

Sierra Madre Gold & Silver Ltd[#]

BBG Ticker: SM CN

Price: C\$0.47/sh.

Mkt Cap: C\$71.5m

BUY

Production Timeline Accelerated

Test Production Underway

Sierra Madre Gold & Silver Ltd (SM CN) recently announced that it had commenced test production at La Guitarra, which it acquired less than 18 months ago. The company reported in July that the first month of production had averaged 259tpd with initial concentrate shipments commencing at the end of the month. With initial test production proving successful, management is bringing forward its target for reaching the commercial operating threshold of 500tpd to Q4 2024 from Q1 2025. This follows the low cost refurbishment of the plant, underground workings, and mining fleet in part supported by the recent US\$5m loan. Our analysis indicates that SM can execute the ramp up to commercial production and expansion to 1,000tpd thereafter using existing resources.

Indicative Earnings Outlook

We have modelled projections for the ramp up from test mining to commercial production. With gold at all time highs and silver up 23% YTD, these high prices, which likely have further to run in our view, provide strong tailwinds mitigating commissioning risks. To ensure the robustness of the project and strategy, we have stress-tested our model against lower metal prices and head grades, demonstrating its resilience. Additionally, concerns typically associated with this stage, such as recovery rates, are reduced by management's and the operating team's prior experience at La Guitarra.

Our cost assumptions are based on a basket of inflation experienced by regional peers since La Guitarra last operated in 2018 and applied to historic costs indicating US\$17/oz next year (US\$80/t mined). Our base case indicates cUS\$80m in post tax cash flow over the next five years after funding a ramp up to 1,000tpd allowing for future expansion and large scale drilling programme of brown and greenfield targets within the 40,000ha licence area.

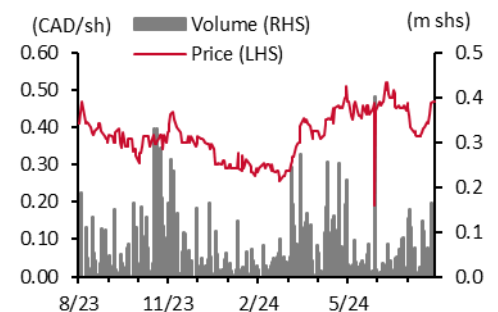
Recommendation and Target Price

Currently trading on an EV/oz of US\$1.7/oz AgEq, we believe that with management successfully executing its strategy to bring the mine back into profitable production, a re-rating is both likely and justified towards a fair target of US\$5.4/oz. The cashflows projected imply significant funding available for exploration and expansion increasing operational leverage whilst minimising dilution. Given our forecasts are indicative and we expect much of the cash to be reinvested we believe that our EV/oz methodology remains appropriate but as production becomes established and greater clarity on the mine plan is provided, we expect to update our approach. **We reiterate our BUY Recommendation with an increased C\$1.30/sh. target price.**

Company Description

Canada-based exploration and development company engaged in reactivating past producing silver and gold mines in Mexico.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	2.2%	-2.1%	9.3%
12mn high/low	C\$0.52/0.19		

SOURCE: Eikon, as of 27 August 2024 close.

Market:	TSX-V
Shares in issue	152.69m
Free float:	47.9%
Target price	C\$1.30
Net cash (estimate):	C\$1.0m
Enterprise value:	C\$70.5m

Major shareholders

First Majestic Silver	45.2%
Commodity Capital	4.4%
Alex Langer	2.7%

Oliver O'Donnell, CFA, Natural Resources

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Production Restart

SM announced that test mining started in late June 2024 with the first two shipments of concentrate of 91 DMT and 90 DMT grading 3,000g/t Ag and 30g/t Au sold in July. With this initial success, the company has brought forward guidance for commercial production as a result, targeting 500tpd throughput by year end which would produce 350DMT of concentrate per month.

Based on the initial production data and management guidance, we have modelled a base case ramp up scenario demonstrating that in the current strong pricing environment the strategy should enable sufficient cash flow generation for further drilling and derisking of the wider asset to enable a subsequent scale up. Our base case demonstrates sufficient profitability to cover group costs, loan repayment (US\$5m plus interest), mine plan drilling and exploration drilling.

The initial average run rate of 259tpd already exceeds the first month production implied daily average and SM will be increasing this over the balance of the year to a target of 500tpd which not only implies higher throughput but compared to 180DMT in the first month a higher combination of grade and recoveries.

La Guitarra Timeline to Production

	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
New resource report		✓				
Preparation for test mining and processing				✓		
Evaluation of test mining and processing results						
Expected commercial production						

SOURCE: Company Data, VSA Capital Research.

From 2025, we model the head grade using the Guitarra zone resource grade (updated November 2023) for silver and gold with a 15% dilution factor implying 105g/t Ag and 1g/t Au, whilst using historic recoveries from the **First Majestic Silver Corp (FR CN)** era of 81% for both gold and silver. This relates to the earlier FR production; latter production from Coloso was associated with lower recoveries around 78%. We believe that it should be relatively straightforward to optimise recoveries given management and the operating team's past experience of the project.

