SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sierra Madre Gold and Silver Ltd.

Opinion

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

In our opinion, 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.

Key Audit Matters

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

We have determined that there are no key audit matters to communicate in our auditor's report.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

May 1, 2023

SIERRA MADRE GOLD AND SILVER LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

ASSETS	2022	2021
Current		
Cash	$ 1,801,036	$ 10,206,323
Receivables	278,487	24,346
Prepaid expenses	165,463	492,970
Cash in escrow *(Note 5)*	5,964,394	-
	8,209,380	10,723,639
Deferred transaction costs *(Note 5)*	516,371	-
Deferred financing costs *(Note 5)*	403,128	-
Equipment	62,756	5,359
Mineral property *(Note 4)*	202,785	202,785
	$ 9,394,420	$ 10,931,783

LIABILITIES		
Current		
Accounts payable and accrued liabilities *(Note 6)*	$ 39,830	$ 141,872
Subscription receipts *(Notes 5 and 12)*	6,216,273	-
	6,256,103	141,872

SHAREHOLDERS' EQUITY		
Share capital *(Note 3)*	16,462,137	16,319,356
Contributed Surplus *(Note 3)*	3,585,315	3,132,975
Deficit	(16,909,135)	(8,662,420)
	3,138,317	10,789,911
	$ 9,394,420	$ 10,931,783

Nature of operations *(Note 1)*
Subsequent events *(Note 12)*

ON BEHALF OF THE BOARD:

"Alexander Langer", Director

"Sean McGrath", Director

SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Expressed in Canadian Dollars

	Share Capital *(Note 3)*	Contributed Surplus *(Note 3)*	Subscriptions Received In Advance *(Note 3)*	Deficit	Total
Balance – December 31, 2020	$ 2,564,585	$ 508,990	$ 13,751,256	$ (1,550,241)	$ 15,274,590
Subscription receipts converted to shares	13,751,256	-	(13,751,256)	-	-
Exercise of warrants	3,515	(1,205)	-	-	2,310
Share-based compensation	-	2,625,190	-	-	2,625,190
Comprehensive loss for the year	-	-	-	(7,112,179)	(7,112,179)
Balance – December 31, 2021	16,319,356	3,132,975	-	(8,662,420)	10,789,911
Exercise of warrants	142,781	(48,946)	-	-	93,835
Share-based compensation	-	501,286	-	-	501,286
Comprehensive loss for the year	-	-	-	(8,246,715)	(8,246,715)
Balance – December 31, 2022	$ 16,462,137	$ 3,585,315	$ -	$ (16,909,135)	$ 3,138,317

SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

		2022		2021
Expenses				
Accounting and audit *(Note 6)*	$	324,031	$	164,542
Consulting		177,715		15,000
Depreciation		13,704		2,296
Director fees *(Note 6)*		108,000		81,000
Exploration and evaluation *(Notes 4 and 6)*		4,830,935		2,450,552
Foreign exchange loss		13,383		49,961
Interest income		(51,534)		(8,819)
Investor relations and promotions		1,006,951		928,629
Legal		36,290		149,568
Management fees *(Note 6)*		979,100		384,000
Office services and supplies		98,695		70,141
Share-based compensation *(Note 3)*		501,286		2,625,190
Shareholder communications		17,573		17,813
Stock exchange and filing		57,357		87,457
Transfer agent		14,235		21,461
Travel and accommodation		118,994		73,388
Loss and comprehensive loss for the year	$	8,246,715	$	7,112,179
Loss per share – basic and diluted	$	0.13	$	0.13
Weighted-average number of shares outstanding – basic and diluted		63,985,169		56,720,807

- the accompanying notes are an integral part of these consolidated financial statements -

SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2022	2021
Operating activities		
Loss for the year	$ (8,246,715)	$ (7,112,179)
Items not involving cash		
Share-based compensation	501,286	2,625,190
Depreciation	13,704	2,296
Changes in non-cash working capital		
Receivables	(148,313)	4,356
Prepaid expenses	247,507	(206,529)
Accounts payable and accrued liabilities	(122,753)	(12,946)
	(7,755,284)	(4,699,812)
Investing activities		
Payment of deferred transaction costs	(525,420)	(15,357)
Purchase of equipment	(71,101)	(7,655)
	(596,521)	(23,012)
Financing activities		
Payment of deferred financing costs	(147,317)	(294,708)
Shares issued for cash	93,835	2,310
Repayment of advances from related party	-	(59,191)
	(53,482)	(351,589)
Change in cash for the year	(8,405,287)	(5,074,413)
Cash - beginning of year	10,206,323	15,280,736
Cash - end of year	$ 1,801,036	$ 10,206,323

