



KUYA SILVER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEAR ENDED DECEMBER 31, 2022

(Expressed in US Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Kuya Silver Corporation

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that management estimates additional funding will be required to continue current operations and further advance its existing exploration and evaluation assets in the upcoming year. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of Impairment Indicators of Exploration and Evaluation Assets ("E&E Assets")

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was \$22,825,721 as of December 31, 2022. As more fully described in Note 3 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each statement of financial position date.



The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter is that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating the reasonableness of management's assessment of indicators of impairment for the E&E assets.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Assessing compliance with agreements and expenditure requirements including reviewing option agreements and vouching cash payments and share issuances.
- On a test basis, evaluating title to ensure mineral rights underlying the E&E Assets are in good standing.

Estimate of Reclamation Provisions related to Exploration and Evaluation Assets

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's reclamation provision was \$1,852,489 as of December 31, 2022. As more fully described in Note 3 to the consolidated financial statements, management assesses its provision for restoration, rehabilitation and environmental obligations at the end of each reporting period.

The principal considerations for our determination that the estimate of reclamation provisions is a key audit matter are that estimating the costs of such reclamation activities includes significant judgement such as when the reclamation will take place, the time period required to undertake the reclamation, the extent and costing of reclamation activities, regulatory and legislative changes, inflation and discount rates utilized. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their estimate of the net present value of reclamation provisions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Assessing the reasonableness of changes in cost estimates against prior year calculations, and timing of expected reclamation activities.
- Evaluating the mathematical accuracy of the reclamation provision model.
- Evaluating the inflation rate and discount rate utilized in the reclamation provision model.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 20, 2023

KUYA SILVER CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)
As at December 31,

| | 2022 | 2021 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,196,879 | \$ 2,152,611 |
| Receivables | 106,899 | 155,145 |
| Prepays and advances | 259,128 | 129,009 |
| | <u>1,562,906</u> | <u>2,436,765</u> |
| Facilities and equipment (Note 5) | 110,070 | 231,863 |
| Exploration and evaluation assets (Note 6) | 22,825,721 | 24,473,974 |
| | <u>\$ 24,498,697</u> | <u>\$ 27,142,602</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Notes 7 and 12) | \$ 1,103,378 | \$ 1,244,629 |
| Flow-through share premium (Note 9) | 118,269 | - |
| Obligation to issue shares (Note 6) | - | 400,000 |
| | <u>1,221,647</u> | <u>1,644,629</u> |
| Reclamation provision (Note 6) | 1,852,489 | 2,114,555 |
| | <u>3,074,136</u> | <u>3,759,184</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 9) | 37,200,411 | 33,172,493 |
| Reserves (Notes 9 and 10) | 1,219,513 | 1,546,716 |
| Deficit | (16,995,363) | (11,335,791) |
| | <u>21,424,561</u> | <u>23,383,418</u> |
| | <u>\$ 24,498,697</u> | <u>\$ 27,142,602</u> |
| Nature of operations and going concern (Note 1) | | |
| Commitments and contingencies (Note 18) | | |
| Subsequent events (Notes 10 and 19) | | |

Approved on behalf of the board by:

/s/ "David Stein"
David Stein, Director

/s/ "Dale Peniuk"
Dale Peniuk, Director

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

KUYA SILVER CORPORATION**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in US Dollars)

For the year ended December 31,

| | 2022 | 2021 |
|---|----------------|----------------|
| Property expenses | | |
| Exploration and evaluation expenditures (Notes 6 and 12) | \$ 1,773,259 | \$ 4,208,356 |
| | (1,773,259) | (4,208,356) |
| Administrative expenses | | |
| Administrative costs | 41,503 | 43,079 |
| Consulting fees (Note 12) | 11,021 | 89,931 |
| Directors' fees (Note 12) | 101,363 | 91,425 |
| Filing fees | 58,998 | 32,013 |
| Management fees (Note 12) | 64,561 | 237,619 |
| Marketing and investor relations | 281,681 | 303,788 |
| Office and miscellaneous | 541,693 | 383,054 |
| Professional fees (Note 12) | 378,100 | 466,773 |
| Share-based compensation (Notes 10 and 12) | 681,610 | 523,670 |
| Shareholder communication | 13,342 | 13,964 |
| Transfer agent | 12,390 | 9,956 |
| Travel | 224,171 | 209,669 |
| Wages and benefits (Note 12) | 1,272,179 | 814,819 |
| Warrants issued for loans payable (Notes 8 and 12) | 52,012 | - |
| | (3,734,624) | (3,219,760) |
| Operating loss | (5,507,883) | (7,428,116) |
| Accretion expense (Note 6) | (48,162) | - |
| Equity loss in CobalTech (Note 4) | - | (208,172) |
| Foreign exchange gain (loss) | (108,981) | 103,542 |
| Gain on write-off of accounts payable and accrued liabilities | 4,797 | 514,602 |
| Interest income | - | 6,412 |
| Recognition of flow-through share premium (Note 9) | 657 | - |
| | (151,689) | 416,384 |
| Loss for the year | (5,659,572) | (7,011,732) |
| Other comprehensive income (loss) | | |
| Item that may be reclassified subsequently to profit and loss | | |
| Foreign currency translation adjustment | (1,392,523) | (138,249) |
| Comprehensive loss for the year | \$ (7,052,095) | \$ (7,149,981) |
| Loss per common share – basic and diluted | \$ (0.12) | \$ (0.17) |
| Weighted average number of common shares outstanding – basic and diluted | 49,168,739 | 42,289,246 |

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

KUYA SILVER CORPORATION**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in US Dollars)

| | Share Capital | | | | | | |
|--|---------------------|---------------|-------------------------|--|-----------------|---------------|--|
| | Number of shares | Amount | Share-based reserves | Foreign currency translation reserves | Deficit | Total | |
| December 31, 2020 | 37,902,096 | \$ 22,837,377 | \$ 472,133 | \$ 537,855 | \$ (4,359,845) | \$ 19,487,520 | |
| Issuance of units for cash (Note 9) | 4,842,650 | 7,184,875 | 357,260 | - | - | 7,542,135 | |
| Share issue costs | - | (567,961) | - | - | - | (567,961) | |
| Issuance of common shares on acquisition of CobalTech (Note 4) | 1,437,470 | 2,668,079 | - | - | - | 2,668,079 | |
| Issuance of common shares on acquisition of exploration and evaluation assets (Note 6) | 671,141 | 771,916 | - | - | - | 771,916 | |
| Issuance of common shares on exercise of options (Notes 9 and 10) | 150,000 | 193,191 | (85,289) | - | - | 107,902 | |
| Issuance of common shares on exercise of performance warrants (Note 9) | 276,624 | 85,016 | (84,878) | - | - | 138 | |
| Options forfeited or expired (Note 10) | - | - | (35,686) | - | 35,686 | - | |
| Warrants expired (Note 9) | - | - | (100) | - | 100 | - | |
| Share-based compensation (Note 10) | - | - | 523,670 | - | - | 523,670 | |
| Foreign currency translation | - | - | - | (138,249) | - | (138,249) | |
| Loss for the year | - | - | - | - | (7,011,732) | (7,011,732) | |
| December 31, 2021 | 45,279,981 | \$ 33,172,493 | \$ 1,147,110 | \$ 399,606 | \$ (11,335,791) | \$ 23,383,418 | |

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

KUYA SILVER CORPORATION**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in US Dollars)

| | Share Capital | | Share-based reserves | Foreign currency translation reserves | Deficit | Total |
|--|---------------------|---------------|-------------------------|--|-----------------|---------------|
| | Number of shares | Amount | | | | |
| December 31, 2021 | 45,279,981 | \$ 33,172,493 | \$ 1,147,110 | \$ 399,606 | \$ (11,335,791) | \$ 23,383,418 |
| Issuance of units for cash (Note 9) | 12,041,330 | 4,085,857 | 374,411 | - | - | 4,460,268 |
| Flow-through share premium | - | (118,278) | - | - | - | (118,278) |
| Share issue costs | - | (538,930) | 143,377 | - | - | (395,553) |
| Issuance of common shares on acquisition of exploration and evaluation assets (Note 6) | 1,084,490 | 399,910 | - | - | - | 399,910 |
| Issuance of units on settlement of accounts payable and accrued liabilities (Note 9) | 26,000 | 11,698 | 1,571 | - | - | 13,269 |
| Issuance of common shares on settlement of RSUs (Notes 9 and 10) | 400,000 | 187,661 | (187,661) | - | - | - |
| Issuance of warrants for loans payable (Notes 8 and 9) | - | - | 52,012 | - | - | 52,012 |
| Share-based compensation (Note 10) | - | - | 681,610 | - | - | 681,610 |
| Foreign currency translation | - | - | - | (1,392,523) | - | (1,392,523) |
| Loss for the year | - | - | - | - | (5,659,572) | (5,659,572) |
| December 31, 2022 | 58,831,801 | \$ 37,200,411 | \$ 2,212,430 | \$ (992,917) | \$ (16,995,363) | \$ 21,424,561 |

