

SIERRA MADRE GOLD AND SILVER LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2024

Expressed in U.S. Dollars

Unaudited

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Company's interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

SIERRA MADRE GOLD AND SILVER LTD.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

Expressed in U.S. Dollars

Unaudited

| ASSETS | March 31, 2024 | December 31, 2023 |
|---|----------------------|----------------------|
| Current | | |
| Cash and cash equivalents | \$ 578,360 | \$ 1,929,549 |
| Value added taxes receivable | 786,305 | 548,032 |
| Inventories | 416,339 | 406,673 |
| Prepaid expenses and other | 520,031 | 435,516 |
| | <u>2,301,035</u> | <u>3,319,770</u> |
| Mining interests (Note 4) | 16,074,763 | 15,660,081 |
| Exploration and evaluation assets (Note 5) | 10,339,980 | 10,203,451 |
| Plant and equipment (Note 6) | 1,469,770 | 1,253,926 |
| Right-of-use assets | 9,800 | 11,084 |
| Other assets | 31,035 | 30,315 |
| | <u>\$ 30,226,383</u> | <u>\$ 30,478,627</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 1,020,509 | \$ 707,156 |
| Payroll and withholding taxes payable | 80,086 | 111,214 |
| Current portion of lease liabilities | 9,045 | 8,835 |
| | <u>1,109,640</u> | <u>827,205</u> |
| Lease liabilities | 7,020 | 6,428 |
| Deferred income tax liabilities | 542,440 | 510,390 |
| Decommissioning liability (Note 7) | 2,386,312 | 2,432,334 |
| | <u>4,045,412</u> | <u>3,776,357</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 9) | 157,749,680 | 157,040,086 |
| Contributed surplus | 1,971,147 | 1,971,147 |
| Accumulated other comprehensive income | 124,720 | 150,787 |
| Deficit | <u>(133,664,576)</u> | <u>(132,459,750)</u> |
| | <u>26,180,971</u> | <u>26,702,270</u> |
| | <u>\$ 30,226,383</u> | <u>\$ 30,478,627</u> |

Nature of operations (Note 1)

Contingency (Note 11)

Subsequent events (Note 14)

ON BEHALF OF THE BOARD:

 "Alexander Langer", Director

 "Sean McGrath", Director

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

SIERRA MADRE GOLD AND SILVER LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31

Expressed in U.S. Dollars
Unaudited

| | Share Capital (Note 9) | Contributed Surplus | Accumulated other comprehensive income | Deficit | Total |
|--|------------------------------|------------------------|---|------------------|---------------|
| Balance, December 31, 2022 | \$ 108,144,970 | \$ - | \$ - | \$ (92,460,700) | \$ 15,684,270 |
| Due to former parent converted to shares | 11,099,209 | - | - | - | 11,099,209 |
| Share purchase agreement (Note 3) | 30,818,380 | 1,828,402 | - | - | 32,646,782 |
| Concurrent financing | 4,567,515 | - | - | - | 4,567,515 |
| Share issuance costs | (421,342) | - | - | - | (421,342) |
| Fair value of agents' compensation options | (114,203) | 114,203 | - | - | - |
| Comprehensive loss for the period | - | - | - | (32,530,025) | (32,530,025) |
| Balance, March 31, 2023 | 154,094,529 | 1,942,605 | - | (124,990,725) | 31,046,409 |
| Concurrent financing | 3,069,886 | - | - | - | 3,069,886 |
| Share issuance costs | (100,037) | - | - | - | (100,037) |
| Fair value of agents' compensation options | (24,292) | 24,292 | - | - | - |
| Share-based compensation | - | 4,250 | - | - | 4,250 |
| Comprehensive loss for the period | - | - | 150,787 | (7,469,025) | (7,318,238) |
| Balance, December 31, 2023 | 157,040,086 | 1,971,147 | 150,787 | (132,459,750) | 26,702,270 |
| Private placement - shares | 738,513 | - | - | - | 738,513 |
| Share issuance costs | (28,919) | - | - | - | (28,919) |
| Comprehensive loss for the period | - | - | (26,067) | (1,204,826) | (1,230,893) |
| Balance, March 31, 2024 | \$ 157,749,680 | \$ 1,971,147 | \$ 124,720 | \$ (133,664,576) | \$ 26,180,971 |

