SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Expressed in U.S. 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, 2023 and 2022, 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 material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 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.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Accounting for the Reverse Takeover ("RTO") Transaction

Effective March 29, 2023, the Company completed a reverse takeover as described in Note 3 of the consolidated financial statements between the Company and La Guitarra Compania Minera, S.A. de C.V. ("La Guitarra"). These transactions resulted in a reverse takeover where La Guitarra was the continuing entity for accounting purposes with the comparatives figures presented being those of La Guitarra, and Sierra Madre Gold and Silver Ltd. was the acquirer for legal purposes. The RTO was treated as a recapitalization under the relevant standards resulting in a RTO transaction cost recorded in the consolidated financial statements. Judgment is required by the Company to determine whether the Company's operations constitute a business and the relevant accounting considerations. In addition, estimation is required in the determination of the fair value of the consideration and mineral property assets acquired.

The principal considerations for our determination that the reverse takeover transaction is a key audit matter are that there was a high degree of estimation uncertainty and management judgment. A high degree of auditor judgment, subjectivity, and effort was required in performing procedures to evaluate management's significant judgments in assessing the accounting for the reverse takeover transaction and the fair value of the assets acquired.

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

- Evaluating the appropriateness of management’s assessment of the nature of operations of the Company and whether the activities constituted an asset or a business.
- Examining and evaluating the contractual terms identified in underlying agreements in connection with these transactions for consistency with the amounts recorded in the consolidated financial statements.
- Evaluating the methodology used to determine the fair value of the consideration issued.
- Utilizing professionals with specialized skill and knowledge to assist in assessing the methodology in testing the fair value of certain assets acquired.
- Assessing the adequacy of the disclosures in the consolidated financial statements.

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 Accounting Standards, 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 consolidated financial statements of the current year ended 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

April 29, 2024

SIERRA MADRE GOLD AND SILVER LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2023 AND 2022
Expressed in U.S. Dollars

ASSETS	2023	2022
Current		
Cash and cash equivalents	$ 1,929,549	$ 88,242
Value added taxes receivable *(Note 5)*	548,032	131,390
Inventories *(Note 6)*	406,673	436,941
Prepaid expenses and other *(Note 7)*	435,516	51,075
	3,319,770	707,648
Restricted cash *(Note 4)*	-	5,130,409
Mining interests *(Note 8)*	15,660,081	15,370,205
Exploration and evaluation assets *(Note 9)*	10,203,451	5,885,539
Plant and equipment *(Note 10)*	1,253,926	969,720
Right-of-use assets	11,084	15,644
Other assets	30,315	25,956
	$ 30,478,627	$ 28,105,121
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 707,156	$ 135,830
Payroll and withholding taxes payable	111,214	27,868
Current portion of lease liabilities	8,835	7,740
Due to former parent company *(Note 13)*	-	9,619,551
	827,205	9,790,989
Lease liabilities	6,428	12,071
Deferred income tax liabilities *(Note 11)*	510,390	220,384
Decommissioning liability *(Note 12)*	2,432,334	2,397,407
	3,776,357	12,420,851
SHAREHOLDERS' EQUITY		
Share capital *(Note 14)*	157,040,086	108,144,970
Contributed surplus	1,971,147	-
Accumulated other comprehensive income	150,787	-
Deficit	(132,459,750)	(92,460,700)
	26,702,270	15,684,270
	$ 30,478,627	$ 28,105,121

Nature of operations *(Note 1)*
Contingency *(Note 22)*
Subsequent events *(Note 24)*

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, 2023 AND 2022
Expressed in U.S. Dollars

	Share Capital *(Note 14)*	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2021	$ 108,144,970	$ -	$ -	$ (89,897,956)	$ 18,247,014
Comprehensive loss for the year	-	-	-	(2,562,744)	(2,562,744)
Balance, December 31, 2022	108,144,970	-	-	(92,460,700)	15,684,270
Due to former parent converted to shares *(Note 13)*	11,099,209	-	-	-	11,099,209
Share purchase agreement *(Note 3)*	30,818,380	1,828,402	-	-	32,646,782
Concurrent financings	7,637,401	-	-	-	7,637,401
Share issuance costs	(521,379)	-	-	-	(521,379)
Fair value of agents' compensation options	(138,495)	138,495	-	-	-
Share-based compensation	-	4,250	-	-	4,250
Comprehensive income (loss) for the year	-	-	150,787	(39,999,050)	(39,848,263)
Balance, December 31, 2023	$ 157,040,086	$ 1,971,147	$ 150,787	$ (132,459,750)	$ 26,702,270

SIERRA MADRE GOLD AND SILVER LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
Expressed in U.S. Dollars

	2023	2022
Expenses		
Care and maintenance	$ 2,389,045	$ 1,897,272
Care and maintenance – mining concession fees	512,763	764,187
Care and maintenance – related party *(Note 17)*	4,928	302,548
	2,906,736	2,964,007
Amortization – right-of-use assets	6,762	12,951
Accretion – decommissioning liability (Note 12)	223,615	198,646
Accretion – lease liabilities	1,423	2,726
Community relations	85,230	-
Depreciation	10,955	-
General and administrative *(Note 15)*	2,052,925	74,264
Foreign exchange loss	493,633	406,032
Interest expense – related party *(Note 17)*	92,923	317,627
Finance income	(101,305)	-
Impairment *(Note 9)*	2,906,681	-
RTO transaction cost *(Note 3)*	31,072,747	-
Loss before income taxes	39,752,325	3,976,253
Deferred income tax expense (recovery) *(Note 11)*	246,725	(1,413,509)
Loss for the year	39,999,050	2,562,744
Other comprehensive income		
Item that may be reclassified subsequently to income or loss:		
Currency translation adjustment	(150,787)	-
Comprehensive loss for the year	$ 39,848,263	$ 2,562,744
Loss per share – basic and diluted	$ 0.32	$ 0.04
Weighted-average number of shares outstanding – basic and diluted (000's) *(Note 18)*	124,340	59,367