Supplemental schedule of non-cash investing and financing transactions		
Shares issued on conversion of subscription receipts, net of costs	$ -	$ 13,751,256
Proceeds of subscription receipts deposited in escrow	$ 6,178,021	$ -
Deferred financing costs paid from escrow funds	$ 251,879	$ -
Accrued interest earned on escrow funds	$ 38,252	$ -
Accrued deferred transaction costs	$ 16,779	$ -
Accrued deferred financing costs	$ 3,932	$ -
Deferred transaction costs transferred to receivable	$ 25,828	$ -
Prepaid expense transferred to receivable	$ 80,000	$ -
Fair value of warrants exercised	$ 48,946	$ 1,205

Supplemental cash flow information		
Interest received	$ 51,534	$ 11,120
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

1. NATURE OF OPERATIONS

Sierra Madre Gold and Silver Ltd. (the "Company") is a mineral exploration company incorporated in British Columbia with its registered office located at 10th Floor – 595 Howe Street, Vancouver, British Columbia, Canada. The Company received a conditional listing approval from the TSX Venture Exchange ("TSX-V") on March 25, 2021 and its shares commenced trading on April 19, 2021. Effective May 25, 2022, trading in the Company's shares was halted pending completion of the acquisition of the La Guitarra silver-gold mine from First Majestic Silver Corp. and a concurrent financing *(Notes 5 and 12)* and the trading halt remains to date.

The Company holds an interest in the Tepic and La Tigra mineral properties located in Mexico, which are considered to be in the exploration stage. Based on the information available to date, the Company has not yet determined whether its mineral properties contain ore reserves. The Company has no source of operating revenue and is dependent upon the issuance of shares to fund its operations and exploration activities. The Company's continuing operation is dependent upon establishing reserves and resources, maintaining its rights, access, and title to the properties, obtaining the financing necessary to maintain operations and successfully complete its exploration and development of the properties, and attaining future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for at least the next twelve months. As at December 31, 2022, the Company had a deficit of $16,909,135 (2021 - $8,662,420) and working capital (current assets less current liabilities) of $1,953,277 (2021 – $10,581,767). Subsequent to December 31, 2022, the Company closed the first tranche of a financing *(Note 12)* providing the Company with sufficient working capital to fund its planned operating and exploration activities for the ensuing twelve months.

The outbreak of the COVID-19 global pandemic has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS using those standards in effect for the reporting year ended December 31, 2022. The Company's board of directors approved these financial statements for issue on May 1, 2023.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for those assets and liabilities that are measured at revalued amounts or fair values at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION - *continued*

Significant accounting estimates, judgements, and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates. The Company's most significant accounting judgements relate to the determination of functional currency, the assumptions used to estimate share-based compensation, and the ongoing viability of its mineral properties.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are dependent upon the Company for financing of operations and exploration activities, which are largely determined in Canada and financed in Canadian funds.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of options and warrants, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares and the expected life and forfeiture rate of the security. Changes in these subjective input assumptions can materially affect the fair value estimate.

Management must determine if there are indicators that its rights to explore its mineral properties have expired or may expire in the future, that future exploration and evaluation plans are not warranted, or that the development of the properties or portions thereof is unlikely to recover existing exploration and evaluation costs. Should any of these indicators be present, the mineral property could be impaired.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiaries, Pita Exploration Limited (a British Columbia company), Pita Exploration, S. de R.L. de C.V. (a Mexican company), and Minera Sierra Madre Oro Y Plata, S. de R.L. de C.V., a wholly-owned Mexican subsidiary incorporated by the Company on May 5, 2021.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation gains and losses are reflected in profit or loss for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION - *continued*

Equipment

Equipment is recorded at cost less accumulated depreciation, which is calculated on a declining balance basis using rates between 30% and 45% per annum. Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable.