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

KUYA SILVER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US Dollars)
For the year ended December 31,

| | 2022 | 2021 |
|--|---------------------|---------------------|
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | | |
| Loss for the year | \$ (5,659,572) | \$ (7,011,732) |
| Adjust for items not involving cash: | | |
| Depreciation | 113,315 | 58,824 |
| Accretion expense | 48,162 | - |
| Share-based compensation | 681,610 | 523,670 |
| Recognition of flow-through share premium | (657) | - |
| Warrants issued for loans payable | 52,012 | - |
| Equity loss in CobalTech | - | 208,172 |
| Unrealized foreign exchange gain | (76,848) | (88,059) |
| Gain on settlement of accounts payable and accrued liabilities | (4,797) | (514,602) |
| Change in non-cash working capital items: | | |
| Receivables | 54,770 | (22,883) |
| Prepays and advances | (150,755) | (72,131) |
| Accounts payable and accrued liabilities | (36,966) | (524,949) |
| Net cash used in operating activities | (4,979,726) | (7,443,690) |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | |
| Investment in and advances to CobalTech | - | (1,092,861) |
| Additions to facilities and equipment | - | (281,985) |
| Additions to exploration and evaluation assets | (60,000) | (858,500) |
| Cash acquired through acquisition of CobalTech | - | 7,555 |
| Net cash used in investing activities | (60,000) | (2,225,791) |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | |
| Proceeds from issuance of share capital | 4,460,268 | 7,650,175 |
| Share issue costs | (391,502) | (567,961) |
| Proceeds from loans payable | 232,141 | - |
| Repayment of loans payable | (232,141) | - |
| Repayment of related party loans | - | (158,012) |
| Net cash provided by financing activities | 4,068,766 | 6,924,202 |
| Change in cash | (970,960) | (2,745,279) |
| Effect of foreign exchange on cash | 15,228 | (6,672) |
| Cash, beginning of year | 2,152,611 | 4,904,562 |
| Cash, end of year | \$ 1,196,879 | \$ 2,152,611 |

Supplemental cash flow information (Note 13)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Kuya Silver Corporation (the “Company”) is a mineral exploration and development company with a focus on acquiring, exploring and advancing precious metal assets in Peru and Canada. The Company was incorporated on July 15, 2015 under the Business Corporations Act (British Columbia). The Company’s head office and principal address is located at 150 King Street West, Suite 200, Toronto, ON, M5J 1J9. The Company’s registered and records office is located at 40440 Thunderbird Ridge, Squamish, BC, V8B 0G1. The Company’s shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol KUYA.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company’s continuation as a going concern is dependent upon its ability to complete financings sufficient to meet current and future obligations, the successful results from its business activities, and its ability to operate profitably and generate funds. 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, 12 months from the end of the reporting period. Although the Company raised capital in the current and previous reporting periods, and subsequent to year end (Note 19), through private placements of its common shares and exercise of stock options and warrants, additional funding will be required to continue current operations and further advance its existing exploration and evaluation assets in the upcoming 12 months. These factors indicate the existence of material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company’s operating and capital costs are affected by the cost of commodities and goods such as fuel and supplies, which have been assumed to be available for purchase. It has also been assumed that the Company will have access to the required amount of sufficiently skilled labour as required for operations. Certain factors are outside the Company’s control and an increase in the costs of (due to inflation, impacts of the Russia and Ukraine conflict, supply chain disruptions, or otherwise), or a lack of availability of, commodities, goods and labour, may have an adverse impact on the Company’s financial condition and results of operations. The current global economic environment has caused significant volatility in foreign exchange rates, which may also have an adverse impact on the Company’s financial condition and results of operations.

2. BASIS OF PRESENTATION

Statement of compliance

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

2. BASIS OF PRESENTATION (cont'd...)

Approval of the consolidated financial statements

These consolidated financial statements were authorized by the Board of Directors (“Board”) of the Company on April 20, 2023.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for cash flow information and certain financial assets that are measured at fair value as explained in the significant accounting policies set out in Note 3. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Functional and presentation currency

The financial statements for the Company and its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the parent company, Kuya Silver Corporation, is the Canadian dollar, and the functional currency of each of the Company’s subsidiaries is the Canadian dollar. The presentation currency of the Company is the United States (“US”) dollar. Canadian dollars are represented by CAD \$.

Principles of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities which the Company controls, either directly or indirectly, where control is defined as the power to govern an entity’s financial and operating policies and generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that may arise upon the exercise or conversion of non-voting securities are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and they are deconsolidated from the date on which control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

| Name of subsidiary | Country of incorporation | Percentage of ownership | Principal activity |
|--------------------------------------|--------------------------|-------------------------|--------------------------------|
| CobalTech Mining Inc. (“CobalTech”) | Canada | 100% | Exploration in Canada |
| Kuya Silver Inc. | Canada | 100% | Holding company |
| Puno Gold Corporation | Canada | 100% | Holding company (inactive) |
| Minera Toro del Plata S.A.C. (“MTP”) | Peru | 100% | Exploration in Peru |
| Kuya Silver S.A.C. | Peru | 100% | Holding company |
| Kuya Servicios Mineros S.A.C. | Peru | 100% | Service company |
| Minera Puno Gold S.A.C. | Peru | 100% | Exploration in Peru (inactive) |
| Kuya Silver Panama, S.A. | Panama | 100% | Holding company (inactive) |

2. BASIS OF PRESENTATION (cont'd...)

Significant estimates

The preparation of these consolidated financial statements requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Valuation of share-based compensation

The Company uses the Black-Scholes option pricing model for valuation of compensatory options and warrants. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings (loss) and equity reserves.

Accounting for acquisitions

The determination of fair value of assets acquired and liabilities assumed as of the acquisition date requires management to make certain estimates about future events, including, but not restricted to, fair value of assets including acquired mineral reserves and resources and ore stockpiles, exploration potential, reclamation provisions, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates and discount rates as well as the determination of fair value of consideration provided.

Estimated reclamation and closure costs

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, movements in foreign exchange rates, and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties.

2. BASIS OF PRESENTATION (cont'd...)

Significant judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are, but are not limited to, the following:

Carrying value and the recoverability of exploration and evaluation assets

Management has determined that expenditures incurred on exploration and evaluation assets which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and feasibility studies, accessibility of facilities, and existing permits.

Determination of functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of the functional currency may involve certain judgments to determine the primary economic environment. The functional currency may change if there is a change in events and conditions which determines the primary economic environment. The Company has determined the functional currency of each entity to be the Canadian dollar.

Business combinations

Determination of whether a set of assets acquired, and liabilities assumed, constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with CobalTech was determined to constitute an acquisition of assets (Note 4).

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recorded any deferred tax assets.

2. BASIS OF PRESENTATION (cont'd...)

Significant judgments (cont'd...)

Classification of investments as subsidiaries, joint ventures, associated companies or portfolio investments

Classification of investments requires judgement as to whether the Company controls, has joint control of, or has significant influence over the strategic financial and operating decisions relating to the activities of the investee. In assessing the level of control or influence that the Company has over an investee, management considers ownership percentages of the securities of the investee, board representation of the investee as well as other relevant provisions in shareholder or other agreements. If an investor holds or has the ability to hold 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Going concern

The Company has exercised judgment in determining whether its available funds are sufficient to continue operations for 12 months from the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the purpose for which the financial assets were acquired and is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial assets are measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Financial assets are classified as current assets or non-current assets based on their maturity date.

The Company's financial assets consist of cash and receivables and are classified as amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial liabilities

Financial liabilities are designated as: FVTPL; or amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded.