Summary Table, VSA Capital La Guitarra Forecasts

C\$'000	2024F	2025F	2026F	2027F	2028F	2029F
Throughput, tonnes	60,800	150,000	162,500	195,000	243,750	325,000
Silver Grade, g/t	110.00	104.55	104.55	104.55	104.55	104.55
Gold Grade, g/t	0.85	1.06	1.06	1.06	1.06	1.06
Silver Recovery	65%	77%	80%	80%	80%	80%
Gold Recovery	65%	77%	80%	80%	80%	80%
Silver production, koz	142,307	399,711	449,891	539,869	674,837	899,782
Gold Production, koz	1,245	4,270	4,807	5,768	7,210	9,613
Cash cost, US\$/oz	34	17	17	18	19	19
AISC, US\$/oz	46	20	19	20	21	21
Revenue	13,195	41,347	46,537	55,845	69,806	85,170
EBITDA	(35)	22,428	25,826	29,885	35,904	39,354
Operating Profit	(35)	22,233	25,585	29,567	35,467	38,713
Net Income	(35)	16,605	18,951	20,697	24,827	27,099
Capex	(4,167)	(3,425)	(2,740)	(2,740)	(4,110)	(4,110)
FCF	(4,201)	14,495	17,901	21,143	24,579	27,322

SOURCE: Company Data, VSA Capital Research.

We therefore anticipate total throughput of 61kt through 2024 and 150kt in 2025 assuming some downtime for planned maintenance as well as some leeway for unplanned stoppages. Over five years, this implies 1mnt resource that covers the Guitarra zone. The existing resource therefore implies sufficient ore for SM to manage and maintain head grades at least at the levels we have assumed.

We have not allowed for any processing of mineralised backfill (retaques) or tailings (which requires additional permitting). It is difficult at this stage to reflect the potential of the retaques, the high grade mineralised backfill from mining in the 1990s when cut-off grades ran at 8-10g/t AuEq. While this indicates a source of high grade material with a low processing cost, there is little information currently to suggest the volume contribution of this material. We note, however, that FR in its last two years of operations was blending up to 50% of throughput using retaques. This is a key factor for uncertainty in our base case analysis.

The initial capacity is based on milling capacity of the three currently installed mills; 84tpd, 204tpd and 228tpd. The latter needs work to be brought back online and the first two are currently at full capacity for test mining. The company will phase in the third mill enabling maintenance to be carried out on the first two. Thereafter all three can be operated together which will enable the increase to 500tpd. Thereafter a new ball mill will be purchased to get to higher throughput rates.

The other parts of the circuit have the following capacity;

- Grinding, 516tpd
- Crushing, 640tpd
- Floatation; 1200tpd.

We highlight that the ramp up process to higher throughput levels is largely a debottlenecking process in the mill rather than increasing overall capacity, hence the modest capital requirements. The front end is currently the key constraint with the recent low cost refurbishment of the mine fleet sufficient, in our view, for 500tpd. Additional equipment will be necessary to ramp up to 1,000tpd. Earlier this year, the company indicated that within 24 months of the start of production it would have sufficient information to have made an expansion decision. We have assumed that it is towards the end of this period that the ramp up to 1,000tpd will commence.

We have assumed flat pricing of US\$2,400/oz and US\$28/oz over the period.

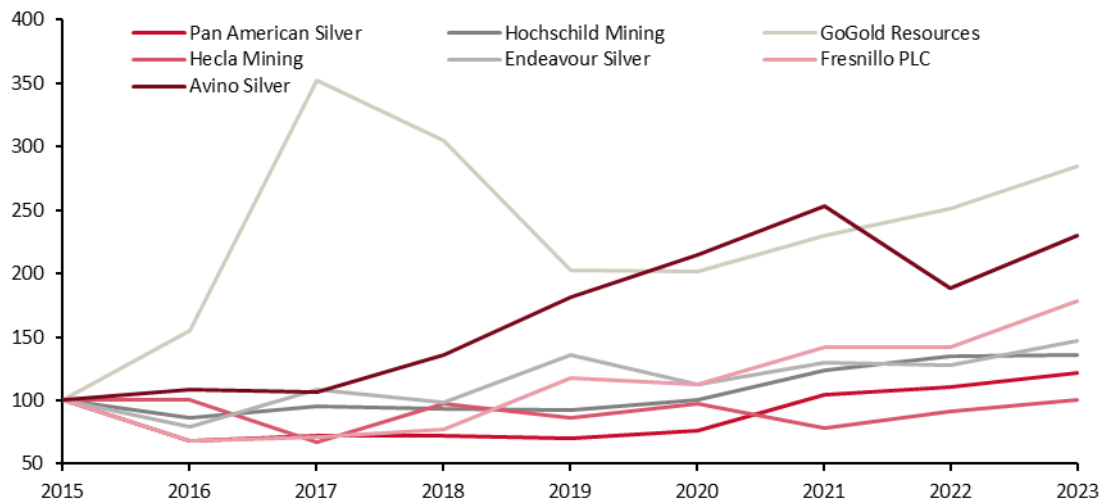
La Guitarra Historic Operating Performance