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

**SIERRA MADRE GOLD AND SILVER LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS
OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31**

Expressed in U.S. Dollars

Unaudited

| | 2024 | 2023 |
|--|--------------|---------------|
| Expenses | | |
| Care and maintenance | \$ 553,693 | \$ 458,902 |
| Care and maintenance – mining concession fees | - | 266,089 |
| Care and maintenance – related party <i>(Note 10)</i> | - | 4,928 |
| | 553,693 | 729,919 |
| Amortization – right-of-use assets | 1,511 | 1,380 |
| Accretion – decommissioning liability <i>(Note 7)</i> | 55,342 | 53,415 |
| Accretion – lease liabilities | 429 | 482 |
| Community relations | 29,213 | - |
| Depreciation | 2,095 | - |
| Finance income | (14,757) | - |
| General and administrative | 496,329 | 105,612 |
| Foreign exchange loss | 48,921 | 53,868 |
| Interest expense – related party <i>(Note 10)</i> | - | 92,923 |
| RTO transaction cost <i>(Note 3)</i> | - | 31,526,697 |
| Loss before income taxes | 1,172,776 | 32,564,296 |
| Deferred income tax expense (recovery) | 32,050 | (34,271) |
| Loss for the period | 1,204,826 | 32,530,025 |
| Other comprehensive loss | | - |
| Item that may be reclassified subsequently to income or loss: | | |
| Currency translation adjustment | 26,067 | - |
| Comprehensive loss for the period | \$ 1,230,893 | \$ 32,530,025 |
| | | |
| Loss per share – basic and diluted | \$ 0.01 | \$ 0.52 |
| | | |
| Weighted-average number of shares outstanding – basic and diluted | 149,827,944 | 62,577,673 |

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

SIERRA MADRE GOLD AND SILVER LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31

Expressed in U.S. Dollars
Unaudited

| CASH RESOURCES PROVIDED BY (USED IN) | 2024 | 2023 |
|--|--------------------|---------------------|
| Operating activities | | |
| Loss for the period | \$ (1,204,826) | \$ (32,530,025) |
| Items not involving cash: | | |
| Amortization – right-of-use assets | 1,511 | 1,380 |
| Accretion – decommissioning liability | 55,342 | 53,415 |
| Accretion – lease liabilities | 429 | 482 |
| Decrease in provision for obsolete inventory | 9,509 | - |
| Depreciation | 2,095 | - |
| Interest expense – related party | - | 92,923 |
| Deferred income tax expense (recovery) | 32,050 | (34,271) |
| Unrealized foreign exchange loss | 65,970 | 77,099 |
| RTO transaction cost <i>(Note 3)</i> | - | 31,526,697 |
| Changes in non-cash working capital | | |
| Value added taxes receivable | (238,273) | (26,801) |
| Inventories | (19,175) | (2,951) |
| Prepaid expenses and other | (84,515) | (195,454) |
| Accounts payable and accrued liabilities | 313,353 | 248,205 |
| Payroll and withholding taxes payable | (31,128) | (11,432) |
| | <u>(1,097,658)</u> | <u>(800,733)</u> |
| Investing activities | | |
| Purchase of equipment | (263,767) | (11,218) |
| Capitalized mine development costs | (530,017) | (165,660) |
| Capitalized exploration costs | (139,707) | - |
| | <u>(933,491)</u> | <u>(176,878)</u> |
| Financing activities | | |
| Cash acquired in RTO transaction <i>(Note 3)</i> | - | 832,100 |
| Shares issued for cash | 738,513 | 4,567,515 |
| Share issuance costs | (28,919) | (421,342) |
| Advances from former parent <i>(Note 8)</i> | - | 899,964 |
| | <u>709,594</u> | <u>5,878,237</u> |
| Change in cash and cash equivalents for the period | (1,321,555) | 4,900,626 |
| Cash and cash equivalents - beginning of period | 1,929,549 | 88,242 |
| Exchange difference on cash and cash equivalents | (29,634) | (8,415) |
| Cash and cash equivalents - end of period | \$ 578,360 | \$ 4,980,453 |
| Supplemental schedule of non-cash investing and financing transactions <i>(Note 12)</i> | | |