The Company's financial liabilities consist of accounts payable and accrued liabilities and related party loans, which are classified as amortized cost and obligation to issue shares, which is classified as FVTPL.

Impairment of financial assets

An expected credit loss ("ECL") impairment model applies to financial assets classified and measured at amortized cost and contract assets and debt investments classified and measured at FVOCI, but not to investments in equity instruments. The ECL model requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the financial asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the assets, discounted at the assets' original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Facilities and equipment

Facilities and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the expected lives of the facilities and equipment as follows:

| | |
|---------------------------------------|-----------|
| Facilities and leasehold improvements | 28 months |
| Field equipment | 10 years |
| Vehicles | 5 years |

Construction in progress

Expenditures for construction of buildings for an exploration camp are capitalized and classified as construction in progress. Once completed, the costs associated with all applicable assets related to the development and construction are reclassified to the appropriate category within facilities and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Exploration and evaluation costs on exploration and evaluation assets are recognized in profit or loss. Costs incurred before the Company has obtained the legal rights to explore an area of interest are recognized in profit or loss. All costs related to the acquisition of exploration and evaluation assets are capitalized on an individual prospect basis. Amounts received for the sale of exploration and evaluation assets, for option payments and for exploration advances are treated as reductions of the cost of the property, with payments in excess of capitalized costs recognized in profit or loss. Costs for a producing property will be amortized on a unit-of-production method based on the estimated life of the mineral reserves and mineral resources. The recoverability of the amounts capitalized for the undeveloped exploration and evaluation assets is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that property options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation asset costs or recoveries when the payments are made or received. When the option payments received exceed the carrying value of the related exploration and evaluation asset then the excess is recognized in profit or loss in the period the option receipt is recognized. Option receipts in the form of marketable securities are recorded at the quoted market price at the time the securities are received.

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the rehabilitation of exploration and evaluation assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with rehabilitation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized rehabilitation costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of long-lived assets

At the end of each reporting period, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

Where a previously recognized impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized in profit or loss.

Share capital

Common shares

Common shares are classified as shareholders' equity. Incremental costs, net of tax effects, directly attributable to the issue of common shares are recognized as deductions from shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

When warrants expire unexercised, the value previously recorded in reserves is transferred to share capital.

Preferred shares

Preferred shares are classified as shareholders' equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends declared thereon are recognized as distributions within equity.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share capital (cont'd...)

Preferred shares (cont'd...)

Preferred shares are classified as a financial liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Non-discretionary dividends thereon are recognized as interest expense in profit or loss unless the interest expense meets the criteria for capitalization to the cost of an asset.

Flow-through common shares

The Company may, from time to time, issue flow-through common shares (as defined in the *Income Tax Act* (Canada)) to finance a portion of its Canadian exploration programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying exploration expenditures to investors. On issuance, the Company bifurcates the proceeds received from flow-through common shares into: a flow-through share premium, equal to the estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a liability, and share capital. The Company estimates the portion of the proceeds attributable to the premium as being the excess of the subscription price over the fair value of the shares without the flow-through feature at the time of issuance. Thereafter, as qualifying exploration expenditures are incurred, the flow-through share premium is amortized to profit or loss on a pro-rata basis.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the look-back rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued and recorded to profit or loss.

Share-based payments

The Company accounts for all grants of share-based payment awards to directors, officers, employees, consultants, and advisors in accordance with the fair value method for accounting for share-based payments. The fair value of options are calculated using the Black-Scholes option pricing model. Share-based payment awards to consultants and advisors, who are not providing similar services as employees, are measured at the grant date by using the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services received cannot be reliably measured and are recorded at the date the goods or services are received.

Compensation expense for share-based payments is recognized immediately for past services and pro-rata for future services over the vesting period of the share-based payment. A corresponding increase in reserves is recorded when share-based payments are expensed. When share-based payment awards are exercised, share capital is credited by the sum of the consideration paid and the related portion of share-based payments previously recorded in reserves. When share-based payment awards expire unexercised or are forfeited, the related portion of share-based payments previously recorded in reserves are transferred to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share-based payments (cont'd...)

The Company determines the fair value of the restricted share units (“RSUs”) and performance share units (“PSUs”) on the date of grant. This fair value is charged to profit or loss over the vesting period of the RSUs or PSUs, with a corresponding credit to reserves if equity-settled. If the RSUs or PSUs are cash-settled and recorded as an obligation, the obligation is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in share-based compensation expense in profit or loss.

Income (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share are calculated by dividing the income (loss) attributable to common shares of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where there is a loss, diluted loss per share is equal to basic loss per share, as the effect would be anti-dilutive. There was no dilutive effect for the years presented.

Income taxes

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to income tax payable with regard to previous years. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is generally provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Non-monetary items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Revenues and expenses are translated at average exchange rates for the period, except for depreciation and amortization, which is translated on the same basis as the related asset. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the period.

The financial statements of entities that have a functional currency different from that of the Company are translated into Canadian dollars as follows: assets and liabilities at the closing exchange rate at the date of the statement of financial position, and income and expenses at the average exchange rate for the period (as this is considered a reasonable approximation to actual exchange rates). All resulting changes are recognized in other comprehensive income as currency translation differences and taken into a separate component of equity. When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses in accumulated other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses in accumulated other comprehensive income related to the subsidiaries are reallocated between controlling and non-controlling interests.

The translation of the consolidated financial statements to the presentation currency is as follows: assets and liabilities are translated at the exchange rate prevailing at the statement of financial position date and revenue and expenses are translated at average exchange rates for the period, with all resulting exchange differences recognised in other comprehensive income.

New standards, interpretations and amendments to existing standards not yet effective

A number of new standards and amendments to standards and interpretations have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2023 which have not been applied in preparing these consolidated financial statements as they are not yet effective. The standards and amendments to standards that would be applicable to the consolidated financial statements of the Company are the following:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards, interpretations and amendments to existing standards not yet effective (cont'd...)

IAS 12, Income Taxes

The amendments will require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments will typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. This amendment is effective for financial statements beginning on or after January 1, 2023, with early adoption permitted.

IAS 1, Presentation of Financial Statements

The amendments clarify the requirements for classifying liabilities as current or non-current. The amendments provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. This amendment is effective for financial statements beginning on or after January 1, 2024, with early adoption permitted.

While management does not currently anticipate these amendments having a material effect on the Company's consolidated financial statements for 2023, they may have an effect in periods beyond 2023.

4. ACQUISITION OF COBALTECH

On February 26, 2021, the Company entered into a share purchase and option agreement (the "Purchase Agreement") with Electra Battery Metals Corporation ("Electra", formerly known as First Cobalt Corp.), a Canadian public company that owned certain silver mineral exploration assets (the "Kerr Assets"), located in north-eastern Ontario, Canada. On March 1, 2021, the transaction was completed, and the Company paid CAD \$1,000,000 (\$789,827) and issued a total of 1,437,470 common shares, at a value of \$2,668,079 or CAD \$2.35 (\$1.86) per share, for a total cost of \$3,457,906 for 100% of the issued and outstanding common shares and preferred shares of CobalTech. 1,000 class A shares were retained by Electra to facilitate the flow through share expenditure arrangements detailed below.

As part of the Purchase Agreement, Electra agreed to provide CobalTech with CAD \$500,000 at the time of closing, for CobalTech to utilize on flow-through eligible expenditures prior to December 31, 2021. In order to facilitate these flow-through expenditure arrangements, Electra subscribed for 1,000 Class A shares of CobalTech. On closing, Electra maintained ownership of the Class A shares, which granted Electra the ability to appoint a majority of the directors of CobalTech, until such time as the Class A shares are redeemed, as described below. Accordingly, the Company was not considered to have control over CobalTech and instead, was considered to have significant influence over the financial and operating decisions of CobalTech until the Class A shares are redeemed. The Company initially recorded its interest in CobalTech as an equity investment.

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4. ACQUISITION OF COBALTECH (cont'd...)

The Class A shares were redeemable at the option of CobalTech at a price of CAD \$0.001 per Class A share. As a condition of the Purchase Agreement, the Class A shares could not be redeemed until CobalTech incurred CAD \$500,000 of flow through eligible expenditures on the mineral properties comprising the Kerr Assets described above. As at September 30, 2021, CobalTech incurred the CAD \$500,000 of flow-through eligible expenditures, renounced these flow-through eligible expenditures to Electra and redeemed the Class A shares. As a result, the Company obtained control and consolidated CobalTech effective September 30, 2021.