	2015	2016	2017	2018
Tonnes Milled	174,003	155,696	127,842	80,435
Average Silver Grad (g/t)	201	228	189	177
Recovery (%)	84%	81%	79%	78%
Silver Produced (oz)	945,662	923,597	611,705	358,919
Gold Produced (oz)	6,907	8,181	5,553	3,564
Total AgEq Produced (oz)	1,457,728	1,523,688	1,019,111	641,179
Cash Costs (US\$/oz)	6.86	7.23	11.53	10.43
AISC (US\$/oz)	13.42	13.33	18.98	16.94
Average Realised Silver Price (US\$/oz)	16.06	17.16	17.12	15.53

SOURCE: First Majestic, VSA Capital Research.

In terms of costs, we have used the FR operating data as a base case for our analysis. There has been significant inflation across the mining industry since 2018 when the mine was placed on care and maintenance largely post 2020. We have applied 50% inflation to the cost per tonne mined figure but replaced the significant “indirect cost per tonne” figure with a far more modest estimate to reflect SM’s low group G&A. This old metric reflected FR’s group corporate costs pro rated across the mines and implies US\$4m per annum. Last year SM’s low overhead meant C\$2m in G&A. Therefore this offsets a significant proportion of inflation.

Sierra Madre Peers: AISC Inflation since 2015 (US\$/oz rebased)



SOURCE: Company Data, VSA Capital Research.

Management has guided that the recent US\$5m loan provides sufficient capital to achieve the assumptions in our model. We anticipate US\$2.5m capex in 2024 to cover the initial restart with a further cUS\$4m to increase to 1,000tpd spread over the next two years. Key items for future spending will be to expand milling capacity, expansion of the mining fleet and additional crushing equipment. Management intends to continue to use second hand equipment where possible to minimise cost. We have not modelled the wider drilling or expansion plans.

These assumptions will also cover tailings related capex. As previously announced, there is 230kt of current capacity (in the existing facility but the company has secured permitting to use paste backfill and dry stack tailings). Therefore, key early expenditure will relate to a paste plant and a further 500kt of capacity. As well as creating additional capacity, this alternative tailings mechanism is widely considered to be more environmentally friendly.

Sensitivity

Given that our base case is not based on a published mine plan, we have provided sensitivity analysis to demonstrate the impact of variance from this base case. Clearly higher prices provide a valuable tailwind but our analysis demonstrates that the strategy is not contingent on them.

We have applied sensitivity analysis to the forecast 2025 EBITDA and Free Cash Flow using grades and pricing as we believe the average grade is the most difficult factor to assess externally at this stage while pricing is typically a key risk which is outside of management's control. 2025 assumes US\$2m of capex for additional mill equipment.

Grade Sensitivity (Ag X Axis, Au Y Axis)

g/t	EBITDA (US\$m)					g/t	FCF (US\$m)				
	75	100	125	150	175		75	100	125	150	175
0.8	9,471	11,318	13,165	15,012	16,860	0.8	5,809	7,428	9,047	10,666	12,285
0.75	8,855	10,703	12,550	14,397	16,244	0.75	5,270	6,889	8,508	10,127	11,746
0.7	8,240	10,087	11,934	13,782	15,629	0.7	4,731	6,350	7,969	9,588	11,207
0.5	5,778	7,625	9,473	11,320	13,167	0.5	2,575	4,194	5,814	7,433	9,052

SOURCE: Company Data, VSA Capital Research.

The strong gold credit at La Guitarra has a significant impact on the stability of the project. That said, the mine remains strongly levered to silver contributing c70% of revenue. It is only in the most extreme grade scenarios where in the current pricing environment it becomes challenging to repay the loan and fund additional expansion, in our view. These

grade scenarios are well below any actual performance levels. Furthermore, it would take a near 40% retracement in the gold price and a halving in silver prices before this alone becomes a major risk for the viability of the operation.

Pricing Sensitivity (Au X Axis, Ag Y Axis)

EBITDA (US\$m)						FCF (US\$m)					
US\$/oz	1,600	1,900	2,250	2,500	2,750	US\$/oz	1,600	1,900	2,250	2,500	2,750
16	3,917	5,067	6,408	7,366	8,324	16	955	1,961	3,135	3,973	4,811
20	6,551	7,701	9,042	10,000	10,958	20	3,260	4,266	5,440	6,278	7,116
24	9,186	10,335	11,676	12,634	13,592	24	5,565	6,571	7,744	8,583	9,421
28	11,820	12,969	14,310	15,268	16,226	28	7,870	8,876	10,049	10,887	11,726
32	14,454	15,603	16,945	17,902	18,860	32	10,175	11,181	12,354	13,192	14,031
36	17,088	18,238	19,579	20,537	21,495	36	12,480	13,486	14,659	15,497	16,335
40	19,722	20,872	22,213	23,171	24,129	40	14,785	15,790	16,964	17,802	18,640

SOURCE: Company Data, VSA Capital Research.