Exploration and evaluation

The Company is currently in the exploration stage in respect of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination or a business combination accounted for as an asset acquisition.

Exploration and evaluation expenditures are expensed in the period they are incurred. The Company capitalizes expenditures associated with the acquisition of exploration and evaluation assets through a business combination and the costs of significant property acquisitions to the extent that such costs can be directly attributed to an area of interest where it is considered likely that such costs will be recoverable by future exploitation or sale of the acquired property. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Where such options are exercisable entirely at the discretion of the optionee, the related amounts are recorded in the period they are paid or received. Option payments are expensed as exploration expenditures and option receipts are credited against capitalized acquisition costs, if any, and then to profit or loss for the period. The Company does not accrue costs to maintain mineral interests in good standing. Expenditure recoveries are recorded in the period that reasonable assurance of the receipt of such recovery is received.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The liability is accreted over time to reflect an interest element in the estimated future cash flows considered in the initial measurement. The Company's estimates of provisions for restoration obligations could change as a result of changes in regulations, the discount rate, the extent of environmental remediation required, the means of reclamation, or the cost estimates. Changes in estimates are recorded in the period in which the estimates are revised. The Company has determined that it had no significant restoration obligations as at December 31, 2022 or 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Impairment

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets. The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

The carrying values of non-financial assets are reviewed at the end of each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Should indications of impairment exist, the recoverable amount of the asset is estimated as the higher of fair value less selling costs and value-in-use. Fair value is estimated as the net amount that would be realized from the sale of the asset to a knowledgeable and willing arm's length party. Value-in-use is determined using estimated future cash flows, discounted using a pre-tax discount rate that reflects the time value of money and risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount by an impairment loss that is recognized in profit or loss for the period. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum of its original carrying value, with the reversal being recognized in profit or loss for the period.

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. The Company computes the dilutive effect of options, warrants and similar instruments and its effect on earnings per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Stock options and share purchase warrants are not included in the computation of diluted loss per share due to their anti-dilutive effect.

Share capital

Share capital issued for non-monetary consideration is recorded at the fair value of the non-monetary consideration received, or at the fair value of the shares issued if the fair value of the non-monetary consideration cannot be measured reliably, on the date of issue. The Company uses the residual value approach in respect of unit offerings, whereby the amount assigned to the warrant is the excess, if any, of the unit price over the trading price of the Company's shares at the date of issuance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. In situations where options are granted to non-employees and some or all of the services provided cannot be specifically valued, the services are measured at the fair value of the share-based compensation. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Financial Instruments

The Company classifies its financial instruments in accordance with IFRS 9 – *Financial Instruments* based on the Company's business model for managing its financial instruments, which includes the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics. Financial instruments are classified under three primary measurement categories: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, upon initial recognition the Company can make a one-time irrevocable election to designate them as FVTOCI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Financial Instruments – *continued*

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

FVTOCI

Investments in equity instruments classified as FVTOCI are initially recognized at fair value plus transaction costs. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income with no subsequent reclassification to profit or loss upon derecognition. Realized gains and losses recognized upon derecognition remain within accumulated other comprehensive income.

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL.

Fair value hierarchy

The Company's financial assets and liabilities are classified in accordance with a fair value hierarchy, which establishes three levels to classify the inputs to valuation techniques used to measure fair value as follows: Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – valuation based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – valuation based on inputs that are not based on observable market data.

Expressed in Canadian Dollars

3. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

Details of the issued and outstanding shares and contributed surplus are as follows:

	Number of Shares		Share Capital		Contributed Surplus
Balance – December 31, 2020	33,294,888	$	2,564,585	$	508,990
Subscription receipts converted to shares	30,643,500		15,321,750		-
Share issuance costs	-		(1,570,494)		-
Exercise of warrants	4,620		3,515		(1,205)
Share-based compensation	-		-		2,625,190
Balance – December 31, 2021	63,943,008		16,319,356		3,132,975
Exercise of warrants	187,670		142,781		(48,946)
Share-based compensation	-		-		501,286
Balance – December 31, 2022	64,130,678	$	16,462,137	$	3,585,315

Share issuances

During the year, 187,670 (2021 - 4,620) warrants were exercised for proceeds of $93,835 (2021 - $2,310). The fair value of the warrants exercised, estimated at $48,946 (2021 - $1,205) at the time of issue, has been transferred from contributed surplus to share capital.