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

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2024

Expressed in U.S. Dollars
Unaudited

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 condensed consolidated interim 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 La Guitarra silver-gold mine located in Mexico, which is a formerly producing silver and gold mine, currently on care and maintenance, and the Tepic mineral property 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 condensed consolidated interim 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 subsequent financing (*Note 14*), 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 March 31, 2024.

2. MATERIAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IFRS, as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These statements do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments and information considered necessary for fair presentation have been included in these financial statements.

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2024

Expressed in U.S. Dollars
Unaudited

2. MATERIAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION - *continued*

Statement of compliance - *continued*

These condensed consolidated interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2023. All financial information presented herein is unaudited. The Company's board of directors approved these condensed consolidated interim financial statements for issue on May 29, 2024.

Basis of measurement

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

Principles of consolidation

These condensed consolidated interim 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). 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 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.

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 La Guitarra in exchange for 69,063,076 common shares of the Company (*Note 9*), the granting of a net smelter returns royalty ("NSR") (*Note 4*), 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 8 and 9*).

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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3. SHARE PURCHASE AGREEMENT – REVERSE ACQUISITION TRANSACTION - *continued*

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 are recognized and measured in the consolidated balance sheets at their pre-Transaction carrying amounts;
- The identifiable assets and liabilities of the Company are 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 is 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 is 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.

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) (<i>Note 9</i>) | \$ 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) (<i>Note 9</i>) | 1,828,402 |
| Legal, filing, and consulting costs | 458,304 |
| Working capital adjustment | 783,328 |
| Intercompany elimination | 5,548,000 |
| Total consideration paid | <u>\$ 39,436,414</u> |

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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3. SHARE PURCHASE AGREEMENT – REVERSE ACQUISITION TRANSACTION - *continued*

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 11*).

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 | 3,600,000 |
| Fair value of the La Tigra mineral property | 2,540,000 |
| Fair value of equipment | 42,754 |
| Current liabilities | <u>(61,822)</u> |
| Fair value of net identifiable assets acquired | 7,909,717 |
| RTO transaction cost | <u>31,526,697</u> |
| Total consideration paid | <u>\$ 39,436,414</u> |

The identifiable assets and liabilities of the Company as 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.

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
MARCH 31, 2024

Expressed in U.S. Dollars
Unaudited

4. MINING INTERESTS

Details are as follows:

| | Guitarra Silver Mine |
|---|-------------------------|
| Balance – December 31, 2022 | \$ 15,370,205 |
| Decrease in decommissioning liability <i>(Note 7)</i> | (526,424) |
| Depreciation of equipment capitalized <i>(Note 6)</i> | 75,335 |
| Mine development costs | <u>740,965</u> |
| Balance – December 31, 2023 | 15,660,081 |
| Decrease in decommissioning liability <i>(Note 7)</i> | (160,494) |
| Depreciation of equipment capitalized <i>(Note 6)</i> | 45,159 |
| Mine development costs | <u>530,017</u> |
| Balance – March 31, 2024 | <u>\$ 16,074,763</u> |

La 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 mine consists of two underground operation centers and a flotation mill.

Net smelter royalty

In accordance with the terms of the SPA *(Note 3)*, by an agreement dated December 21, 2022, the Company granted a 2% NSR over the entire Guitarra claim block to Metalla Royalty & Streaming Ltd. (“Metalla”) for cash consideration of \$3,031,935. 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.

