for the illegal expropriation and loss of the Wigu Hill Project, including all costs associated with legal proceedings and, if necessary, enforcement, of any awards. Montero has initiated international arbitration proceedings in accordance with the bilateral investment treaties ("BIT") between Canada and the United Republic of Tanzania. Compensation being sought for expropriation of the Wigu Hill rare earth element Project may include, but will not be limited to, the value of the historic investment made by Montero in Tanzania, the value of the project at the time that tenure was expropriated and damages the Company has suffered as a result of Tanzania's acts and omissions (Notes 5).

## **12.CAPITAL MANAGEMENT**

The Company manages its capital to ensure that it will be able to continue as a going concern, while supporting the Company's business and maximizing the return to its stakeholders. The Company's capital structure is adjusted based on management's decisions to issue debt or equity instruments to fund expenditures. In order to maximize ongoing exploration efforts, the Company does not pay dividends. The Company's Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business. The capital of the Company consists of equity attributable to owners of the parent comprised of share capital, stock options and warrants.

The Company's principal activities are in the exploration and evaluation stage and, as a result, the Company currently has no source of operating cash flow. In order to facilitate the management of capital and exploration of its mineral properties, the Company needs to raise capital as and when required to complete its projects and for working capital. The sources of future funds presently available to the Company are through the issuance of new share capital, through the exercise of stock options and/or warrants or through borrowings from related parties.

## **12. CAPITAL MANAGEMENT (continued)**

The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as the business performance of the Company. There can be no assurances that the Company will be successful in its efforts to arrange additional financing, when required, on terms satisfactory to the Company.

Management prepares operating budgets to forecast its financing requirements in advance and they review their capital management approach on an ongoing basis and believe that this approach is reasonable, given the relative size of the Company. The Company's investment policy is to hold excess cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity. The Company's overall strategy remains unchanged from the prior year. The Company is not subject to any externally imposed capital requirements.

## **13. RISK MANAGEMENT**

The Company operates in the mining industry and faces a number of risks that could adversely affect the Company's operations. These risks include industry risk, credit risk, liquidity risk, interest rate risk, foreign currency risk, commodity price risk. Management reviews and develops policies for managing each of these risks which are summarized below.

### *Industry Risk*

The Company is engaged in the mineral exploration field, which is subject to inherent risks of success as well as compliance with environmental, political and regulatory requirements. The Company is potentially at risk for environmental reclamation obligations associated with resource property interests. As well, the Company operates in foreign countries and is subject to local political risks, as well as local regulatory requirements regarding ownership and maintenance of mineral licenses. Management is of the opinion that they have the expertise to address these risks and makes all efforts to conduct their business in compliance with local industry standards, however environmental and local industry laws and practices are complex, and there is no certainty that all exposure to liability or costs have been mitigated.

### *Credit Risk*

Credit risk is the risk of loss associated with a counter-party's ability to fulfill its payment obligations. The Company's primary exposure to credit risk is attributable to its cash and cash equivalents, as well as other receivables. This risk relating to cash and cash equivalents is considered low since the Company only invests its cash in major banks which are high credit quality financial institutions. The other receivables primarily comprise local sales tax refunds due from governmental agencies and, as such, management considers the risk with their collection minimal. The cash and cash equivalents are invested in short-term investment certificates for periods less than 90 days and the other receivables are due in less than 90 days.

### *Liquidity Risk*

Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash in order to meet its liquidity requirements and to develop budgets to forecast cash requirements in advance of their requirements. The Company currently does not have a source of operating cash flow and must raise funds for its exploration and evaluation programs and for general working capital. There are risks associated with raising the funds required, and there can be no assurances that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

### *Interest Rate Risk*

Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents which represents excess cash invested in short-term investments and these accrue interest at variable market rates. The Company monitors these investments with its need for cash flow and is satisfied with the return on these investments, given the timing of the need for cash in the Company. The effect of interest rate changes on the Company is insignificant.

**13. RISK MANAGEMENT (continued)**

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada and Chile and portions of its expenditures are incurred in US dollar and Chilean Peso. At June 30, 2023 and December 31, 2022, the value of financial assets and liabilities denominated in currencies other than the functional currency of the entity to which they relate is not significant.

*Commodity Price Risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value of its exploration and evaluation assets, due to commodity price movements and volatilities. The Company monitors commodity prices (primarily gold and silver) to determine the appropriate course of action to be taken by the Company.