- 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, 2023 AND 2022
Expressed in U.S. Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2023	2022
Operating activities		
Loss for the year	$ (39,999,050)	$ (2,562,744)
Items not involving cash		
Amortization – right-of-use assets	6,762	12,951
Accretion – decommissioning liability (Note 12)	223,615	198,646
Accretion – lease liabilities	1,423	2,726
Depreciation	10,955	-
Impairment *(Note 9)*	2,906,681	-
Interest expense – related party *(Note 17)*	92,923	317,627
Increase in provision on VAT receivable *(Note 5)*	35,374	-
Decrease in provision for obsolete inventory *(Note 6)*	(80,352)	-
Deferred income tax expense (recovery) (*Note 11)*	246,725	(1,413,509)
Unrealized foreign exchange loss	317,978	268,386
Share-based compensation	4,250	-
RTO transaction cost *(Note 3)*	31,072,747	-
Changes in non-cash working capital		
Value added taxes receivable	(368,470)	1,135,175
Other receivables	(247,496)	-
Inventories	110,620	15,504
Prepaid expenses and other	7,810	45,827
Accounts payable and accrued liabilities	237,584	(29,890)
Payroll and withholding taxes payable	83,346	1,971
	(5,336,575)	(2,007,330)
Investing activities		
Cash acquired in RTO transaction *(Note 3)*	832,100	-
Restricted cash (*Note 4)*	-	(331,710)
Purchase of plant and equipment *(Note 10)*	(327,052)	-
Capitalized mine development costs *(Note 8)*	(740,965)	-
Capitalized exploration costs *(Note 9)*	(831,470)	(65,492)
	(1,067,387)	(397,202)
Financing activities		
Shares issued for cash *(Note 14)*	7,637,401	-
Share issuance costs *(Note 14)*	(521,379)	-
Lease payments	(8,310)	(16,266)
Advances from former parent *(Note 13)*	899,964	2,493,064
	8,007,676	2,476,798
Increase in cash and cash equivalents for the year	1,603,714	72,266
Cash and cash equivalents - beginning of year	88,242	17,936
Exchange difference on cash and cash equivalents	237,593	(1,960)
Cash and cash equivalents - end of year	$ 1,929,549	$ 88,242

Supplemental schedule of non-cash investing and financing transactions *(Note 23)*

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

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. On March 29, 2023, the Company completed the acquisition of the Guitarra silver-gold mine *(Note 3),* by acquiring all of the outstanding shares of La Guitarra Compania Minera, S.A. de C.V. ("La Guitarra") from Corporacion First Majestic, S.A. de C.V. ("CFM"), a wholly owned subsidiary of First Majestic Silver Corp. ("First Majestic").

The acquisition of La Guitarra has been accounted for as a reverse acquisition ("RTO") whereby the Company, the legal acquirer, acquired all of the issued and outstanding shares of La Guitarra, the legal subsidiary. Although the Company remains the legal parent, La Guitarra is considered to be the accounting acquirer. Consequently, these consolidated financial statements represent the continuation of the financial statements of La Guitarra except as to share capital structure, which has been retroactively restated to reflect the legal capital of the Company, using the exchange ratio established in the Share Purchase Agreement ("SPA") *(Note 3)*.

The Company holds a 100% interest in the Guitarra silver-gold mine located near Toluca, Mexico, which is a formerly producing silver and gold mine, currently on care and maintenance, and the Tepic mineral property located at Nayarit, Mexico, which is 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 completing its exploration and development of the properties, and attaining future profitable production.

These financial statements have been prepared in accordance with IFRS Accounting 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 operation. With the pending financing *(Note 24)*, the Company estimates that its current cash reserves and planned operating results will provide sufficient working capital for its present obligations and planned activities for at least twelve months commencing December 31, 2023.

2. MATERIAL ACCOUNTING POLICY INFORMATION 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, 2023. The Company's board of directors approved these financial statements for issue on April 29, 2024.

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. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION - *continued*

New IFRS Pronouncements

Amendments to IAS 1 – *Presentation of Financial Statements – Classification of liabilities as current or non-current and non-current liabilities with covenants*

Amendments were issued to IAS 1 - *Presentation of Financial Statements* which removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32 - *Financial Instruments Presentation*. Further modification was issued in October 2022 for amendments in non-current liabilities with covenants. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The Company early-adopted these amendments on January 1, 2023 without impact to its consolidated financial statements.

Amendments to IAS 12 – *Income Taxes – Deferred taxes on initial recognition*

The amendments to IAS 12 require companies to recognize deferred tax on particular transactions that, upon initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The Company adopted these amendments on January 1, 2023, without impact to its consolidated financial statements.

Other

Several other amendments and interpretations were applied for the first time in 2023 but did not have an impact on the consolidated financial statements of the Company, while the standards and amendments to standards and interpretations which have been issued but are not yet effective are not expected to have a significant effect on the Company's consolidated financial statements. The Company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective other than noted above.

Adoption of new accounting policies

As these consolidated financial statements have been prepared with La Guitarra as the continuing entity, the following policies of the Company have been adopted or expanded upon effective March 29, 2023: Principles of consolidation; Foreign currency translation; Provisions; Loss per share; Share capital; and Stock-based compensation. The new policies are included in the following material accounting policy information:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its wholly owned subsidiaries, La Guitarra (a Mexican company), 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 Mexican company).

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION - *continued*

Foreign currency translation

The presentation currency of the Company is the U.S. dollar. The functional currency of the Company and all of its subsidiaries, except La Guitarra, is the Canadian dollar ("CAD"). The functional currency of La Guitarra is the U.S. 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.

Canadian functional operations are translated into U.S. dollars using the period-end exchange rate for assets and liabilities, and the average exchange rate for income and expenses. All resulting exchange differences are recognized in other comprehensive income or loss.