Shares held in escrow

A total of 20,641,776 shares held by directors, officers and seed shareholders of the Company were held in escrow until October 19, 2021, being six months after the date that the Company obtained a listing of its shares on the TSX-V, and were released as to 10% on that date with tranches of 15% being released each six months thereafter. An additional 13,089,107 shares issued in the June 2020 private placement were subject to a hold period until July 19, 2021, being three months after the date that the Company obtained its listing and were released as to 8.33% on that date with tranches of 8.33% being released each month thereafter. As at December 31, 2022, there was a total of 12,385,065 shares remaining in escrow (2021 - 25,122,151).

Stock options and warrants

The Company has an Incentive Stock Option Plan that complies with the rules of the TSX-V limiting the total number of incentive stock options to 10% of the issued common shares. Stock options may be issued at the discretion of the board of directors, exercisable during a period not exceeding ten years. Vesting provisions and exercise price are at the discretion of the board of directors, subject to the policies of the TSX-V.

In April 2021, the Company granted 4,600,000 five-year stock options and 200,000 two-year stock options to directors, officers, and consultants; these options vested as to one-third on the grant date, one-third after six months, and the remaining one-third after twelve months. The Company also granted 185,000 two-year stock options to investor relations consultants; these options vested as to 25% three months after the grant date and 25% each three months thereafter.

In April 2022, the Company granted 500,000 five-year stock options to consultants; these options vest as to one-third on the grant date, one-third after six months, and the remaining one-third after twelve months.

Expressed in Canadian Dollars

3. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued*

Stock options and warrants - *continued*

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2020	1,951,565	$	0.50	-	$	-
Granted	-	$	-	4,985,000	$	0.74
Exercised	(4,620)	$	0.50	-	$	-
Outstanding, December 31, 2021	1,946,945	$	0.50	4,985,000	$	0.74
Granted	-	$	-	500,000	$	0.74
Exercised	(187,670)	$	0.50	-	$	-
Expired	(1,759,275)	$	0.50	-	$	-
Outstanding, December 31, 2022	-	$	-	5,485,000	$	0.74
Exercisable, December 31, 2022	-	$	-	5,318,333	$	0.74

At December 31, 2022, the Company had outstanding stock options enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	385,000	$	0.74	April 26, 2023 *(expired April 26, 2023)*
	4,600,000	$	0.74	April 26, 2026
	500,000	$	0.74	April 29, 2027
	5,485,000			

At December 31, 2022, the weighted-average remaining life for the outstanding stock options was 3.2 years.

Expressed in Canadian Dollars

3. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued*

Share-based compensation

The following table presents information relating to incentive stock options granted during the years ended December 31:

	2022	2021
Options granted	500,000	4,985,000
Average exercise price	$ 0.74	$ 0.74
Estimated fair value per option	$ 0.43	$ 0.59
Estimated fair value of options granted	$ 213,712	$ 2,935,990

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2022	2021
Risk-free interest rate	2.75%	0.88%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	100%	100%
Expected forfeiture rate	0.00%	0.00%
Expected option life in years	5.00	4.77

Share-based compensation is recorded over the vesting periods. The following table presents options vested and share-based compensation recognized during the years ended December 31:

	2022	2021
Options vested	2,025,833	3,292,500
Compensation recognized	$ 501,286	$ 2,625,190

4. MINERAL PROPERTY AND EXPLORATION AND EVALUATION

Tepic Property, Mexico

In December 2017, the Company entered into an agreement providing it with the option to purchase a 100% interest in the Tepic project located in Nayarit, Mexico. During the term of the option, the Company was required to keep the concessions in good standing and pay the owner US$450,000 in semi-annual payments of US$50,000 over four years. As at December 31, 2022, payments totalling US$450,000 had been made to the option holder and the Company is in a position to exercise its option under the agreement.

The Company can exercise its option and complete the purchase of the property by either making a final payment to the owner of US$1,500,000 or granting a 3% net smelter returns royalty (“NSR”), which would be extinguished upon payment of a total of US$4,000,000 in royalty payments. Should the Company elect to grant the NSR, it would subsequently have the right to purchase the NSR from the owner at a price of US$1,000,000 for each 1% (one-third) of the NSR purchased, to a maximum of US$3,000,000 for the entire NSR.