The Company's share of the equity loss of CobalTech from acquisition on March 1, 2021 until consolidation effective September 30, 2021 was \$208,172. A reconciliation of the equity investment for 2021 is as follows:

| | CobalTech |
|--|------------------|
| Equity investment | |
| December 31, 2020 | \$ - |
| Additions | 3,457,906 |
| Equity (loss) for the period from acquisition on March 1 to September 29, 2021 | (208,172) |
| Adjustment on currency translation | (9,987) |
| Adjustment on consolidating CobalTech | (3,239,747) |
| Total equity investment as at December 31, 2021 | - |
| Advances | |
| December 31, 2020 | - |
| Additions | 303,034 |
| Adjustment on currency translation | (18,676) |
| Adjustment on consolidating CobalTech | (284,358) |
| Total advances as at December 31, 2021 | - |
| Total equity investment and advances as at December 31, 2021 | \$ - |

As at September 30, 2021, CobalTech's aggregate assets, aggregate liabilities and loss for the period from acquisition on March 1 to September 29, 2021 are as follows:

| | CobalTech |
|---|---------------------|
| Current assets | \$ 206,253 |
| Non-current assets | 4,488,497 |
| Total assets | \$ 4,694,750 |
| Current liabilities | \$ 7,672 |
| Advances | 403,533 |
| Reclamation provision | 1,161,764 |
| Total liabilities | \$ 1,572,969 |
| Loss for the period from acquisition on March 1 to September 29, 2021 | \$ 208,172 |
| The Company's common share ownership percentage | 100% |
| The Company's share of the loss for the period | \$ 208,172 |

4. ACQUISITION OF COBALTECH (cont'd...)

Effective September 30, 2021, CobalTech redeemed the Class A shares held by Electra, thereby providing the Company with control over 100% of the issued and outstanding shares of CobalTech.

CobalTech did not meet the definition of a business for accounting purposes in accordance with IFRS 3. For accounting purposes, the transition from CobalTech being an equity investment to consolidating 100% of CobalTech into the consolidated financial statements of the Company was treated as an asset acquisition. As such, effective on the redemption of the class A shares, the fair value assigned to the identified assets acquired and liabilities assumed are presented below:

Cost of acquisition:

| | |
|-------------------|---------------------|
| Equity investment | \$ 3,239,747 |
| Advances | 284,358 |
| | <u>\$ 3,524,105</u> |

Allocated as follows:

| | |
|--|---------------------|
| Cash | \$ 7,555 |
| Receivables | 61,820 |
| Prepays and advances | 17,703 |
| Exploration and evaluation assets | 4,606,463 |
| Accounts payable and accrued liabilities | (7,672) |
| Reclamation provision | (1,161,764) |
| | <u>\$ 3,524,105</u> |

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5. FACILITIES AND EQUIPMENT

| | Construction in progress | Facilities and leasehold improvements | Vehicles | Field equipment | Total |
|---------------------------------------|-----------------------------|---|------------------|--------------------|-------------------|
| COST | | | | | |
| December 31, 2020 | \$ - | \$ - | \$ - | \$ 11,789 | \$ 11,789 |
| Additions | 253,464 | - | 28,521 | - | 281,985 |
| Transfer | (253,464) | 253,464 | - | - | - |
| Adjustment on currency translation | - | (2,556) | (1,061) | 41 | (3,576) |
| December 31, 2021 | - | 250,908 | 27,460 | 11,830 | 290,198 |
| Adjustment on currency translation | - | (15,628) | (1,710) | (737) | (18,075) |
| December 31, 2022 | \$ - | \$ 235,280 | \$ 25,750 | \$ 11,093 | \$ 272,123 |
| ACCUMULATED DEPRECIATION | | | | | |
| December 31, 2020 | \$ - | \$ - | \$ - | \$ 363 | \$ 363 |
| Depreciation | - | 54,558 | 2,787 | 1,479 | 58,824 |
| Adjustment on currency translation | - | (792) | (40) | (20) | (852) |
| December 31, 2021 | - | 53,766 | 2,747 | 1,822 | 58,335 |
| Depreciation | - | 106,435 | 5,437 | 1,443 | 113,315 |
| Adjustment on currency translation | - | (8,951) | (457) | (189) | (9,597) |
| December 31, 2022 | \$ - | \$ 151,250 | \$ 7,727 | \$ 3,076 | \$ 162,053 |
| NET BOOK VALUE | | | | | |
| December 31, 2021 | \$ - | \$ 197,142 | \$ 24,713 | \$ 10,008 | \$ 231,863 |
| December 31, 2022 | \$ - | \$ 84,030 | \$ 18,023 | \$ 8,017 | \$ 110,070 |

Construction in progress was related to capital costs incurred in connection with constructing buildings and leasehold improvements at an exploration camp at Bethania (Note 6). No depreciation is recorded on assets under construction. Construction of these facilities were considered completed as at June 30, 2021 and the associated costs were transferred to facilities and leasehold improvements. Depreciation is included in operations and supplies in exploration and evaluation expenditures.

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets include assets in Peru and in Canada.

| Project | Bethania Silver Project | Kerr | Silver Kings JV | Total |
|---|-------------------------------|---------------------|--------------------|----------------------|
| December 31, 2020 | \$ 16,726,267 | \$ - | \$ - | \$ 16,726,267 |
| Additions | 1,457,500 | - | - | 1,457,500 |
| Additions from acquisition of CobalTech (Note 4) | - | 4,606,463 | - | 4,606,463 |
| Issuance of common shares | - | - | 771,916 | 771,916 |
| Reclamation provision adjustment | - | 904,799 | - | 904,799 |
| Adjustment on currency translation | 8,079 | 4,440 | (5,490) | 7,029 |
| December 31, 2021 | 18,191,846 | 5,515,702 | 766,426 | 24,473,974 |
| Additions | 60,000 | - | - | 60,000 |
| Reclamation provision adjustment | - | (182,143) | - | (182,143) |
| Adjustment on currency translation | (1,134,820) | (343,552) | (47,738) | (1,526,110) |
| December 31, 2022 | \$ 17,117,026 | \$ 4,990,007 | \$ 718,688 | \$ 22,825,721 |

Bethania Silver Project, Peru

The Company's Bethania Silver Project consists of three properties in the same area of interest, Bethania, Carmelitas, and Tres Banderas.

Bethania

In fiscal 2020, the Company completed the acquisition of MTP, whose principal asset is its interest in Bethania.

As at December 31, 2022, the Company has recorded a reclamation provision in the amount of \$49,459 (2021 - \$46,873) as an estimate for potential future reclamation and rehabilitation obligations at Bethania, based on activities to date. The estimated costs to be incurred have been adjusted for inflation of 2% (2021 - 2%) and then discounted using current market-based pre-tax discount rate of 5% (2021 - 5%).

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Bethania Silver Project, Peru (cont'd...)

Carmelitas

In fiscal 2021, the Company acquired mining concessions located in the district of Acobambilla, department of Huancavelica, Peru, west of Bethania, known as the Carmelitas concessions for a total purchase price of \$892,500, consisting of \$492,500 in cash and \$400,000 in common shares. Upon signing of the agreements, \$293,500 was paid, with the remaining \$199,000 due on May 14, 2022 (included in accounts payable and accrued liabilities (Note 7)) and the \$400,000 in common shares due on November 14, 2022 (presented as obligation to issue shares on the consolidated statements of financial position). On September 21, 2022, the Company and the vendor amended the agreement, which increased the total purchase price from \$892,500 to \$952,500. In accordance with the amended agreement, the Company paid the additional \$60,000 and issued 1,084,490 common shares valued at \$399,910 in settlement of the obligation to issue shares (Note 9). The \$199,000 due on May 14, 2022 was then amended to be due as follows: \$99,000 on October 15, 2022 (paid) and \$100,000 on November 30, 2022, which was paid subsequent to year end (Note 19).

Tres Banderas

The Company has mining concessions located in the district of Acobambilla, department of Huancavelica, Peru, south of Bethania, known as the Tres Banderas Concessions. In fiscal 2021, the Company acquired additional concessions, through a government regulated process, in the district for total cash payments of \$565,000.