Restricted cash

The Company determines if the funds on hand and held at banks meet the definition of cash. When there is a restriction on those funds, the Company assesses the nature of the restriction and if it is applicable, excludes the related amounts from the cash balance.

The Company then assesses the classification of the restricted cash between current and non-current based on the following factors: an asset is current unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the period; and it expects to realize the asset within twelve months after the reporting period.

The evaluation is performed based on the available information at the end of the reporting period; if there are changes in the circumstances the Company will reassess the classification.

Significant accounting estimates, judgements, and assumptions

The preparation of consolidated 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 fair values of exploration assets acquired in an asset purchase agreement; impairment indicators for its mining interests, exploration and evaluation assets, and plant and equipment; determining decommissioning liabilities; and the determination of its functional currency.

The determination of the fair values of exploration and evaluation assets acquired in an asset purchase agreement, such as described in Note 3, involves significant judgement in relation to the valuation methodology employed, including management's selection of replacement cost as the most representative indicator of the fair values.

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's plant and equipment and mining interests are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its plant and equipment and mining interests. Internal sources of information management consider include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION - *continued*

Significant accounting estimates, judgements, and assumptions- *continued*

Management has determined that acquisition, exploratory drilling, evaluation, development and related costs incurred which were capitalized have potential future economic benefits and are potentially economically recoverable, subject to impairment analysis. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Mineral reserve and resource estimates affect the determination of recoverable value used in impairment assessments and the amortization rates for non-current assets using the units of production method. The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101 ("NI 43-101") Technical Report standards. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control.

Such estimation is a subjective process and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgements used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position, results of operation and cash flows.

The Company's decommissioning liability represents management's best estimate of the present value of the future cash outflows required to settle the liability. Management assesses these provisions on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, inflation, and the impact of changes in discount rates, interest rates and foreign exchange rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of the Company is the U.S. dollar. While transactions conducted in Mexico are typically denominated in either the Mexican peso or the U.S. dollar, the Company previously generated revenues from operations which were denominated in U.S. dollars and is dependent upon the parent company for financing of care and maintenance and other operating costs and such funding is denominated in U.S. dollars.

Inventories

Materials and supplies inventories are valued at the lower of weighted-average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A provision for obsolescence is provided on inventory which has not been used for a significant period and which is not anticipated to be used in the future.

Mining interests

Acquisition, exploration, development and field support costs directly related to mining interests are deferred until the property to which they directly relate is placed into production, sold, abandoned or subject to a condition of impairment. The deferred costs are amortized over the useful life of the ore body following commencement of production, or written off if the property is sold or abandoned.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION - *continued*

Significant accounting estimates, judgements, and assumptions- *continued*

Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

Upon commencement of commercial production, mining interests are depleted on a units-of-production basis over the estimated economic life of the mine. In applying the units-of-production method, depletion is determined using quantity of material extracted from the mine in the period as a portion of total quantity of material to be extracted in current and future periods based on reserves and resources considered to be highly probable to be economically extracted over the life of mine. If no published reserves and resources are available, the Company may rely on internal estimates of economically recoverable mineralized material, prepared on a basis consistent with that used for determining reserves and resources, for purpose of determining depletion.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation. The cost of an item of plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs related to the acquisition or construction of qualifying assets.

Plant and equipment are depreciated as follows:

Computer equipment	45% straight-line
Furniture and fixtures	20% straight-line
Mobile equipment – surface	30% straight-line
Mobile equipment – underground	25% straight-line
Mill equipment	Units of production based on the number of tonnes of ore milled over the Life of Mine (“LOM”) tonnes of ore to be milled
Lab equipment	Units of production based on the number of tonnes of ore milled over the LOM tonnes of ore to be milled
Underground mine equipment	Units of production based on the number of tonnes of ore mined over the LOM tonnes of ore to be mined
Buildings and structures	Units of production based on the number of tonnes of ore milled over the LOM tonnes of ore to be milled

Assets under construction or refurbishment are recorded at cost and re-allocated to machinery and equipment when they are available for use. As certain of the Company’s mining interests, plant and equipment are in care and maintenance and are not being used in the Company’s exploration or mine development activities, there has been no depreciation of these assets for the year ended December 31, 2023. Depreciation commences when the asset is in the condition and location necessary for it to operate in the manner intended by management. Depreciation charges on assets that are directly related to mineral properties are allocated to those mining interests.

The Company conducts an annual review of residual balances, useful lives and depreciation methods utilized for plant and equipment. Any changes in estimate that arise from this review are accounted for prospectively.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION - *continued*

Exploration and evaluation

Once the legal right to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized as exploration and evaluation assets. Exploration expenditure relates to the initial search for deposits with economic potential. Expenditures incurred before the Company has obtained legal rights to explore a specific area are expensed.

The recovery of the carrying amount of exploration and evaluation assets is dependent upon the future commercial success of the mineral properties or from proceeds of disposition. The amounts shown for exploration and evaluation assets represent costs incurred to date and are not intended to reflect present or future values.

Once technical feasibility and commercial viability has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mining interests.

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 at the reporting date with the risk of default 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 the 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION *- continued*

Decommissioning liability

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 mining interests. 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.

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.

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.

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.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PRESENTATION *- continued*

Income taxes *- continued*

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.

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.

All of the Company's financial instruments are classified as at amortized cost *(Note 16)*.

Financial assets

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.

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.

3. SHARE PURCHASE AGREEMENT – REVERSE ACQUISITION TRANSACTION

The Company entered into the SPA dated May 24, 2022, as amended and restated on October 24, 2022, with CFM, a wholly owned subsidiary of First Majestic, to acquire 100% of the issued and outstanding common shares of La Guitarra (the "Transaction"). The Transaction was completed on March 29, 2023.