Expressed in Canadian Dollars

4. MINERAL PROPERTY AND EXPLORATION AND EVALUATION – *continued*

Tepic Property, Mexico – *continued*

The carrying value of the Tepic project consists of the fair value of the asset acquired through the acquisition of Pita Exploration Limited and its wholly-owned subsidiary Pita Exploration, S. de R.L. de C.V., which holds the interest in the property. The carrying value of $202,785 represents the cost of acquiring the asset and does not necessarily represent the current or future value.

La Tigra Property, Mexico

In June 2021, the Company entered into an agreement pursuant to which the Company obtained the right to explore and the option to acquire an interest in the La Tigra project located in Nayarit, Mexico. Under the terms of the agreement the Company must make cash payments of US$1,500,000 to the owner of the property over three years as follows:

		Cash Payments
Upon signing of the agreement *(paid)*	US$	75,000
On or before December 31, 2021 *(paid)*		75,000
On or before June 21, 2022 *(paid)*		112,500
On or before December 31, 2022 *(paid)*		112,500
On or before June 21, 2023		250,000
On or before December 31, 2023		375,000
On or before June 21, 2024		500,000
	US$	1,500,000

The Company must also complete a National Instrument 43-101 compliant technical report containing a resource estimation before June 21, 2024 and make a written election to exercise its right to acquire the property upon completion of the cash payments and delivery of the compliant technical report. Upon the Company completing its option payments, delivering the compliant technical report and the election, the owner can either:

- if the technical report estimate contains more than one million ounces of gold mineral resources, elect to form a joint venture with the Company and be assigned a 51% interest in the joint venture with the Company being assigned a 49% interest; or
- regardless of the number of ounces reported in the technical report, elect to transfer a 100% interest in the property to the Company and retain a 2.5% NSR. The Company can reduce the NSR to 1.5% upon payment to the owner of US$1,500,000 at any time and to 0.5% upon payment to the owner of a further US$1,000,000.

During the year ended December 31, 2021, the Company paid a finder's fee of US$68,750 on the transaction.

Expressed in Canadian Dollars

4. MINERAL PROPERTY AND EXPLORATION AND EVALUATION – *continued*

Expenditures

The Company expenses exploration and evaluation expenditures in the period incurred. Expenditures for the years ended December 31 and cumulative expenditures as at December 31, 2022 are as follows:

Mexico	Expenditures 2022	Expenditures 2021	Cumulative 2022
Tepic			
Options payments	$ 74,169	$ 145,587	$ 612,394
Administration *(Note 6)*	107,260	34,414	148,873
Assays	314,053	162,230	478,105
Consulting	-	6,569	6,569
Drilling	636,179	231,620	867,799
Environmental and permits	-	16,325	21,864
Field materials	76,766	69,722	160,081
Geology *(Note 6)*	588,572	510,717	1,235,674
Land holding costs	62,312	58,750	276,681
Legal	44,374	125,698	206,294
Local labour	148,467	65,629	214,096
Mapping and survey	29,677	10,384	88,001
Road work	40,874	8,476	56,595
Surface rights and social license	40,080	51,484	91,564
Transportation and rentals	13,490	10,235	25,388
Travel and accommodation	49,389	107,720	170,328
	2,225,662	1,615,560	4,660,306
La Tigra			
Options payments	343,805	308,134	651,939
Administration *(Note 6)*	103,685	23,290	126,975
Assays	320,336	46,701	367,037
Consulting	54,069	33,189	87,258
Drilling	748,457	-	748,457
Environmental and permits	31,129	15,404	46,533
Field materials	83,575	8,388	91,963
Geology *(Note 6)*	592,827	293,114	885,941
Land holding costs	8,523	3,954	12,477
Legal	13,366	7,354	20,720
Local labour	196,486	47,543	244,029
Mapping and survey	28,619	1,497	30,116
Road work	2,752	-	2,752
Surface rights and social license	20,619	-	20,619
Transportation and rentals	16,231	1,369	17,600
Travel and accommodation	40,794	45,055	85,849
	2,605,273	834,992	3,440,265
	$ 4,830,935	$ 2,450,552	$ 8,100,571