Resource by Zone; Limited Exploitation of Wider Resource

The five year production phase we have modelled implies throughput of around 1mnt, this would be equivalent to just 43% of the total indicated resource of Guitarra and Los Angeles which should give investors comfort on visibility for the initial phase. To justify a larger scale operation with a meaningful mine life will require additional drilling. This will include step out extensions from the existing zones as well as exploration of other targets within the 40,000ha licence area and can be funded from operations.

La Guitarra Indicated MRE Overview

Area	Tonnes	AgEq (g/t)	Ag (g/t)	Au (g/t)	AgEq Oz	Ag Oz	Au Oz
Nazareno	310,000	257	215	0.55	2,564,000	2,141,000	5,000
Coloso	432,000	346	221	1.61	4,806,000	3,071,000	22,000
Guitarra	1,649,000	220	123	1.25	11,664,000	6,544,000	66,000
Sub-Total	2,391,000	248	153	1.22	19,034,000	11,756,000	93,000
Los Angeles	690,000	177	109	0.87	3,919,000	2,419,000	19,000
Mina de Agua	761,000	174	159	0.19	4,255,000	3,899,000	5,000
Total Indicated	3,842,000	220	146	0.96	27,208,000	18,074,000	117,000

Source: Company Data, VSA Capital Research

La Guitarra Inferred MRE Overview

Area	Tonnes	AgEq (g/t)	Ag (g/t)	Au (g/t)	AgEq Oz	Ag Oz	Au Oz
Nazareno	754,000	252	229	0.29	6,096,000	5,554,000	7,000
Coloso	374,000	317	213	1.34	3,810,000	2,565,000	16,000
Guitarra	293,000	180	113	0.87	1,690,000	1,059,000	8,000
Sub-Total	1,421,000	254	201	0.68	11,596,000	9,178,000	31,000
Los Angeles	66,000	157	76	1.05	333,000	161,000	2,000
Mina de Agua	545,000	188	178	0.13	3,301,000	3,120,000	2,000
Sub-Total UG Mine	2,032,000	233	191	0.55	15,230,000	12,459,000	35,000
Inferred Tailing	2,073,000	75	37	0.48	4,968,000	2,475,000	32,000
Total Indicated	4,105,000	153	113	0.52	20,198,000	14,934,000	67,000

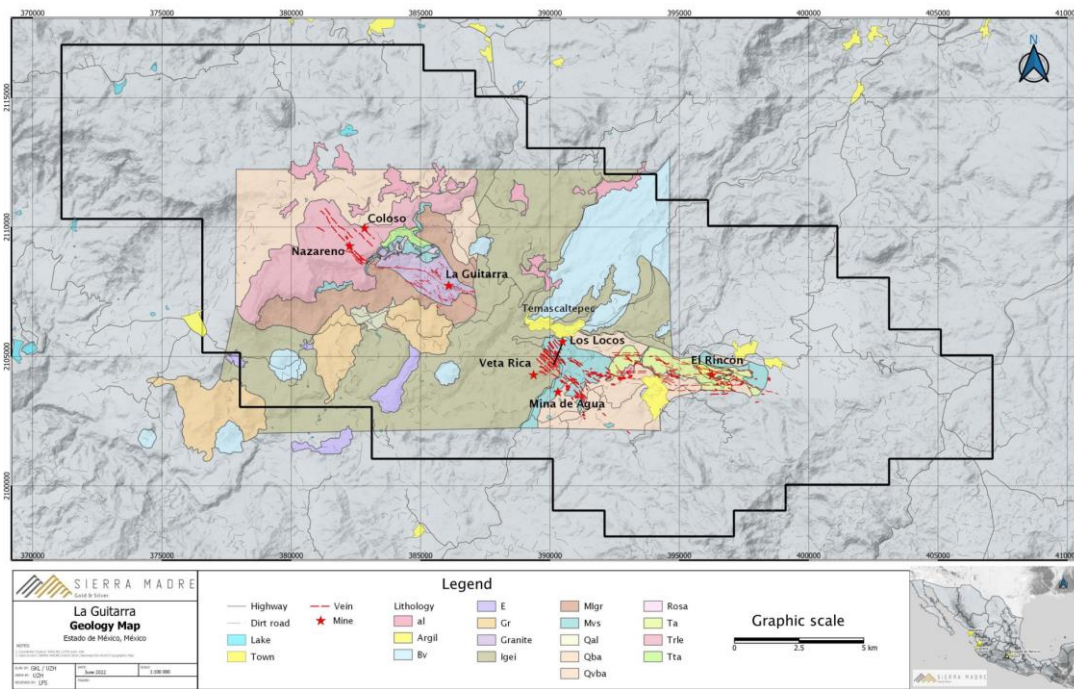
Source: Company Data, VSA Capital Research

The licence area for La Guitarra is significant at 39,714ha. In the Eastern part of the licence, the veins frequently outcrop due to erosion and SM has mapped a cumulative total of veins over 30km. The known systems are the Mina de Agua,

Magdalena, Las Animas, Maravillas and the Rincon systems amongst others. The Mina de Agua already has M&I Resources delineated on it by FR.