Kerr, Canada

On September 30, 2021, the Company commenced consolidating CobalTech, whose principal asset was its interest in the Kerr Project. The acquisition value attributed to the project was \$4,606,463 (Note 4).

As at December 31, 2022, the Company has recorded a reclamation provision in the amount of \$1,803,030 (2021 - \$2,067,682) as an estimate for potential future reclamation and rehabilitation obligations on Kerr, based on the historical activities on the project to date. The estimated costs to be incurred have been adjusted for inflation of 3% (2021 - 2%) and then discounted using current market-based pre-tax discount rate of 3.3% (2021 - 1.4%). During the year ended December 31, 2022, the Company recorded a change in estimate related to the reclamation provision of \$(182,143) (2021 - \$904,799), which was recorded as decrease (2021 – increase) to exploration and evaluation assets. The adjustment in fiscal 2021 was subsequent to the closing date of the acquisition of CobalTech. During the year ended December 31, 2022, the Company recorded accretion related to the reclamation provision of \$48,162 (2021 - \$nil), which was recorded as an increase to the reclamation provision, with an offsetting amount to accretion expense in profit and loss.

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Silver Kings JV, Canada

The Purchase Agreement with Electra (Note 4) also provided the Company with an option (the “Option”) to acquire up to a 70% interest in Electra’s remaining silver mineral assets (the “Remaining Assets”) in the Cobalt, Ontario area and to form a joint venture. To fully exercise the Option, the Company was required to make cash payments totaling CAD \$2,000,000 and complete work commitments of CAD \$4,000,000 on or before September 1, 2024. The Purchase Agreement provides that the Company may issue an equivalent value in common shares of the Company at the 20-day volume-weighted average price in lieu of making the cash payments. In fiscal 2021, the Company issued 671,141 common shares to Electra, valued at \$771,916 (CAD \$973,154), in lieu of a CAD \$1,000,000 cash payment, under the Option.

On December 31, 2022, the Company and Electra amended the Purchase Agreement and Option to provide the Company with the right to acquire 100% of the Remaining Assets. To fully exercise the amended Option, the Company is required to make an additional cash payment of CAD \$1,000,000 by January 31, 2023 (Note 19). The Company may issue an equivalent value in common shares of the Company at the 20-day volume-weighted average price in lieu of making the cash payment. As per the amendment, the Company granted a 2% royalty on net smelter returns from commercial production on the Remaining Assets.

Exploration and evaluation expenditures

Exploration and evaluation expenditures for the year ended December 31, 2022 are as follows:

| Project | Bethania Silver Project | Kerr | Silver Kings JV | Total |
|---|--|-------------------|----------------------------|---------------------|
| Civil works and engineering | \$ 351,262 | \$ - | \$ - | \$ 351,262 |
| Geology and drilling | 151,498 | - | - | 151,498 |
| Operations and supplies | 354,753 | 42,422 | 13,744 | 410,919 |
| Property maintenance, licences and rights | 10,709 | 9,701 | - | 20,410 |
| Safety and environment | 183,858 | 8,104 | - | 191,962 |
| Value-added tax | 212,373 | - | - | 212,373 |
| Wages and benefits | 330,193 | 54,949 | 49,693 | 434,835 |
| Total | \$ 1,594,646 | \$ 115,176 | \$ 63,437 | \$ 1,773,259 |

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6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Exploration and evaluation expenditures (cont'd...)

Exploration and evaluation expenditures for the year ended December 31, 2021 are as follows:

| Project | Bethania Silver Project | Kerr ⁽¹⁾ | Silver Kings JV ⁽²⁾ | Total |
|--|-------------------------------|---------------------|-----------------------------------|--------------|
| Civil works and engineering | \$ 1,458,020 | \$ - | \$ - | \$ 1,458,020 |
| Geology and drilling | 960,492 | 23,488 | 256,726 | 1,240,706 |
| Operations and supplies | 384,821 | 1,540 | 32,281 | 418,642 |
| Property maintenance, licences and rights | 50,106 | 5,824 | - | 55,930 |
| Safety and environment | 91,792 | 19,328 | - | 111,120 |
| Value-added tax | 594,116 | - | - | 594,116 |
| Wages and benefits | 246,503 | - | 202,494 | 448,997 |
| Expense recovery from Electra ⁽³⁾ | - | - | (119,175) | (119,175) |
| Total | \$ 3,785,850 | \$ 50,180 | \$ 372,326 | \$ 4,208,356 |

⁽¹⁾ exploration and evaluation expenditures incurred on Kerr until September 30, 2021 (date of consolidation of CobalTech) are not reflected in this table.

⁽²⁾ following the Silver Kings JV Initial Earn-In payment on September 1, 2021, the Company started incurring exploration and evaluation expenditures on the project.

⁽³⁾ consists of reimbursed expenditures incurred on behalf of Electra.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2022 | December 31, 2021 |
|-------------------------------|----------------------|----------------------|
| Accounts payable | \$ 821,749 | \$ 877,286 |
| Carmelitas agreement (Note 6) | 100,000 | 199,000 |
| Accrued liabilities | 181,629 | 168,343 |
| Total | \$ 1,103,378 | \$ 1,244,629 |

8. LOANS PAYABLE

On July 20, 2022, the Company entered into unsecured loan agreements with a director and an officer (the “lenders”), whereby the parties would provide CAD \$250,000 and CAD \$50,000, respectively. The loans had a 12-month term and an interest rate of 4%, accrued monthly, with interest becoming due and payable on repayment of the principal or at the end of the term. Additionally, the Company, as further compensation, issued 450,000 warrants to the parties. Each warrant is exercisable at a price of CAD \$0.47 for a period of twelve months from the date of issuance. The warrants were valued at \$52,012, calculated using the Black-Scholes option pricing model assuming a life expectancy of one year, a risk-free interest rate of 3.06%, a dividend rate of nil%, a forfeiture rate of nil%, and volatility of 79%. During the year ended December 31, 2022, the Company received CAD \$300,000 (\$232,141) (2021 - \$nil) from the lenders and repaid CAD \$300,000 (\$232,141) (2021 - \$nil) to the lenders. The lenders waived any and all interest amounts upon repayment.

9. SHARE CAPITAL

Authorized share capital

The Company’s authorized capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at December 31, 2022, the Company had not issued any preferred shares.

Issued share capital

During the year ended December 31, 2021, the Company issued:

- a) 4,842,650 units at a price of CAD \$1.90 per unit, on a “bought deal” private placement basis, for total proceeds of \$7,542,135 (CAD \$9,201,035). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CAD \$2.60 per common share for a period of 24 months from the date of issue. The 2,421,325 warrants were valued at \$357,260, calculated using the residual value method. The Company paid a total of \$567,961 for fees and other share issue costs.
- b) 1,437,470 common shares, valued at \$2,668,079, pursuant to the acquisition of CobalTech (Note 4);
- c) 671,141 common shares, valued at \$771,916, pursuant to the Option on the Silver Kings JV (Note 6);
- d) 150,000 common shares, for proceeds of \$107,902, on the exercise of options; and
- e) 276,624 common shares, for proceeds of \$138, on the exercise of performance warrants.

During the year ended December 31, 2022, the Company issued:

- a) 804,334 units at a price of CAD \$0.90 per unit by way of a private placement that closed in two tranches, for total proceeds of \$556,829 (CAD \$723,901). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CAD \$1.20 per common share for a period of 24 months from the date of issue. The 402,166 warrants were valued at \$177,921, calculated using the residual value method. The Company paid a total of \$11,034 for fees and other share issue costs;

9. SHARE CAPITAL (cont'd...)

Issued share capital (cont'd...)