Title

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

Expressed in Canadian Dollars

5. ACQUISITION OF LA GUITARRA SILVER-GOLD MINE

On May 24, 2022, as amended and restated on October 24, 2022, the Company signed a share purchase agreement ("SPA"), subject to shareholder approval *(received on December 9, 2022)*, regulatory approvals *(conditional approval received on March 3, 2023)*, and certain conditions precedent *(completed on March 29, 2023)*, to acquire a 100% interest in the La Guitarra silver-gold mine ("La Guitarra") in Mexico (the "Transaction") from First Majestic Silver Corp. ("First Majestic"). The SPA provides for the Company to issue 69,063,076 common shares (the "Consideration Shares") to First Majestic *(completed on March 29, 2023)*, plus certain working capital adjustments. The Company anticipates that the Transaction will constitute a reverse take-over. The Consideration Shares issued to First Majestic are subject to certain resale restrictions and First Majestic has the right to distribute all such Consideration Shares, in excess of 19.9% of the issued and outstanding shares of the Company, pro rata to its shareholders. First Majestic also has the right to maintain its pro rata interest in the Company, to a maximum of 19.9%, by participating in future share offerings of the Company.

The SPA granted First Majestic the assignable rights to a 2% NSR on all mineral production from La Guitarra. In accordance with the terms of the SPA, by an agreement dated December 21, 2022, La Guitarra granted the 2% NSR to a third party following their acquisition of the rights to the NSR from First Majestic. La Guitarra retains the option to buy back one-half (1%) of the NSR for $2,000,000.

To December 31, 2022, the Company had incurred and deferred legal and consulting costs totalling $516,371 in respect of the Transaction.

As a condition of completing the Transaction, the Company was required to complete a minimum financing of $10,000,000. The Company entered into an agency agreement to raise up to $10,000,250 by issuing up to 9,385,000 subscription receipts and 6,000,000 common shares each at a price of $0.65. The agents had the option to sell up to an additional 2,307,750 subscription receipts for additional proceeds of up to $1,500,038. All proceeds from the subscription receipts were placed into escrow until the Transaction was completed on March 29, 2023 and all escrow conditions were satisfied at which time each subscription receipt was automatically converted into one common share of the Company *(issued on March 30, 2023)*. The Company paid the agents a cash commission ranging from 3% to 6% of the proceeds raised, a corporate finance fee, and compensation options ranging from 3% to 6% of the subscription receipts and common shares issued. Each compensation option is exercisable into one common share of the Company at a price of $0.65 per share for a period of 24 months following the conversion of the subscription receipts.

On September 8, 2022, the Company closed, in escrow, the first tranche of the financing by issuing 9,504,647 subscription receipts at a price of $0.65 per subscription receipt for gross proceeds of $6,178,021. The agents received payment of their expenses and 50% of their commission totalling $251,879, which was deducted from the gross proceeds with the balance of $5,926,142 being held in escrow in an interest-bearing account. The escrow funds, plus accrued interest, were released to the Company on March 30, 2023 *(Note 12)*, upon completion of the Transaction and satisfaction of all escrow conditions, less the remaining 50% of the agents' commission and additional legal costs to the date of closing. Details are as follows:

	Amount
Subscription receipts received	$ 6,178,021
Interest earned	38,252
	6,216,273
Agents' expenses and 50% of commission	(251,879)
Cash in escrow – December 31, 2022	$ 5,964,394

Expressed in Canadian Dollars

5. ACQUISITION OF LA GUITARRA SILVER-GOLD MINE – *continued*

The final tranche of the financing had not been completed prior to the issue of these financial statements.

To December 31, 2022, the Company had incurred and deferred certain commissions, legal, and other costs, including the $251,879 paid out of escrow, totalling $403,128 in respect of the financing. These costs will be recorded as share issuance costs upon completion of the financing.

6. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes directors and officers. The compensation paid or payable to key management and parties related to them for the years ended December 31 is as follows:

	2022	2021
Accounting	$ 120,000	$ 120,000
- bonus	138,000	-
Administration (exploration and evaluation)	39,052	28,112
- bonus	103,500	-
Director fees	108,000	81,000
Geological (exploration and evaluation)	90,000	90,000
Management fees	434,000	384,000
- bonuses	545,100	-
	$ 1,577,652	$ 703,112

In addition, the Company recorded share-based compensation of $296,030 (2021 - $1,937,908), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 3.