5. EXPLORATION AND EVALUATION ASSETS

Details are as follows:

| | Guitarra Project | Tepic Project | La Tigra Project | Total |
|--|---------------------|---------------------|---------------------|----------------------|
| Balance – Dec. 31, 2022 | \$ 5,885,539 | \$ - | \$ - | \$ 5,885,539 |
| Acquired in RTO transaction <i>(Note 3)</i> | - | 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 capitalized (recovery) | 158,880 | (19,173) | - | 139,707 |
| Foreign exchange | - | (3,178) | - | (3,178) |
| Balance – March 31, 2024 | <u>\$ 6,503,953</u> | <u>\$ 3,836,027</u> | <u>\$ -</u> | <u>\$ 10,339,980</u> |

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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5. EXPLORATION AND EVALUATION ASSETS - *continued*

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 March 31, 2024 represents the historical cost of acquiring the asset as well as the subsequent 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 March 31, 2024, 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 March 31, 2024, does not necessarily represent the current or future value.

- 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. During 2023, the Company 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 were written-off in the year ended December 31, 2023.

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.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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6. PLANT AND EQUIPMENT

Details are as follows:

| | March 31, 2024 | December 31, 2023 |
|---|---------------------|----------------------|
| Net book value – beginning of period | \$ 1,253,926 | \$ 969,720 |
| Acquired in RTO transaction <i>(Note 3)</i> | - | 42,754 |
| Additions | 263,767 | 327,052 |
| Depreciation | (47,254) | (86,290) |
| Foreign exchange (loss) gain | (669) | 690 |
| Net book value – end of period | <u>\$ 1,469,770</u> | <u>\$ 1,253,926</u> |
| | | |
| Cost | \$ 1,603,272 | \$ 1,340,216 |
| Accumulated amortization | (133,502) | (86,290) |
| | <u>\$ 1,469,770</u> | <u>\$ 1,253,926</u> |

7. DECOMMISSIONING LIABILITY

| | March 31, 2024 | December 31, 2023 |
|--|---------------------|----------------------|
| Balance – beginning of period | \$ 2,432,334 | \$ 2,397,407 |
| Interest or accretion expense | 55,342 | 223,615 |
| Change in inflation and risk-free rate | (160,494) | (526,424) |
| Foreign exchange loss | 59,130 | 337,736 |
| Balance – end of period | <u>\$ 2,386,312</u> | <u>\$ 2,432,334</u> |

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, 2023 - \$3.8 million). The discount rate is a risk-free rate determined based on the 10-year Mexican peso default swap rate of 9.50% (December 31, 2023 – 9.29%) 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, 2023 – 4.65%).

SIERRA MADRE GOLD AND SILVER LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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8. DUE TO FORMER PARENT

| | March 31, 2024 | December 31, 2023 |
|--|-------------------|----------------------|
| Balance – beginning of period | \$ - | \$ 9,619,551 |
| Advances received | - | 899,964 |
| Interest capitalized | - | 92,923 |
| Foreign exchange loss | - | 486,771 |
| Advances capitalized for share capital <i>(Note 9)</i> | - | (11,099,209) |
| Balance – end of period | \$ - | \$ - |

9. SHARE CAPITAL

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

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.

Details of the issued and outstanding shares are as follows:

| | Number of Shares | Share Capital |
|--|---------------------|------------------|
| Balance – December 31, 2022 | 59,366,886 | \$ 108,144,970 |
| Capitalization of advances - CFM <i>(Note 8)</i> | 9,696,190 | 11,099,209 |
| Balance – prior to closing the Transaction <i>(Note 3)</i> | 69,063,076 | 119,244,179 |
| Deemed shares issued in RTO transaction <i>(Note 3)</i> | 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 |
| Private placement – March 2024 | 3,571,500 | 738,513 |
| Share issuance costs | - | (28,919) |
| Balance – March 31, 2024 | 152,692,993 | \$ 157,749,680 |

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9. SHARE CAPITAL - *continued*

Share issuances – 2024

On March 14, 2024, the Company issued 3,571,500 common shares at a price of CAD \$0.28 for gross proceeds of \$738,513. The Company paid a finders' fee of \$11,077 and legal and filing fees totalling \$17,842 in respect of the placement.

Share issuances – 2023 *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 9*). 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 – 2023 *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.