- b) 5,718,000 units at a price of CAD \$0.45 per unit by way of a brokered private placement for total proceeds of \$1,997,749 (CAD \$2,573,100) and a non-brokered private placement of 1,320,000 units at a price of CAD \$0.45 per unit for total proceeds of \$461,180 (CAD \$594,000), for aggregate gross proceeds of \$2,458,929 (CAD \$3,167,100). Each unit consisted of one common share and one transferrable common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of five years from the date of issue. The 7,038,000 warrants were valued at \$nil, calculated using the residual value method. The Company paid a total of \$303,011 for fees and other share issue costs and issued 422,280 warrants for finders' fees in connection with this private placement. Each finder's fee warrant entitles the holder to acquire one common share at a price of CAD \$0.45 per common share for a period of two years from the date of issue. The finders' fee warrants were valued at \$118,266, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 3.28%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 88%. ALS GoldSpot Discoveries Ltd. ("GoldSpot") participated in the private placement and the Company concurrently signed a services agreement in the amount of CAD \$315,000 with GoldSpot to provide exploration related services, which may include geological, geophysical and geochemical work, as well as marketing and advertising related services with a wholly owned subsidiary of GoldSpot, CEO.CA Technologies Ltd.;
- c) 1,898,996 units at a price of CAD \$0.43 per unit by way of a private placement that closed in two tranches, for total proceeds of \$599,668 (CAD \$816,568). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of 36 months from the date of issue. The 1,898,996 warrants were valued at \$78,213, calculated using the residual value method. The Company paid a total of \$30,817 for fees and other share issue costs and issued 71,421 finder's fee warrants and 13,395 finder's fee units for finders' fees in connection with this private placement. Each finder's fee warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of 36 months from the date of issue. The finders' fee warrants were valued at \$8,085, calculated using the Black-Scholes option pricing model assuming a life expectancy of three years, a risk-free interest rate of 3.48%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 88%. Each finder's fee unit entitles the holder to acquire one unit at a price of CAD \$0.43 per unit for a period of 12 months from the date of issue. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of 36 months from the date of issue. The finder's fee units were valued at \$1,404, calculated using the Black-Scholes option pricing model assuming a life expectancy of one year, a risk-free interest rate of 3.85%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 91%;

9. SHARE CAPITAL (cont'd...)

Issued share capital (cont'd...)

- d) 2,300,000 units at a price of CAD \$0.50 per unit by way of a private placement for total proceeds of \$844,842 (CAD \$1,150,000). Each unit consisted of one flow-through common share and one-half of one non-flow-through common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of 36 months from the date of issue. The flow-through shares were issued at a premium of \$118,278. The 1,150,000 warrants were valued at \$118,277, calculated using the residual value method. The Company paid a total of \$50,691 for fees and issued 138,000 warrants for finders' fees in connection with this private placement. Each finder's fee warrant entitles the holder to acquire one common share at a price of CAD \$0.70 per common share for a period of 36 months from the date of issue. The finders' fee warrants were valued at \$15,622, calculated using the Black-Scholes option pricing model assuming a life expectancy of three years, a risk-free interest rate of 3.48%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 88%;
- e) 1,084,490 common shares, valued at \$399,910, for settlement of the obligation to issue shares pursuant to the acquisition of the Carmelitas concessions (Note 6);
- f) 26,000 units, valued at \$13,269, for the settlement of accounts payable, which resulted in a gain on settlement of accounts payable and accrued liabilities of \$4,797. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CAD \$1.20 per common share for a period of 24 months from the date of issue. The common shares were valued at \$11,698 and the warrants were valued at \$1,571, calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk-free interest rate of 3.10%, a dividend rate of nil%, a forfeiture rate of nil% and volatility of 84%; and
- g) 400,000 common shares, valued at \$187,661, for settlement of vested RSUs.

Escrow shares

On October 7, 2020, the Company entered into an escrow agreement pursuant to which 8,869,165 common shares were placed in escrow. These shares are subject to release in tranches over time; 10% of the securities were released on October 7, 2020 and the remaining escrowed securities will be released in six tranches of 15% every six months thereafter. As at December 31, 2022, there are 2,660,748 (2021 - 5,321,498) shares held in escrow.

Flow-through share premium

| | Total |
|---|-------------------|
| December 31, 2020 and 2021 | \$ - |
| Flow-through share premium additions | 118,278 |
| Recognition of flow-through share premium | (657) |
| Adjustment on currency translation | 648 |
| December 31, 2022 | \$ 118,269 |

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9. SHARE CAPITAL (cont'd...)

Share purchase warrants

The continuity of share purchase warrants of the Company was as follows:

| | Number of warrants | | Weighted average exercise price (in CAD) |
|---------------------------------|---------------------------|----|---|
| Balance as at December 31, 2020 | 479,665 | \$ | 5.00 |
| Issued | 2,421,325 | | 2.60 |
| Expired | (479,665) | | 5.00 |
| Balance as at December 31, 2021 | 2,421,325 | | 2.60 |
| Issued | 11,583,863 | | 0.70 |
| Balance as at December 31, 2022 | 14,005,188 | \$ | 1.03 |

As at December 31, 2022, the Company had outstanding share purchase warrants enabling the holder to acquire common shares as follows:

| Number of share purchase warrants | Exercise price (in CAD) | Weighted average remaining life (years) | Expiry date |
|--|--------------------------------|--|--------------------|
| 2,421,325 | \$ 2.60 | 0.46 | June 16, 2023 |
| 450,000 | \$ 0.47 | 0.56 | July 22, 2023 |
| 326,666 | \$ 1.20 | 1.36 | May 12, 2024 |
| 88,500 | \$ 1.20 | 1.50 | June 30, 2024 |
| 422,280 | \$ 0.45 | 1.61 | August 9, 2024 |
| 529,070 | \$ 0.70 | 2.94 | December 9, 2025 |
| 2,729,347 | \$ 0.70 | 2.98 | December 21, 2025 |
| 7,038,000 | \$ 0.70 | 4.61 | August 9, 2027 |
| 14,005,188 | | | |

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9. SHARE CAPITAL (cont'd...)

Finder's fee units

The continuity of finder's fee units of the Company was as follows:

| | Number of finder's fee units | | Weighted average exercise price (in CAD) |
|--|------------------------------------|----|---|
| Balance as at December 31, 2020 and 2021 | - | \$ | - |
| Issued | 13,395 | | 0.43 |
| Balance as at December 31, 2022 | 13,395 | \$ | 0.43 |

As at December 31, 2022, the Company had outstanding finder's fee units enabling the holder to acquire units as follows:

| Number of finder's fee units | Exercise price (in CAD) | Weighted average remaining life (years) | Expiry date |
|------------------------------------|-------------------------------|---|------------------|
| 13,395 | \$ 0.43 | 0.94 | December 9, 2023 |
| 13,395 | | | |

Performance warrants

During the year ended December 31, 2022, nil (2021 - 276,624) performance warrants were exercised; accordingly, the \$nil (2021 - \$84,878) issue-date fair value associated with the warrants was reclassified from reserves to share capital.

The continuity of performance warrants of the Company was as follows:

| | Number of warrants | | Weighted average exercise price |
|--|-----------------------|----|---------------------------------------|
| Balance as at December 31, 2020 | 276,624 | \$ | 0.0005 |
| Exercised | (276,624) | | 0.0005 |
| Balance as at December 31, 2021 and 2022 | - | \$ | - |

10. SHARE-BASED COMPENSATION

The Company's shareholders approved an amended equity incentive plan ("the Plan") on June 29, 2022, which provides for the grant of stock options and awards ("Awards") that enable the acquisition of common shares of the Company. Awards now include RSUs and PSUs. The purpose of the Plan is to attract, retain and motivate directors, officers, employees and external service providers by providing them with the opportunity to acquire a proprietary interest in the Company. The options are equity-settled awards, while the RSUs and PSUs can be cash-settled or equity-settled awards as determined by the Company's Board or a committee thereof ("Committee"), at the time of grant. This Plan replaces the 2016 Stock Option Plan of the Company (the "Original Plan"). The maximum number of common shares that may be issued pursuant to options and Awards under this Plan shall be determined from time to time but shall not together with any other share compensation arrangement adopted by the Company in the aggregate exceed 10% of the outstanding common shares of the Company.

Stock options

The Company has a shareholder-approved rolling stock option plan under which the Committee appointed by the Board to administer the Plan may, from time to time in its discretion, grant options to acquire common shares of the Company to its directors, officers, employees, consultants and advisors with an expiry date of a maximum of five years from the date of grant. The exercise price of each option is determined by the Committee but shall not be less than the greater of the fair market value on the trading day prior to the date of grant and the date of grant. At the time of grant, the Committee may determine when an option will become exercisable, subject to the rules of the CSE. The vesting schedule of the options is determined at the discretion of the Committee, but generally vest equally over a three-year period, starting on the date of grant and the first and second anniversaries of date of grant, provided that the participant's termination date does not occur prior to the applicable vesting date.