As at December 31, 2022, accounts payable includes $nil (2021 - $18,734) due to an officer of the Company for expenses due for reimbursement.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash in escrow, which are measured at FVTPL, and receivables, accounts payable, and subscription receipts payable, which are measured at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments.

8. RISK MANAGEMENT

The Company is exposed to various financial risks as detailed below:

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's primary credit risk is associated with its Canadian cash balances, which are held through major Canadian financial institutions with high investment grade ratings. The Company also maintains cash balances denominated in pesos and U.S. dollars, held through a major bank in Mexico, which also has a high investment grade rating. The carrying value of the Company's cash, cash in escrow, and receivables totalling $7,991,258 represents the Company's maximum exposure to credit risk as at December 31, 2022 (2021 - $10,230,669).

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in exchange rates. As at December 31, 2022, the Company carried cash and accounts payable balances denominated in Mexican pesos and U.S. dollars, which are subject to currency risk due to fluctuations in the exchange rates with the Canadian dollar.

Due to the volatility of the exchange rates between the Canadian dollar, the peso, and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's monetary assets and liabilities denominated in Mexican pesos and U.S. dollars as at December 31, 2022, a 10% fluctuation in the exchange rates of these currencies would result in a gain or loss of approximately $2,775 and $52,861, respectively (2021 - $5,017 and $14,577, respectively).

Liquidity Risk

Without operating revenues, the Company is subject to liquidity risk such that it may not be able to meets its obligations under its financial instruments as they fall due *(Note 1).* The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business. To date, the Company's capital requirements have been met by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

Interest Rate Risk

Interest rate risk relates to the effect on the Company's financial instruments due to changes in market rates of interest. The Company holds cash and cash in escrow, which earn market rates of interest. The Company considers its interest rate risk in respect of these instruments to be immaterial.

Expressed in Canadian Dollars

9. INCOME TAXES

The Company operates in two tax jurisdictions and is subject to varying rates of taxation. The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	2022	2021
Loss before income taxes for accounting purposes	$ (8,246,715)	$ (7,112,179)
Expected tax recovery for the year	(2,226,613)	(1,920,288)
Effect of different tax rate on foreign losses	(160,233)	(65,073)
Non-deductible expenses, recoveries, and other	178,770	740,345
Change in unrecognized deductible temporary differences and other	2,208,078	1,245,016
Tax expense for the year	$ -	$ -

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets as at December 31 are as follows:

	2022	2021
Non-capital loss carry-forwards	$ 1,619,000	$ 776,000
Equipment and other	25,000	7,000
Share issuance costs	3,000	4,000
Exploration expenditures	2,282,000	864,000
Unrecognized deferred tax assets	$ 3,929,000	$ 1,651,000

The Company's income tax assets expire as follows:

	2022	Expiry Date Range	2021
Non-capital losses	$ 5,991,000	2027 to 2042	$ 2,871,000
Equipment and other	$ 88,000	No expiry	$ 27,000
Share issuance costs	$ 11,000	2043 to 2044	$ 16,000
Exploration expenditures	$ 7,608,000	2027 to 2041	$ 2,880,000

10. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no long-term debt and typically finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest-bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the year ended December 31, 2022.

11. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry, with operations in Canada and Mexico. The Company has minimal office and field equipment located in Canada and Mexico and the mineral properties in which it is maintaining an interest are located in Mexico.

12. SUBSEQUENT EVENTS

Events subsequent to December 31, 2022 are as follows:

a) On March 29, 2023, following the completion of all the conditions precedent, the Company closed the Transaction with First Majestic and acquired a 100% interest in the La Guitarra silver-gold mine in Mexico and issued to First Majestic 69,063,076 common shares *(Note 5)*;

b) On March 30, 2023, the Company received $5,841,788 from the escrow agent related to the first tranche of the financing *(Note 5)*. The Company issued 9,504,647 common shares in exchange for the subscription receipts, which included 119,647 subscription receipts of the over-allotment option. In addition to legal and other expenses of the agents totalling $149,943, the Company paid commissions of $168,967, a corporate finance fee of $74,000, and issued 366,950 compensation options to the agents.