Upon closing the SPA, the Company acquired 100% of the issued and outstanding common shares of La Guitarra from CFM in exchange for 69,063,076 common shares of the Company, the granting of a net smelter returns royalty ("NSR") (*Note 8),* and customary closing adjustments including a working capital adjustment. As provided for in the SPA, CFM and First Majestic capitalized to share capital all intercompany amounts owing prior to the closing (*Notes 13 and 14).*

On completion of the Transaction, the Company became the legal parent of La Guitarra. The Transaction has been accounted for as an RTO as defined by the regulators and as determined under IFRS. Although the Company remains the legal parent and the continuing company, La Guitarra is considered to be the accounting acquirer. Consequently, La Guitarra has been deemed to be the continuation of the Company, and control of the assets and operations of the Company were deemed to have been acquired by La Guitarra in consideration for the deemed issuance of the shares retained by the existing shareholders of the Company.

An RTO involving a non-public enterprise and a non-operating public enterprise is considered to be a capital transaction in substance rather than a business combination. The Company's activities prior to the acquisition were limited to the management of cash resources, maintenance of its listing, and exploration activities, which does not constitute a business. Since the Transaction does not meet the definition of a business combination in accordance with IFRS 3: *Business Combinations*, the Transaction has been accounted for as an asset acquisition in accordance with IFRS 2: *Share-based Payments* as follows:

- The assets and liabilities of La Guitarra were recognized and measured in the consolidated balance sheets at their pre-Transaction carrying amounts;
- The identifiable assets and liabilities of the Company were recognized at fair value at the closing date of the Transaction. The fair value of the Company was determined based on the equity interests deemed to have been issued by La Guitarra to provide the shareholders of the Company with the same proportional interest in the common shares of the Company as they had prior to completion of the Transaction;
- The excess of the consideration paid over the fair value of the identifiable assets and liabilities of the Company was charged to profit or loss as an RTO transaction cost; and
- Deficit and other shareholders' equity balances recognized in the consolidated balance sheets reflect those of La Guitarra, the accounting parent, and share equity has been determined by adding the fair value of the Company to the balance of La Guitarra's share equity immediately prior to the Transaction. However, the legal capital structure shown in the consolidated statements reflects that of the Company, the legal parent. Accordingly, the share structure of La Guitarra has been retrospectively restated to reflect the legal capital structure of the Company using the exchange ratio established in the SPA plus the number of common shares deemed issued by the Company to effect the Transaction.

Expressed in U.S. Dollars

3. SHARE PURCHASE AGREEMENT – REVERSE ACQUISITION TRANSACTION *- continued*

The consideration paid in the Transaction is made up of the following:

Fair value of 64,130,678 common shares of the Company at CAD $0.65 per share (retained by the shareholders of the Company, deemed issued by La Guitarra) *(Note 14)*	$ 30,818,380
Fair value of the vested portion of 5,485,000 stock options of the Company (retained by the shareholders of the Company, deemed issued by La Guitarra) *(Note 14)*	1,828,402
Legal, filing, and consulting costs	458,304
Working capital and value-added tax ("VAT") adjustments *(Note 13)*	329,378
Intercompany elimination (i)	5,548,000
Total consideration paid	$ 38,982,464

(i) On January 9, 2018, La Guitarra received a ruling from the Manzanillo Customs Tax Authority assessing a tax penalty of $4.1 million (78.4 million Mexican pesos) for allegedly failing to comply with Mexican Customs Law on a concentrate shipment made in March 2017. La Guitarra filed an appeal with the Federal Tax Court. On September 17, 2020, the Federal Tax Court in Durango granted La Guitarra a definitive injunction against collection. Based on advice from legal advisors, La Guitarra believes they were in compliance with the applicable Mexican law and therefore no liability was recognized in the financial statements. Under the terms of the SPA, First Majestic has assumed full responsibility for the dispute and by March 29, 2023, had posted a letter of credit supported by an underlying bond as security for the dispute with the Servicio de Administracion Tributaria in the amount of $5,548,000. Under the terms of the SPA, First Majestic is responsible for any funding obligations, including the bonding costs and all other costs, related to the tax dispute *(Note 22).*

The consideration for the acquisition was based on the fair value of the Company's shares using the share price of the concurrent financing of CAD $0.65 per share, as this was considered to be the most reliable indicator of fair value. The consideration paid was recognized with a corresponding increase in the share capital of the Company. The Company's identifiable assets and liabilities were recognized at their fair value. The difference between the consideration paid and the net identifiable assets received was recognized as an RTO transaction cost in profit and loss.

The excess of the consideration paid over the fair value of the identifiable assets and liabilities of the Company at March 29, 2023 was as follows:

Current assets, including cash of $832,100	$ 1,788,785
Fair value of the Tepic mineral property *(Note 9)*	3,600,000
Fair value of the La Tigra mineral property *(Note 9)*	2,540,000
Fair value of equipment *(Note 10)*	42,754
Current liabilities	(61,822)
Fair value of net identifiable assets acquired	7,909,717
RTO transaction cost	31,072,747
Total consideration paid	$ 38,982,464

The identifiable assets and liabilities of the Company at March 29, 2023, were translated from Canadian dollars to U.S. dollars using a translation of convenience based on the exchange rate in effect at that date.

Expressed in U.S. Dollars

4. RESTRICTED CASH

Details are as follows:

		2023		2022
Balance – beginning of year	$	5,130,409	$	4,498,922
Increase in amount on deposit (funded by First Majestic)		-		331,710
Foreign exchange gain		417,591		299,777
Released for letter of credit		(5,548,000)		-
Balance – end of year	$	-	$	5,130,409

First Majestic has placed a letter of credit of 103,661,000 pesos at December 31, 2023 (2022 – cash-in-trust 99,427,000 pesos), with a major bank in Mexico, in relation to an administrative appeal of a customs tax ruling *(Note 22)*. The letter of credit is increased each year in November, based upon an inflation factor.