Under the Original Plan, the exercise price of each option could not be less than the market price of the Company's shares on the date prior to the date of grant less any discounts permitted by the CSE under its policies and could be granted for a maximum term of 10 years with vesting provisions as determined by the Board.

During the year ended December 31, 2022, the Company granted 827,500 (2021 - 625,000) stock options with a fair value of \$364,391 (2021 - \$533,071) using the Black-Scholes option pricing model assuming a life expectancy of 5 years (2021 - 4.5 years), a risk-free interest rate of 2.09% (2021 - 0.88%), a forfeiture rate of nil (2021 - nil), and volatility of 87% (2021 - 93%).

During the year ended December 31, 2022, the Company expensed \$408,589 (2021 - \$523,670) for the fair value of options, which was recorded in share-based compensation.

During the year ended December 31, 2022, nil (2021 - 150,000) incentive stock options were exercised; accordingly, fair value associated with the options of \$nil (2021 - \$85,289) was reclassified from reserves to share capital.

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10. SHARE-BASED COMPENSATION (cont'd...)

Stock options (cont'd...)

The continuity of option transactions of the Company was as follows:

| | Number of options | | Weighted average exercise price (in CAD) |
|-------------------------------------|----------------------|----|---|
| Balance as at December 31, 2020 | 1,222,500 | \$ | 1.63 |
| Granted | 625,000 | | 1.69 |
| Forfeited | (155,000) | | 2.98 |
| Exercised | (150,000) | | 0.90 |
| Balance as at December 31, 2021 | 1,542,500 | | 1.59 |
| Granted | 827,500 | | 0.83 |
| Forfeited | (83,333) | | 1.31 |
| Balance as at December 31, 2022 | 2,286,667 | \$ | 1.33 |
| Exercisable as at December 31, 2022 | 1,766,666 | \$ | 1.43 |

As at December 31, 2022, the Company had outstanding options enabling the holder to acquire common shares as follows:

| Number of options | Number of exercisable options | Exercise price (in CAD) | Weighted average remaining life (years) | Expiry date |
|----------------------|----------------------------------|-------------------------------|---|---------------------------------|
| 30,000 | 30,000 | \$ 3.70 | 0.18 | March 6, 2023 ⁽¹⁾ |
| 125,000 | 125,000 | \$ 3.75 | 0.38 | May 17, 2023 |
| 100,000 | 100,000 | \$ 1.55 | 0.48 | June 24, 2023 |
| 62,500 | 62,500 | \$ 4.15 | 1.14 | February 21, 2024 |
| 770,000 | 770,000 | \$ 0.90 | 2.75 | October 1, 2025 |
| 225,000 | 183,333 | \$ 1.55 | 3.48 | June 24, 2026 ⁽²⁾ |
| 180,000 | 120,000 | \$ 1.90 | 3.48 | June 24, 2026 |
| 544,167 | 292,500 | \$ 0.94 | 4.09 | January 31, 2027 ⁽³⁾ |
| 250,000 | 83,333 | \$ 0.57 | 4.64 | August 19, 2027 |
| 2,286,667 | 1,766,666 | | | |

⁽¹⁾ expired, unexercised subsequent to year end

⁽²⁾ 126,667 were forfeited subsequent to year end

⁽³⁾ 25,000 were forfeited subsequent to year end

10. SHARE-BASED COMPENSATION (cont'd...)

Restricted share units and performance share units

During the year ended December 31, 2022, following approval of the Plan by the shareholders, the Company granted 700,000 (2021 - nil) RSUs with a fair value of \$326,208 (2021 - \$nil), which vest over a period of up to 18 months.

The Plan also provides the Company with the ability to grant PSUs. The vesting requirements for PSUs are based on certain performance criteria over the vesting period established by the Committee. The number of PSUs that vest is determined by multiplying the number of PSUs granted by an adjustment factor, which ranges from 0% to 200%, based on performance results. As at December 31, 2022, the Company had not issued any PSUs.

During the year ended December 31, 2022, the Company expensed \$273,021 (2021 - \$nil) for the fair value of RSUs, which was recorded in share-based compensation.

The continuity of RSUs transactions of the Company was as follows:

| | Number of RSUs |
|---|------------------------------|
| Balance as at December 31, 2020 and 2021 | - |
| Granted | 700,000 |
| Cancelled | (25,000) |
| Settled | (400,000) |
| Balance as at December 31, 2022 | 275,000⁽¹⁾ |
| Vested but not yet settled as at December 31, 2022 | 150,000⁽²⁾ |

⁽¹⁾ 12,500 RSUs were cancelled subsequent to year end

⁽²⁾ as at December 31, 2022, there were 150,000 RSUs that had vested but had not yet been issued (Note 19)

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11. INCOME TAXES

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

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|--|------------------------------------|------------------------------------|
| Loss before income taxes | \$ (5,659,572) | \$ (7,011,732) |
| Expected income tax recovery | \$ (1,500,000) | \$ (1,858,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | (126,000) | 117,000 |
| Permanent differences | (85,000) | 594,000 |
| Impact of reverse takeover and acquisition of subsidiary | - | (1,735,000) |
| Share issue costs | (141,000) | (146,000) |
| Adjustment to prior years provision versus statutory tax returns | (271,000) | (157,000) |
| Change in unrecognized deferred tax assets | 2,123,000 | 3,185,000 |
| Income tax expense (recovery) | \$ - | \$ - |

The significant components of the Company's unrecognized deferred income tax assets are as follows:

| | 2022 | 2021 |
|-----------------------------------|-------------|--------------|
| Exploration and evaluation assets | \$ 960,000 | \$ 1,100,000 |
| Property and equipment | 52,000 | 9,000 |
| Share issue costs | 236,000 | 125,000 |
| Non-capital losses | 5,987,000 | 3,878,000 |
| | 7,235,000 | 5,112,000 |
| Unrecognized deferred tax assets | (7,235,000) | (5,112,000) |
| Net deferred tax assets | \$ - | \$ - |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

| | 2022 | Expiry date range |
|-----------------------------------|---------------|----------------------|
| Exploration and evaluation assets | \$ 3,221,000 | N/A |
| Property and equipment | \$ 176,000 | N/A |
| Share issue costs | \$ 614,000 | 2023 to 2026 |
| Non-capital losses | \$ 21,318,000 | 2033 to 2042 |

Tax attributes are subject to review and potential adjustments by tax authorities.

12. RELATED PARTY TRANSACTIONS

The Company considers key management personnel to consist of its directors and officers. The following expenses were incurred in transactions with key management personnel and their spouses:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|--------------------------|---|---|
| Consulting fees | \$ 5,957 | \$ - |
| Directors' fees | 97,125 | 87,787 |
| Management fees | - | 93,736 |
| Professional fees | - | 20,642 |
| Share-based compensation | 555,941 | 347,701 |
| Wages and benefits | 554,821 | 281,617 |
| | \$ 1,213,844 | \$ 831,483 |

During the year ended December 31, 2022, administrative and exploration and evaluation expenditures of \$219,290 (2021 - \$237,356) were paid or accrued to a related entity, which provides engineering and subcontractor services for the Bethania Silver Project. As at December 31, 2022, included in accounts payable and accrued liabilities was \$nil (2021- \$nil) owing to this entity.

During the year ended December 31, 2022, the Company entered into an unsecured loan agreement with a director (Note 8). During the year ended December 31, 2022, a director advanced the Company CAD \$250,000 (\$193,330) (2021 - \$nil) and was repaid CAD \$250,000 (\$193,330) (2021 - \$nil). 375,000 warrants, valued at \$43,418, were issued to the director as compensation for the loan.

During the year ended December 31, 2022, a director was repaid \$nil (2021 - \$158,012) for advances made to Kuya in prior years (in the form of shareholder loans). These unsecured loans were due on demand and bore no interest.

As at December 31, 2022, included in accounts payable and accrued liabilities was \$53,703 (2021- \$19,643) owing to officers and directors.