Data from six zones has been estimated using these small-scale programmes and assumptions from comparable data elsewhere within the licence area, and from this a rough exploration target has been defined. This totals around 1.5mnt and historic data suggests some high-grade zones over 800g/t Ag. This is therefore an extremely prospective area for exploration, and we believe that a drilling programme here could deliver meaningful catalysts for the share price, particularly given the high-grade nature of the targets. FR was aware of the economic potential of this part of the licence area and permitted a second process facility on land that the company owns the surface rights to.

La Guitarra: District-Wide Exploration



SOURCE: Company Data, VSA Capital Research.

Valuation

SM has commenced test mining and is transitioning from an explorer-developer to a producer-developer. Despite this milestone, the share price has shown little reaction to the announcements of first production and concentrate sales, although it is up 25% YTD. In May 2024, the company secured a simple 24-month US\$5 million loan from its major shareholder. Management has indicated that this funding is sufficient to reach 500 tpd capacity, with further expansions to 1,000 tpd to be financed through cash flow. We believe the lack of share price movement reflects market scepticism towards the ability to execute the strategy without further funding. However, our analysis suggests that the plan is feasible, especially given the current pricing environment.

Our valuation approach remains unchanged for now. Our base case over five years yields a post-tax NPV10 of US\$66m. However, this does not fully account for the likelihood that a significant portion of free cash flow will be reinvested in the project, primarily in capex and drilling to derisk future expansions. Therefore, while it may be premature use the DCF to value the stock, it is worth noting that SM could generate cash flow equivalent to its current market cap in the coming years, covering capex, loan repayments, and drilling costs. Financing this level of cash flow through external investment would likely lead to meaningful dilution, which the proposed strategy avoids.

We therefore continue to use our current valuation methodology using a fair EV/oz multiple. However, we have upgraded our fair target figure 40% to US\$5.4/oz to reflect producer status in part reflecting a recent increase in peer valuations due to rising prices.

A further reference point is the relative valuation. As a producer, small scale silver miners typically trade at high earnings multiples due to their relative scarcity, however, during major silver bull markets these tend to normalise as the valuation of the stock increases. That said, our forecasts suggest that currently SM does not trade on demanding multiples currently despite the initial small scale of the operations (3x 2025F EV/EBITDA). The EV/oz methodology continues to capture the value of the wider potential although as a production record is established we expect to incorporate earnings into a blended valuation methodology.

Valuation Table

	Fair Multiple, US\$/oz	US\$m	C\$m
Target, EV/oz,	5.36	145,816	201,126
No. of shares outstanding			152,693
Net Cash			1,000
12-mo Target Price, /sh.			1.30
Current Price, C\$/sh.			0.47
Upside, %			176%

SOURCE: Company Data, VSA Capital Research.

We reiterate our Buy rating with an increased target price of C\$1.30/sh.

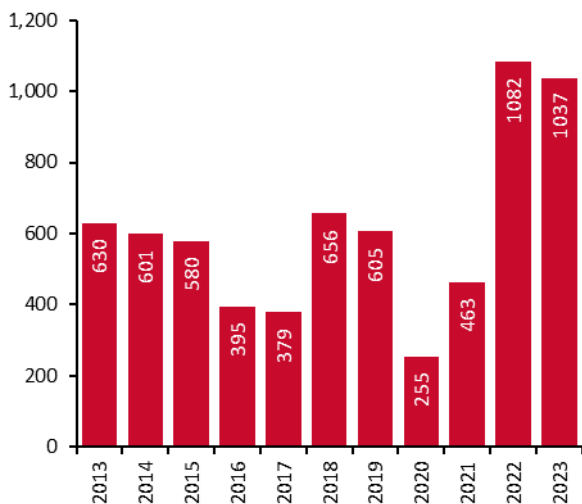
Precious Metals Update

The gold price is up 21.8% YTD and silver up 25.7%, the upwards trend in recent months has driven by asset diversification by Central Banks and Chinese investors while tensions in the Middle East and Ukraine have overlain additional safe haven demand on top of rising speculation of the start of rate cutting in the US. We believe that asset diversification and a reversal in the interest rate cycle bring to the fore two longer term drivers for precious metal demand and the start of a rerating of the associated equities.

When the US stepped up sanctions on Russian assets in 2022 this prompted emerging market's Central Banks to review their gold holdings and commence buying, underpinned by gold's lack of default and counterparty risk. WGC data shows that CBs purchased over 1,000t in 2022 and 2023 were up, however, gold as a percentage of total FX reserves remains low in historic terms at below 15%. We note Poland's recent comments highlighting an ambition to take gold to 20% of reserves. Q2 2024 CB demand was up 6% YoY to 483t. Although there have been media reports of the PBOC pausing gold purchasing, import data continues to show physical metal flowing into China. This may well include government purchases but we highlight the growth in retail demand with buyers following the government as well as diversifying away from property. Coin and bar demand in China in Q2 2024 was up 62% YoY to 80t, meaning H1 2024 demand was up 62% YoY to 190t. Coin and bar demand from India is also strong with Q2 2024 up 62% YoY to 43t. Global jewellery demand was down, however, with high prices impacting demand.