Pursuant to the SPA, CFM and First Majestic have assumed responsibility for the ongoing dispute, including, but not limited to the letter of credit and related bonding obligations. Upon resolution of the excise tax dispute, First Majestic will be responsible for any amounts agreed upon with the taxation authorities in relation to the ongoing dispute and the letter of credit will then be released or the taxation authorities will draw upon the letter of credit.

5. VALUE-ADDED TAXES RECEIVABLE

Details are as follows:

		2023		2022
Gross amount of VAT receivable - Mexico	$	795,014	$	398,824
Provision on disputed amounts		(302,808)		(267,434)
		492,206		131,390
Goods and services tax receivable - Canada		55,826		-
	$	548,032	$	131,390

During the years ended December 31, 2017 and December 31, 2018, the Company received partial denials of certain VAT returns for approximately $303,000. The Company disagreed with this assessment and on May 3, 2019, the Company filed an annulment suit before the Federal Tax Court. Due to the uncertainty involved, the Company recorded a provision for the full amount.

6. INVENTORIES

Details are as follows:

		2023		2022
Materials and supplies	$	806,722	$	917,342
Provision for obsolescence		(400,049)		(480,401)
	$	406,673	$	436,941

Expressed in U.S. Dollars

7. PREPAID EXPENSES AND OTHER

Details are as follows:

	2023	2022
Prepaid expenses	$ 320,700	$ 3,628
Supplier advances	22,346	46,724
Other receivables *(Note 13)*	92,470	723
	$ 435,516	$ 51,075

8. MINING INTERESTS

Details are as follows:

	Guitarra Silver Mine
Balance – December 31, 2021	$ 18,955,680
Decrease in decommissioning liability *(Note 12)*	(553,540)
Disposal (*below)*	(3,031,935)
Balance – December 31, 2022	15,370,205
Decrease in decommissioning liability *(Note 12)*	(526,424)
Depreciation of equipment capitalized *(Note 10)*	75,335
Mine development costs	740,965
Balance – December 31, 2023	$ 15,660,081

Guitarra silver-gold mine, Mexico

The Guitarra silver-gold mine is located in the Temascaltepec Mining District in the State of Mexico, near Toluca, Mexico, south-west of Mexico City. The Guitarra silver-gold mine consists of two underground operation centers and a flotation mill. The Company owns 100% of the Guitarra mine.

Disposal

In accordance with the terms of the SPA *(Note 3)*, by an agreement dated December 21, 2022, the Company granted a 2% net smelter returns royalty ("NSR") over the entire Guitarra claim block to Metalla Royalty & Streaming Ltd. ("Metalla") for cash consideration of $3,031,935, retained by the Company's former parent *(Note 13)*. On January 6, 2023, Metalla notified the Company that it had assigned its interest in the NSR to its Mexican subsidiary, Royalty & Streaming Mexico, S.A. de C.V. ("Metalla Mexico"). The Company retains an option to buy back 1% of the NSR from Metalla Mexico for $2,000,000.

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 related agreements.

Expressed in U.S. Dollars

9. EXPLORATION AND EVALUATION ASSETS

Details are as follows:

	Guitarra Project	Tepic Project	La Tigra Project	Total
Balance – Dec. 31, 2021	$ 5,820,047	$ -	$ -	$ 5,820,047
Exploration capitalized	65,492	-	-	65,492
Balance – Dec. 31, 2022	5,885,539	-	-	5,885,539
Acquired in RTO transaction *(Note 3)*	-	3,600,000	2,540,000	6,140,000
Exploration capitalized	459,534	255,255	366,681	1,081,470
Foreign exchange	-	3,123	-	3,123
Impairment	-	-	(2,906,681)	(2,906,681)
Balance – Dec. 31, 2023	$ 6,345,073	$ 3,858,378	$ -	$ 10,203,451

Exploration Projects

- Guitarra, Mexico

Within the Guitarra silver-gold mine mining claims are several exploration targets, mainly concentrated in the eastern area of the Company's claim block.

The carrying value at December 31, 2023, represents the historical cost of acquiring the asset and exploration and evaluation expenditures and does not necessarily represent the current or future value.

- Tepic mineral 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 $450,000 in semi-annual payments of $50,000 over four years. At December 31, 2023, all required payments, totalling $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 $1,500,000 or granting a 3% NSR, which would be extinguished upon payment of a total of $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 $3,000,000 for the entire NSR.

The carrying value at December 31, 2023, does not necessarily represent the current or future value.

Expressed in U.S. Dollars

9. EXPLORATION AND EVALUATION ASSETS - *continued*

Exploration Projects - *continued*

- La Tigra mineral 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 La Tigra project located in Nayarit, Mexico. The option payments required to maintain the agreement were as follows:

		Cash Payments
Payments made to December 31, 2022	$	375,000
Due on or before June 21, 2023 *(see below)*		250,000
Due on or before December 31, 2023		375,000
Due on or before June 21, 2024		500,000
	$	1,500,000

The Company elected not to make the $250,000 payment due on June 21, 2023, notified the owner of the property, and requested negotiations to amend the option agreement. To date, the Company has been unsuccessful in re-negotiating the terms of the option agreement and accordingly the accumulated costs of $2,906,681 have been written-off in the year ended December 31, 2023.