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13. SUPPLEMENTAL CASH FLOW INFORMATION

The significant non-cash financing and investing activities are as follows:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|------------------------------------|------------------------------------|
| Share issue costs included in accounts payable and accrued liabilities | \$ 4,051 | \$ - |
| Reclassification of reserves to share capital on exercise of options | \$ - | \$ 85,289 |
| Reclassification of reserves to share capital on exercise of warrants | \$ - | \$ 84,878 |
| Reclassification of reserves to share capital on expiry of options | \$ - | \$ 35,686 |
| Reclassification of reserves to deficit on expiry of warrants | \$ - | \$ 100 |
| Residual value of warrants issued in private placements | \$ 374,411 | \$ 357,260 |
| Flow-through share premium | \$ 118,278 | \$ - |
| Shares issued for settlement of RSUs | \$ 187,661 | \$ - |
| Finders' warrants issued for share issue costs | \$ 141,973 | \$ - |
| Finder's fee units issued for share issue costs | \$ 1,404 | \$ - |
| Units issued for settlement of accounts payable and accrued liabilities | \$ 13,269 | \$ - |
| Shares issued on acquisition of CobalTech | \$ - | \$ 2,668,079 |
| Shares issued on acquisition of exploration and evaluation assets (Note 9) | \$ - | \$ 771,916 |
| Shares issued for obligation to issue shares for Carmelitas concessions (Note 9) | \$ 399,910 | \$ - |
| Obligation to issue shares for Carmelitas concessions | \$ - | \$ 400,000 |
| Cost of Carmelitas concessions purchase price included in accounts payable and accrued liabilities (Note 9) | \$ - | \$ 199,000 |
| Reclamation provision adjustment | \$ 182,143 | \$ 904,799 |

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14. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment being the acquisition and exploration of exploration and evaluation assets located in Canada and Peru. Geographic information is as follows:

| | Canada | | Peru | | Total |
|--------------------------------------|---------------------|-----------|-------------------|-----------|-------------------|
| As at December 31, 2022 | | | | | |
| Exploration and evaluation assets | \$ 5,708,695 | \$ | 17,117,026 | \$ | 22,825,721 |
| Other assets | 1,350,075 | | 322,901 | | 1,672,976 |
| Total assets | \$ 7,058,880 | \$ | 17,439,927 | \$ | 24,498,697 |
| For the year ended December 31, 2022 | | | | | |
| Loss | \$ (1,673,724) | \$ | (3,985,848) | \$ | (5,659,572) |
| | Canada | | Peru | | Total |
| As at December 31, 2021 | | | | | |
| Exploration and evaluation assets | \$ 6,282,128 | \$ | 18,191,846 | \$ | 24,473,974 |
| Other assets | 2,253,370 | | 415,258 | | 2,668,628 |
| Total assets | \$ 8,535,498 | \$ | 18,607,104 | \$ | 27,142,602 |
| For the year ended December 31, 2021 | | | | | |
| Loss | \$ (2,794,201) | \$ | (4,217,531) | \$ | (7,011,732) |

15. FINANCIAL INSTRUMENT RISKS

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. As at December 31, 2022, the Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to its liquid financial assets, being cash and receivables. The Company's primary bank accounts are held with major Canadian banks and funds are transferred to the subsidiary's foreign bank accounts as required to cover current expenditures, minimizing the risk to the Company. Receivables are primarily due from a government agency.

15. FINANCIAL INSTRUMENT RISKS (cont'd...)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is through regular monitoring of cash requirements. When necessary, the Company obtains financing from various investors to ensure all future obligations are fulfilled. The Company does not have sufficient cash as at December 31, 2022 to settle its current liabilities as they come due and additional funds are required to continue current operations for the upcoming twelve months (Note 1).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of market price changes:

Foreign currency exchange risk

This risk relates to any changes in foreign currencies in which the Company transacts. The Company incurs costs for goods and services denominated in currencies other than the presentation currency and is subject to foreign currency risk on assets and liabilities denominated in currencies other than the United States dollar. The effect of a 10% change in the foreign exchange rate on monetary balances held in United States dollar and Peruvian soles accounts would be approximately \$64,000 recorded in profit or loss for the year ended December 31, 2022. The effect of a 10% change in the foreign exchange rate on monetary balances held in CAD dollar and Peruvian soles accounts would be approximately \$23,000 recorded in other comprehensive income or loss for the year ended December 31, 2022.

Interest rate risk

This risk relates to the change in the borrowing rates affecting the Company. The Company is not exposed to interest rate risk as it does not have any significant financial instruments with interest rates, with the exception of cash. Interest earned on cash is based on prevailing bank account interest rates, which may fluctuate. A 1% increase or decrease in the interest rates would have a nominal impact in interest income for the year ended December 31, 2022.

Price risk

This risk relates to fluctuations in commodity and equity prices. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

The Company does not currently use financial instruments designed to hedge these market risks.

16. FAIR VALUE HIERARCHY

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2

Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3

Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and obligation to issue shares. The fair value of cash, receivables, accounts payable and accrued liabilities approximates their carrying values due to the short-term nature of these financial instruments. Obligation to issue shares is measured at fair value using level 1 inputs.

17. CAPITAL MANAGEMENT

The Company defines capital as cash, debt, and the components of shareholders' equity. The Company's objectives when managing capital are to identify, pursue, and complete the exploration and development of its exploration and evaluation assets, to maintain financial strength, to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness, and to maximize returns for shareholders over the long term. The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors. The Company does not have any externally imposed capital requirements. There has been no significant change in the Company's objectives, policies, and processes for managing its capital during the year ended December 31, 2022.

18. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2022, the Company has a commitment to pay a monthly fee of \$5,000 for advisory services provided to the Company in Peru to a shareholder of the Company. This commitment remains in place for as long as this shareholder maintains a share ownership position of more than five percent of the Company.

During the year ended December 31, 2022, the Company raised flow-through funds (Note 9) and agreed to use its commercially reasonable best efforts to incur qualifying exploration expenditures by December 31, 2023. As at December 31, 2022, the Company was obligated to incur \$844,780 in qualifying exploration expenditures.

Contingencies

As at December 31, 2022, the Company has the following contingency: MTP withheld an accrued payment of \$140,000 due to Compañía Minera San Valentín S.A.C. ("San Valentín") and an arbitration was initiated by San Valentín against the Company before an arbitration panel. The Company was ordered to pay \$93,597 plus penalties, interest and legal fees to the courts per a judicial order in settlement for the \$140,000. In November 2021, the Company paid \$93,597 towards the settlement. There is currently \$46,403 included in accounts payable and accrued liabilities as at December 31, 2022 with respect to San Valentín for penalties, interest and legal fees.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company:

- a) made the final payment of \$100,000 pursuant to the Carmelitas mineral property acquisition (Note 6);
- b) issued 2,702,703 common shares, in lieu of the CAD \$1,000,000 cash payment, pursuant to the Silver Kings JV amended Purchase Agreement and Option (Note 6);
- c) issued 405,405 common shares on settlement of CAD \$150,000, recorded in accounts payable and accrued liabilities;
- d) entered into a settlement agreement with Canadian Silver Hunter Inc. ("CSH") and Cobalt Projects International Corp. (a subsidiary of Electra, "CPIC"), which settles a dispute (the "Dispute") between CSH and CPIC regarding certain mineral properties previously optioned by CPIC from CSH. The Dispute was transferred to the Company upon the Silver Kings JV amended Purchase Agreement and Option. To settle the Dispute, the Company issued 1,666,667 common shares to CSH and obtained a 100% interest in the mineral properties associated with the Dispute (subject to the royalty noted below). The Company also entered into a royalty agreement with CSH granting CSH a 2% royalty on net smelter returns from the related mineral properties;
- e) granted 550,000 stock options at a price of \$0.35 per common share, vesting 1/3 on grant, 1/3 after one year, and 1/3 after two years, expiring on January 25, 2028;
- f) issued 150,000 common shares for settlement of vested RSUs;
- g) granted 650,000 RSUs, vesting 1/2 after one year and 1/2 after two years; and

KUYA SILVER CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

DECEMBER 31, 2022

19. SUBSEQUENT EVENTS (cont'd...)

- h) closed, in two tranches, a non-brokered private placement and issued a total of 6,686,888 units at a price of CAD \$0.27 per unit for total proceeds of CAD \$1,805,460. Each unit consisted of one common share and one-half of one transferrable common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of CAD \$0.50 per common share for a period of 24 months from the date of issue. The Company paid a total of CAD \$28,524 for finders' fees and issued 105,644 finders' warrants in connection with this private placement. Each finder's warrant entitles the holder to acquire one common share at a price of CAD \$0.50 per common share for a period of 24 months from the date of issue.