Western selling as indicated by ETF holdings appears to have halted with a modest uptick in holdings during Q2 2024, up 2% since the June lows. That said, buying did primarily come from Asian investors according to the WGC. However, the renewed prospect of rate cuts, following the lead of the Bank of England, may turn the tide for Western investors. This would likely provide a powerful new wave of buying for gold and silver with silver set to outperform due to the additional industrial component for demand from solar, and the severe supply side constraints.

CB Demand (Mt)



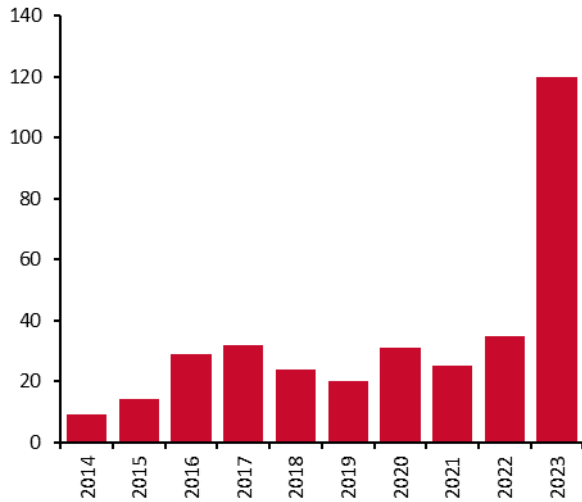
Gold ETF Holdings



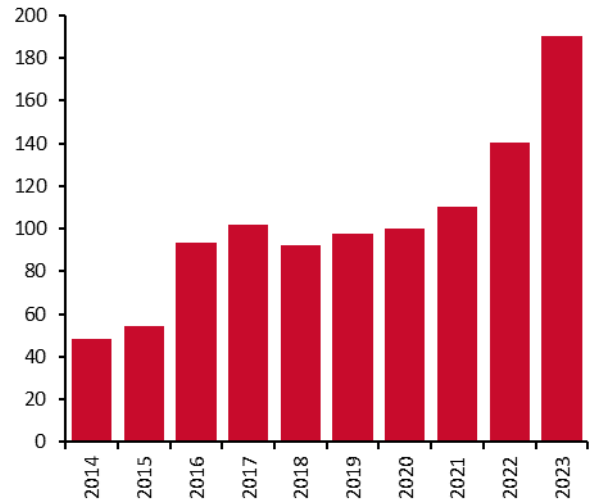
SOURCE: Workspace, VSA Capital Research.

The rally in gold prices is a key reason for silver breaking through the US\$26/oz resistance level with precious metal demand accounting for half of silver demand. The size of the silver market, total value currently just US\$108bn, means that new inflows create strong upward momentum for pricing. This positive performance is compounded by the inelastic supplyside backdrop with just 30% of silver supply coming from primary mines. It is mostly produced as a by-product for which many companies have chosen to forward sell the metal at fixed prices as streams to finance mine expansion etc.

China PV Installations (GW)



Demand for Silver in Photovoltaic (Moz)



SOURCE: BNEF, Silver Institute, VSA Capital Research.

We have previously highlighted that 12% of silver demand is driven by solar and photovoltaic cells and this is rising. Last year, solar build out increased in China by 55% and many indicators from official bodies in China suggest that growth is likely to continue in 2024 on the road towards 1TW of renewable capacity. Indeed, other government bodies have forecast that installed capacity of solar and wind will exceed coal this year. China built 216GW of new capacity in 2023 adding 13.3% of installed capacity to a new total of 2,919GW significantly exceeding market estimates. We also highlight India’s rapidly growing solar manufacturing industry and installed solar capacity, now third in the world with current manufacturing capacity of 65GW expected to rise to 100GW by 2026.

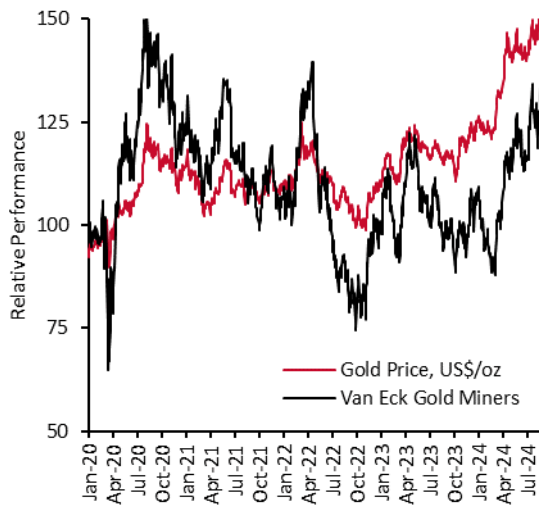
Silver Price and Gold Silver Ratio



SOURCE: Workspace, VSA Capital Research.