10. PLANT AND EQUIPMENT

Details are as follows:

		2023		2022
Net book value – beginning of year	$	969,720	$	1,062,987
Acquired in RTO transaction *(Note 3)*		42,754		-
Additions		327,052		-
Depreciation		(86,290)		-
Foreign exchange gain		690		-
Transfer to former parent *(Note 13)*		-		(93,267)
Net book value – end of year	$	1,253,926	$	969,720

Cost	$	1,340,216	$	1,543,482
Accumulated amortization		(86,290)		(573,762)
	$	1,253,926	$	969,720

Expressed in U.S. Dollars

11. INCOME TAXES

The Company operates in Mexico. 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:

	2023	2022
Loss before income taxes for accounting purposes	$ (39,752,325)	$ (3,976,253)
Statutory tax rate	27.0%	30.0%
Expected tax recovery for the year	(10,733,128)	(1,192,876)
Non-deductible expenses and recoveries	9,179,032	14,165
Inflationary effects	(25,098)	(1,072,960)
Effects of foreign tax rates	(120,390)	-
Foreign exchange	(1,310,172)	(356,212)
True-ups and other	(1,046)	228,186
Expiry of losses	615,900	1,345,908
Change in unrecognized deductible temporary differences and other	2,641,627	(379,720)
Tax expense (recovery) for the year	$ 246,725	$ (1,413,509)

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 liability at December 31 are as follows:

	2023	2022
Mining interests, exploration and development assets, and plant and equipment	$ 739,692	1,075,923
Inventory	(120,015)	(144,120)
Right-of-use assets	3,325	4,969
Decommissioning liability	(128,877)	(688,589)
Prepayments & accrued liabilities	18,193	(22,083)
Lease liabilities	(1,928)	(5,716)
Deferred tax liability	$ 510,390	$ 220,384

Expressed in U.S. Dollars

11. INCOME TAXES - *continued*

At December 31, 2023, the Company's non-capital losses expire as follows:

Canada	Mexico	Total	Expiry Date
$ -	$ 6,169,000	$ 6,169,000	2024
-	334,000	334,000	2025
-	5,606,000	5,606,000	2027
-	8,663,000	8,663,000	2028
-	5,735,000	5,735,000	2029
-	6,064,000	6,064,000	2030
-	5,613,000	5,613,000	2031
-	1,097,000	1,097,000	2032
-	3,803,000	3,803,000	2033
6,219,000	-	6,219,000	After 2033
$ 6,219,000	$ 43,084,000	$ 49,305,000	

12. DECOMMISSIONING LIABILITY

The Company has an obligation to undertake decommissioning, restoration, rehabilitation and environmental work when environmental disturbance is caused by the development and ongoing production of a mining operation. Movements in decommissioning liabilities related to the Guitarra silver-gold mine during the years ended December 31 are allocated as follows:

	2023	2022
Balance – beginning of year	$ 2,397,407	$ 2,580,330
Interest or accretion expense	223,615	198,646
Change in inflation and risk-free rate	(526,424)	(553,540)
Foreign exchange loss	337,736	171,971
Balance – end of year	$ 2,432,334	$ 2,397,407

A provision for decommissioning liabilities is estimated based on current regulatory requirements and is recognized at the present value of such estimated future costs. The expected timing of cash flows in respect of the provision is based on the estimated life of the Company's mining operations. The undiscounted cash flows are estimated at $3.8 million (December 31, 2022 - $3.8 million). The discount rate is a risk-free rate determined based on the 10-year Mexican peso default swap rate of 9.29% (December 31, 2022 – 9.35%) for the respective estimated life of the operations. The inflation rate used is based on the historical 10-year average Mexican inflation rate of 4.65% (December 31, 2022 – 4.48%).

Expressed in U.S. Dollars

13. DUE TO FORMER PARENT

	2023	2022
Balance – beginning of year	$ 9,619,551	$ 9,343,332
Advances received	899,964	2,493,064
Equipment transferred to former parent *(Note 10)*	-	(93,267)
Interest expense	92,923	317,627
Foreign exchange loss	486,771	590,730
	11,099,209	12,651,486
Advances capitalized *(Note 14)*	(11,099,209)	-
	-	12,651,486
Working capital and VAT adjustments *(Note 3)*	329,378	-
Advance payment on working capital adjustment	(421,848)	-
Transfer to other receivables *(Note 7)*	92,470	-
Proceeds on disposal of mineral interest retained by the former parent *(Note 8)*	-	(3,031,935)
Balance – end of year	$ -	$ 9,619,551

The amounts due to CFM were unsecured and bore interest at 4.2% per annum. The related credit facility of 300 million Mexican pesos (approximately $15 million) had a term to July 2, 2023, with a portion not due until March 1, 2025. The CFM credit facility was terminated on March 24, 2023.

Pursuant to the SPA *(Note 3)*, CFM and First Majestic capitalized the full inter-company balance outstanding as of March 24, 2023 of $11,099,209 in exchange for additional share capital in the Company.

14. SHARE CAPITAL

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

Presentation

In accordance with the reverse acquisition completed on March 29, 2023 *(Note 3)*, the Company issued 69,063,076 of its common shares under the SPA. The share capital presented in these financial statements represents that of La Guitarra, the accounting parent, except as to the legal capital structure, which has been retrospectively restated by multiplying the number of outstanding shares of La Guitarra by the exchange ratio established in the SPA, to reflect the number of outstanding shares issued by the Company, the legal parent. Loss-per-share amounts have also been retrospectively restated to reflect the RTO transaction.

Expressed in U.S. Dollars

14. SHARE CAPITAL - *continued*

Details of the issued and outstanding shares are as follows:

	Number of Shares		Share Capital
Balance – December 31, 2021 and 2022	59,366,886	$	108,144,970
Capitalization of advances - CFM *(Note 13)*	9,696,190		11,099,209
Balance – prior to closing the Transaction *(Note 3)*	69,063,076		119,244,179
Deemed shares issued in RTO transaction *(Note 3)*	64,130,678		30,818,380
Private placement – March 2023	9,504,647		4,567,515
Share issuance costs	-		(421,342)
Agents' compensation options	-		(114,203)
Private placement – May 2023	1,300,000		622,789
Share issuance costs	-		(57,098)
Agents' compensation options	-		(24,292)
Private placement – November 2023	5,123,092		2,447,097
Share issuance costs	-		(42,939)
Balance – December 31, 2023	149,121,493	$	157,040,086

Share issuances *– pre RTO*

On March 24, 2023, the Company increased the variable capital issued to CFM by $11,099,209 (205.9 million pesos) and recorded a $11,099,209 reduction in advances owing to CFM *(Note 13)*. The number of shares issued for the capitalization of the loan has been retrospectively restated using the exchange ratio established in the SPA *(Note 3)*.