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 March 31, 2024, there was a total of 6,192,533 shares remaining in escrow (December 31, 2023 - 6,192,533).

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9. SHARE CAPITAL - *continued*

Stock options

The Company has an Incentive Stock Option Plan that complies with the rules of the TSX Venture Exchange ("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 (<i>Note 3</i>) | 5,485,000 | 0.74 |
| Agents' options issued | 444,949 | 0.65 |
| Expired | (415,000) | 0.74 |
| Outstanding, December 31, 2023 and March 31, 2024 | <u>5,514,949</u> | <u>0.73</u> |
| Exercisable, December 31, 2023 and March 31, 2024 | <u>5,514,949</u> | <u>0.73</u> |

At March 31, 2024, 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 |
| | <u>5,514,949</u> | | |

At March 31, 2024, the weighted-average remaining life for the outstanding stock options was 2.08 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 Reporting Issuer, 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 | <u>2.96</u> |

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10. 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 forward is recognized in these consolidated financial statements. Key management includes directors and officers. The compensation of key management and parties related to them for the periods ended March 31 is as follows:

| | 2024 | 2023 |
|-----------------|------------|------|
| Accounting | \$ 27,809 | \$ - |
| Administration | 22,500 | - |
| Director fees | 17,056 | - |
| Geological | 35,039 | - |
| Management fees | 66,741 | - |
| | \$ 169,145 | \$ - |

At March 31, 2024, there was \$140,979 of compensation and expense claims owing to directors and various members of management.

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

| | 2024 | 2023 |
|---|------|-----------|
| Care and maintenance - Majestic Services S.A. de C.V. (i) | \$ - | \$ 4,928 |
| Interest expense – CFM (i) | - | 92,923 |
| | \$ - | \$ 97,851 |

(i) A subsidiary of First Majestic.

11. 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 March 31, 2024, 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 \$6,105,620 (103.7 million Mexican pesos).

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

Details for the three-months ended March 31 are as follows:

| | 2024 | 2023 |
|--|--------------|----------------|
| Increase (decrease) in decommissioning liability capitalized to mining interests <i>(Note 4)</i> | \$ (160,494) | \$ 104,615 |
| Depreciation capitalized to mining interests <i>(Note 4)</i> | \$ 45,159 | \$ - |
| Shares issued for non-cash working capital acquired - SPA <i>(Note 3)</i> | \$ - | \$ 436,559 |
| Shares issued for mining interests acquired - SPA <i>(Note 3)</i> | \$ - | \$ 6,140,000 |
| Shares issued for equipment acquired - SPA <i>(Note 3)</i> | \$ - | \$ 42,754 |
| Working capital adjustment - SPA <i>(Note 3)</i> | \$ - | \$ (783,328) |
| Fair value of stock options retained by original shareholders <i>(Note 3)</i> | \$ - | \$ (1,848,402) |
| RTO - legal, filing, and consulting costs <i>(Note 3)</i> | \$ - | \$ (458,304) |
| Fair value of agents' compensation options <i>(Note 9)</i> | \$ - | \$ 114,203 |
| Advances from former parent capitalized to share capital <i>(Note 8)</i> | \$ - | \$ 11,099,209 |

13. 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.

14. SUBSEQUENT EVENTS

Events occurring subsequent to March 31, 2024, are as follows:

Bridge financing

During April 2024, the Company raised approximately \$500,000 by issuing three demand promissory notes, bearing interest at 15% per annum. During May 2024, these bridge loans together with interest thereon were repaid in full.

Project financing

On April 29, 2024, the Company agreed upon a senior secured \$5,000,000 project financing loan, advanced by First Majestic on May 8, 2024, bearing interest at 15% per annum and due in full in 24 months. 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.

Stock options

On May 23, 2024, the Company granted incentive stock options to directors, officers, employees, and consultants to purchase up to 7,350,000 common shares of the Company at the price of \$0.50 per share for a period of five years. The Company also granted options to certain consultants to purchase up to 225,000 common shares at a price of \$0.50 per share for a period of two years. The options are subject to certain vesting provisions.