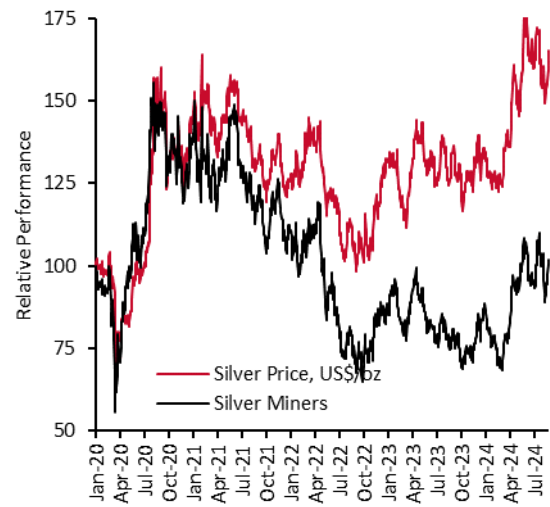
Despite gold being at all time highs, equities remain well below the highs of the last cycle when gold achieved previous all time highs. Inflation amongst other factors has frustrated the sector’s cash flow generation and the most recent quarterly results showed a number of key juniors missing expectations, however, with prices now a further US\$265.6/oz and 12.8% higher QoQ, we believe this will bring the sector into record territory for all in margins attracting investors and driving a sector rerating. Given the near 15-year underperformance and the modest valuations, we see plenty of room for valuations to rise and outperform the underlying commodity prices.

Gold Price v Gold Equities

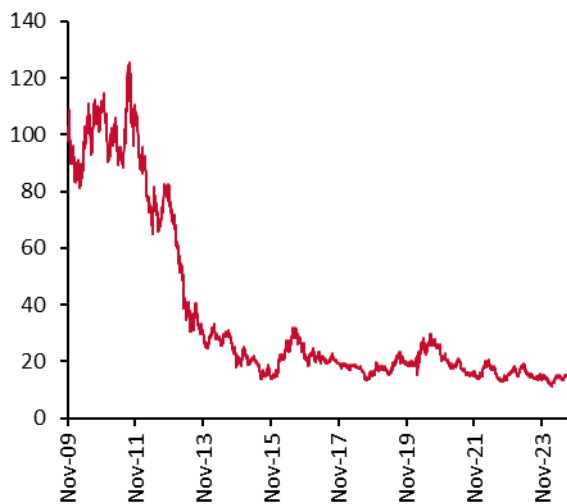


SOURCE: Workspace, VSA Capital Research.

Silver Price v Silver Equities

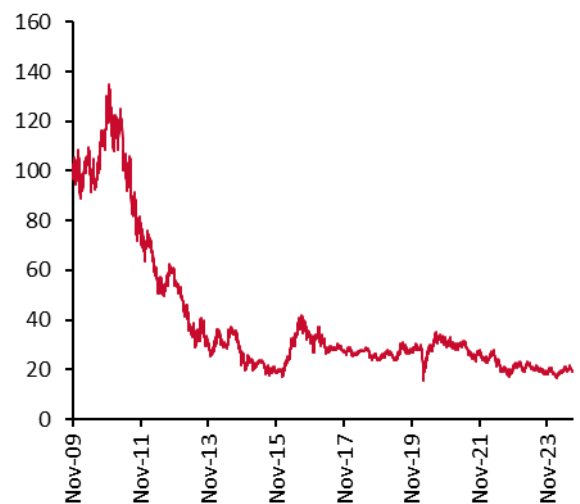


Van Eck Gold Miners/S&P 500 Ratio



SOURCE: Workspace, VSA Capital Research.