Share issuances *– post RTO*

On March 30, 2023, the Company received $4,567,515 from its escrow agent in respect of the first tranche of a brokered private placement financing completed concurrently with the Transaction. The Company issued 9,504,647 common shares in exchange for the subscription receipts issued at CAD $0.65 per subscription receipt, which included 119,647 subscription receipts of the over-allotment option. In addition to legal and other expenses of the agents totalling $241,712, the Company paid commissions of $124,920, a corporate finance fee of $54,710, and issued 366,949 compensation options to the agents. Each compensation option is exercisable into one common share of the Company at a price of CAD $0.65 per share for a period of 24 months following the conversion of the subscription receipts. The fair value of the compensation options was estimated at $114,203 using the Black-Scholes Option-Pricing Model using the following assumptions: risk-free interest rate of 3.75%; expected dividend yield of 0.00%; expected stock price volatility of 100%; expected forfeiture rate of 0.00%; and an expected option life of 2.00 years.

During May 2023, the Company closed the second tranche of the concurrent financing by issuing 1,300,000 common shares at a price of CAD $0.65 per subscription receipt for gross proceeds of $622,789. In addition to legal and other expenses of the agents totalling $19,731, the Company paid commissions of $37,367 and issued 78,000 compensation options to the agents. Each compensation option is exercisable into one common share of the Company at a price of CAD $0.65 per share for a period of 24 months. The fair value of the compensation options was estimated at $24,292 using the Black-Scholes Option-Pricing Model using the following assumptions: risk-free interest rate of 4.22%; expected dividend yield of 0.00%; expected stock price volatility of 100%; expected forfeiture rate of 0.00%; and an expected option life of 2.00 years.

Expressed in U.S. Dollars

14. SHARE CAPITAL - *continued*

Share issuances *– post RTO* - *continued*

During November 2023, the Company closed the subscription receipts portion of the concurrent financing by issuing 5,123,092 common shares at a price of CAD $0.65 per subscription receipt for gross proceeds of $2,447,097. The Company incurred legal and other expenses of $42,939.

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 and subject to release as to 10% on October 19, 2021, with tranches of 15% being released each six months thereafter. At December 31, 2023, there was a total of 6,192,533 shares remaining in escrow (December 31, 2022 - 12,385,065).

Stock options

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. Details of the related exercise prices and the weighted-average exercise price are as follows:

	Number	CAD $
Outstanding, immediately prior to the closing of the Transaction *(Note 3)*	5,485,000	0.74
Agents' options issued	444,949	0.65
Expired	(415,000)	0.74
Outstanding, December 31, 2023	5,514,949	0.73
Exercisable, December 31, 2023	5,514,949	0.73

At December 31, 2023, the Company had outstanding stock options enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price CAD	Expiry Date
Options	4,570,000	$ 0.74	April 26, 2026
	500,000	$ 0.74	April 29, 2027
Agents' compensation options	366,949	$ 0.65	March 30, 2025
	78,000	$ 0.65	May 31, 2025
	5,514,949		

Expressed in U.S. Dollars

14. SHARE CAPITAL - *continued*

Stock options - *continued*

At December 31, 2023, the weighted-average remaining life for the outstanding stock options was 2.42 years.

The fair value of the vested options outstanding at the close of the Transaction *(Note 3)* was recognized in the accounts as a modification and reported as a part of the consideration paid for the net identifiable assets of the Company, and has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

Risk-free interest rate	3.58%
Expected dividend yield	0.00%
Expected stock price volatility	100%
Expected forfeiture rate	0.00%
Expected option life in years	2.96

15. GENERAL AND ADMINISTRATIVE EXPENSES

Details for the years ended December 31:

	2023	2022
Accounting and audit *(Note 17)*	$ 278,546	$ -
Bonding costs *(Note 4)*	54,434	30,174
Consulting	69,714	-
Director fees *(Note 17)*	57,071	-
Due diligence	19,131	-
Investor relations and promotions	675,440	-
Legal	181,864	41,757
Management fees *(Note 17)*	246,893	-
Office	283,246	2,333
Share-based compensation	4,250	-
Shareholder communications	11,528	-
Stock exchange and filing fees	46,174	-
Transfer agent	6,517	-
Travel	118,117	-
	$ 2,052,925	$ 74,264

16. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, receivables, accounts payable, payroll and withholding taxes payable, and due to former parent, which are measured at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments.

Expressed in U.S. Dollars

17. RELATED PARTY TRANSACTIONS

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Due to the RTO accounting as described in Notes 1 and 3, only the key management remuneration of the legal parent from March 29, 2023 is recognized in these consolidated financial statements. 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:

		2023		2022
Accounting	$	77,773	$	-
Administration (exploration and evaluation)		52,500		-
Director fees		57,071		-
Geological (exploration and evaluation)		27,776		-
Management fees		279,985		-
	$	495,105	$	-

In addition, the Company recorded share-based compensation of $3,400 (2022 - $nil), which relates to incentive stock options granted to directors and officers. Due to the RTO accounting, as described in Notes 1 and 3, only the share-based compensation of the legal parent from March 29, 2023 is recognized in these consolidated financial statements. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model.

The Company had transactions with related corporations, which were undertaken in the normal course of operations. Details are as follows for the years ended December 31:

		2023		2022
Care and maintenance - Majestic Services S.A. de C.V. (i)	$	4,928	$	302,548
Interest expense – CFM (i)		92,923		317,627
Capitalized exploration expense -Majestic Services S.A. de C.V. and CFM		-		65,492
	$	97,851	$	685,667

(i) A subsidiary of First Majestic.

18. LOSS PER SHARE

Loss per share for the current period has been determined using the number of shares of La Guitarra outstanding at March 29, 2023 multiplied by the exchange ratio established in the SPA and adding the weighted-average number of common shares retained by the shareholders of the Company, deemed issued by La Guitarra under the RTO transaction, and the shares issued in the concurrent financing.

Loss per share for the comparative period has been determined using the weighted-average number of shares outstanding of La Guitarra retrospectively restated using the exchange ratio established in the SPA.

19. 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 and cash equivalent 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 major banks in Mexico, which also have high investment grade ratings. The carrying value of the Company's cash and cash equivalents, restricted cash and other receivables totalling $2,022,019 represents the Company's maximum exposure to credit risk at December 31, 2023 (December 31, 2022 - $5,218,651).

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. At December 31, 2023, the Company carried cash and accounts payable balances denominated in Mexican pesos and U.S. dollars in the Canadian dollar functional entities, 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 in the Canadian dollar functional entities at December 31, 2023, a 10% decrease in the number of Mexican pesos required to buy a Canadian dollar would result in a gain of approximately $6,000. Based on the Company's monetary assets and liabilities denominated in U.S. dollars in the Canadian dollar functional entities at December 31, 2023, a 10% decrease in the number of U.S. dollars required to buy a Canadian dollar would result in a gain of approximately $21,000.

At December 31, 2023, the Company carried cash, value added taxes receivable, accounts payable and provision balances denominated in Mexican pesos in the U.S. dollar functional entity, which are subject to currency risk due to fluctuations in the exchange rates with the U.S. dollar. Due to the volatility of the exchange rates between the Mexican peso and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's net monetary liabilities denominated in Mexican pesos in the U.S. dollar functional entity at December 31, 2023, a 10% decrease in the number of Mexican pesos required to buy a U.S. dollar would result in a loss of approximately $159,000 and a 10% increase would have the converse effect.

Liquidity Risk

The Company does not currently have profitable operations, the Guitarra silver-gold mine has been on care and maintenance since August 3, 2018, and the Tepic property is in the exploration and evaluation stage. 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. The Company manages this risk by maintaining cash and cash equivalent 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.

Since the completion of the Transaction, 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. The Company's working capital (current assets less current liabilities) at December 31, 2023 was $2,492,565. With the pending financing *(Note 24)*, the Company estimates that its current cash reserves and planned operating results will provide sufficient working capital for its present obligations and planned activities for at least twelve months commencing December 31, 2023.

19. RISK MANAGEMENT - *continued*

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 equivalents, which earn nominal rates of interest. The Company does not consider its interest rate risk in respect of these instruments to be material.

20. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and development 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 and cash equivalents 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, 2023.

21. 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 insignificant long-term assets located in Canada and the balance of its long-term assets are located in Mexico.

22. CONTINGENCY

On January 9, 2018, La Guitarra received a ruling from the Manzanillo Customs Tax Authority assessing a tax penalty of $4.1 million (78.4 million Mexican pesos) for allegedly failing to comply with Mexican Customs Law on a concentrate shipment made in March 2017. La Guitarra filed an appeal with the Federal Tax Court. On September 17, 2020, the Federal Tax Court in Durango granted La Guitarra a definitive injunction against collection. Based on advice from legal advisors, La Guitarra believes they were in compliance with the applicable Mexican law and therefore no liability was recognized in the financial statements.

Under the terms of the SPA, First Majestic has assumed full responsibility for the dispute and at December 31, 2023, had posted a letter of credit supported by an underlying bond as security for the dispute with the Servicio de Administracion Tributaria in the mount of $6,105,620 (103.7 million Mexican pesos).

Under the terms of the SPA, First Majestic is responsible for any funding obligations, including the bonding costs and all other costs, related to the tax dispute *(Note 3).*

Expressed in U.S. Dollars

23. SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS

Details for the years ended December 31 are as follows:

		2023		2022
Decreases in decommissioning liability credited to mining interests *(Notes 8 and 12)*	$	(526,424)	$	(553,540)
Shares issued for non-cash working capital acquired - SPA *(Note 3)*	$	436,559	$	-
Shares issued for mining interests acquired - SPA *(Note 3)*	$	6,140,000	$	-
Shares issued for equipment acquired - SPA *(Note 3)*	$	42,754	$	-
Working capital and VAT adjustment - SPA *(Notes 3 and 13)*	$	(329,378)	$	-
RTO - legal, filing, and consulting costs *(Note 3)*	$	(458,304)	$	-
Fair value of agents' compensation options *(Note 14)*	$	138,495	$	-
Restricted cash funded direct by First Majestic *(Notes 4 and 22)*	$	249,397	$	-
Exploration costs in accounts payable	$	250,000	$	-
Depreciation of plant and equipment capitalized *(Note 8)*	$	75,335	$	-
Advances from former parent capitalized *(Notes 13 and 14)*	$	11,099,209	$	-

24. SUBSEQUENT EVENTS

Events occurring subsequent to December 31, 2023, are as follows:

Equity financing

During March 2024, the Company closed an equity financing of 3,571,500 common shares for gross proceeds of C$1,000,020. The Company paid a cash commission of C$15,000.

Bridge financing

During April 2024, the Company raised approximately $500,000 by issuing three demand promissory notes bearing interest at 15% per annum.

Project financing

On April 29, 2024, the Company agreed upon a senior secured $5,000,000 project financing loan, expected to be advanced in early May 2024, bearing interest at 15% per annum and due in full in 24 months. The loan is subject to approval from the board of directors of the lender. Interest for the first six months is not payable until the maturity of the loan. Interest payments on the loan commence after the first six months on a monthly basis. The financing is for further development of the Guitarra mine and for general working capital purposes in support of the Guitarra mine project. There are no early payment penalties.