Van Eck Gold Juniors/Gold Price Ratio



Peer Group Table

Name	Ticker	MCap (US\$m)	EV (US\$m)	Asset Location(s)	M&I (kt)	M&I Contained Ag (koz)	M&I Contained AgEq (koz)	M&I Contained Au (koz)	M&I Ag Grade (g/t)	M&I Au Grade (g/t)	Inferred (kt)	Inferred Contained Ag (koz)	Inferred Contained AgEq (koz)	Inferred Contained Au (koz)	Inferred Ag Grade (g/t)	Inferred Au Grade (g/t)	EV/oz Inf	EV/oz M&I
AbraSilver Resources	ABRA.V	227	223	Argentina, Chile	53,257	148,275	258,087	1,360	87	0.79	3,288	2,415	8,049	70	23	0.66	1.5	1.51
Aftermath Silver Ltd	AAG.V	59	58	Chile, Peru	6,640	35,150	38,942	58	164	0.27	2,803	11,144	12,125	15	124	0.17	1.1	1.49
Defiance Silver	DEF.V	48	47	Mexico	187,800	9	117,963	1,804	1.54	0.30	2,889	16,944	17,722	12	183	0.13	0.3	0.40
Discovery Silver Corp	DSV.V	189	152	Mexico	719,000	493,000	1,202,000	1,303	21	0.06	149,000	65,000	155,000	121	14	0.03	0.3	0.31
Dolly Varden Silver	DV.V	236	228	Canada	4,153	34,731	45,585	166	259	1.25	6,830	29,277	82,677	817	277		1.8	5.00
Excellon Resources	EXN.TO	8	11	USA, Germany, Mexico	44,749	3,695	5,715	825	596	0.00	19,414	461	711	299	336	0.48	1.7	1.87
Gold Resource Corp.	GORO.K	38	33	Mexico	1,788	8,323	13,749	68	176	1.20	1,566	6,143	10,078	49	260	1.01	1.4	2.38
GR Silver Mining	GRSL.V	35	30	Mexico	17,095	35,093	60,713	2	64	0.08	43,297	91,541	170,258	5	66	0.12	0.1	0.50
Kootenay Silver	KTN.V	40	39	Mexico	15,000	55,000	85,000	84,500	117	0.18	9,000	22,000	49,000	108	78	0.38	0.3	0.46
MAG Silver	MAG.TO	47	46	Mexico	63,130	119,770	158,085	586	59	0.29	19,170	28,500	39,288	165	46	0.27	0.2	0.29
Silver Tiger Metals	SLVR.V	1,398	1,324	Mexico	16,996	169,169	235,665	1,017	310	1.86	14,051	106,676	138,061	480	236	1.06	3.5	5.62
SilverCrest Metals	SIL.TO	51	44	Mexico	46,367	37,212	86,014	575	25	0.39	20,871	52,619	90,277	374	78	0.56	0.3	0.51
Silver Storm Mining	SVRS.V	1,275	1,204	Mexico	2,694	55,794	101,905	580	644	6.69	2,654	22,968	48,294	318	269	3.93	8.0	11.82
Southern Silver	SSV.V	54	52	Mexico	12,510	42,742	140,455	29	106	0.07	21,030	79,997	210,464	85	118	0.12	0.1	0.37
Viscount Mining	VML.V	19	19	USA	4,092	10,275	10,275	n/a	71		8,981	14,215	14,215	n/a	52		0.8	1.89
Sierra Madre	SM.V	53	47	Mexico	3,842	18,073	27,207	118	146	0.96	4,105	14,937	20,199	68	113	0.52	1.1	1.72

SOURCE: Eikon, Company Data, VSA Capital Research.

Risks

- **Commodity Prices.** The company is primarily exposed to silver and gold and unexpected changes to commodity prices are likely to affect the outlook.
- **Political Risk.** Located in Mexico, an established jurisdiction for mining, the risk of adverse changes to mining law is limited but globally rising resource nationalism means that taxes and laws may change in the future.
- **Macro Risk.** Gold and silver prices trade in USD while the company's share price is traded in CAD. Exploration and operational costs are in part denominated in Mexican Peso. Currency movements may impact share price performance. Inflation is also a key risk.
- **Execution Risk.** The potential for delays and operating issues are an inherent industry risk, this may include delays in receiving financing or hold ups to the completion of development milestones.
- **Financing Risk.** Access to financing is a perennial risk for junior natural resources companies.

Financial Statements

Profit and Loss (C\$), December Year End

Profit & Loss	FY 2022A	FY 2023A
Expenses		
Care and maintenance	1,897,272	2,389,045
Care and maintenance - mining concession fees	764,187	512,763
Care and maintenance - former parent	302,548	4,928
	2,964,007	2,906,736
Amortisation - right-of-use assets	12,951	6,762
Accretion - decommissioning liability	198,646	223,615
Accretion - lease liabilities	2,726	1,423
Community relations	-	85,230
Depreciation	-	10,955
General and administrative	74,264	2,052,925
Foreign exchange (gain) loss	406,032	493,633
Interest expense - related party	317,627	92,923
Finance income	-	(101,305)
Impairment	-	2,906,681
RTO transaction cost	-	31,072,747
Loss before income taxes	3,976,253	39,752,325
Deferred income taxes (recovery)	(1,413,509)	246,725
Loss for the period	2,562,744	39,999,050
Other comprehensive loss		
Items that may be reclassified subsequently to income or loss:		
Currency translation adjustment	-	(150,787)
Comprehensive loss for period	2,562,744	39,848,263

SOURCE: Company data, VSA Capital Research.

Balance Sheet (C\$), December Year End

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

SOURCE: Company data, VSA Capital Research.

Statement of Cash Flows (C\$), December Year End

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

SOURCE: Company data, VSA Capital Research.

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Equities breakdown: 28/08/24	BUY	SPEC BUY	HOLD	SELL
Overall equities coverage	90%	10%	0%	0%
Companies to which VSA has supplied investment banking services	100%	100%	n/a	n/a

Recommendation and Target Price History



Valuation basis

Our valuation of SM is based on an EV/Resource multiple derived from a group of silver peers.

Risks to that valuation

Commodity prices, political risk, macro risk, execution risk, financing risk.

This recommendation was first published 7 July 2023.