



("Zacatecas" or "the Company")

**FORM 51-102F1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2021**

## **Introduction**

This Management's Discussion and Analysis ("MD&A") of Zacatecas Silver Corp. including its subsidiaries, Desarrollos Mineros Zacatecas Silver SA DE (Mexico) and 1260410 B.C Ltd (Canada) and is the responsibility of management and covers the nine-month period ended September 30, 2021. The MD&A takes into account information available up to and including November 12, 2021 and should be read together with the condensed consolidated interim financial statements for the three and nine month period ended September 30, 2021 and with the audited consolidated financial statements for the period ended December 31, 2020.

The Company was incorporated under the Business Corporations Act (British Columbia) on July 22, 2020. The head office and principal address of the Company is 400-850 West Hastings Street, Vancouver, British Columbia, V6C 1E1

The Company's shares commenced trading on the TSX Venture Exchange ("TSXV") on March 2, 2021, under the symbol ZAC.

Throughout this document the terms *we*, *us*, *our*, *the Company* and *Zacatecas* refer to Zacatecas Silver Corp. All financial information in this document is prepared in accordance with International Financial Reporting Standards ("IFRS") and is presented in Canadian dollars unless otherwise indicated.

This document contains forward-looking statements. Please refer to "Note Regarding Forward-Looking Statements."

## Description of Business

The Company is a mineral resource company engaged in the business of acquiring and exploring mineral resource properties in Mexico. The Company's principal property is the 100% owned Zacatecas Silver Project, located in Zacatecas State, Mexico. Please refer to the "Exploration Projects" section below for the acquisition and project details.

## Performance Summary and Subsequent Events

During the nine-month period ended September 30, 2021 and subsequent to, the Company:

- Announced it had filed its prospectus dated February 22, 2021 and it had been accepted by the TSX Venture Exchange and filed with and receipted by the BCSC on February 23, 2021. Effective March 2, 2021 the shares of the Company commenced trading on the TSX Venture Exchange under the symbol ZAC.
- On March 1, 2021, the Subscription Receipt financing which the Company completed during the year ended December 31, 2020 converted to 17,000,000 common shares and the proceeds (\$8,500,000) was released from escrow. The Company paid share issuance costs of \$27,600 and issued 458,514 common shares valued at \$229,257 as finders' fees.
- Acquired a 100% interest in certain claims known as the Zacatecas project, in Zacatecas, Mexico. The Company acquired a 100% interest in the property by issuing 5,000,000 shares (issued with a fair value of \$750,000), agreeing to pay outstanding property taxes on the project of MxP3,977,515 (\$278,080 - paid), and paying USD\$1,500,000 (paid) on the date the Company listed its commons shares on the TSX Venture Exchange. Refer to the Exploration Section for additional information about the acquisition.
- Announced it received assay results as part of a core resampling program being undertaken with regard to the resource confirmation process.
- Completed first-pass geological and structural mapping of the El Cristo vein system. El Cristo is the northwestern strike extension of the Veta Grande vein. Highlights included:
  - Multiple oxidized, silver-base metal mineralized veins defined over a strike length of at least four kilometres, significantly extending the previous reported strike length of 2.5 km to three km.
  - At least eight veins defined to date, which are associated with a sigmoidal zone of extension that is at least 800 metres wide.
  - Only eight angled diamond holes drilled by a previous operator -- of which six were focused within a 400 m length.
  - Significantly more historical shafts and surficial workings located than shown on existing maps, with many clustering along veins that have never been drill tested.
  - Geological team has commenced an extensive soil sampling program to assist with location of veins beneath cover of thin soils
- Completed first-pass geological and structural mapping and reconnaissance rock-chip geochemical sampling of the San Gill breccia zone. San Gill is located in the southern part of the main Zacatecas concessions and is approximately two kilometres to the southwest of the Veta Grande vein.
  - North-south zone of ferruginous breccia averaging 20 metres to 40 metres wide defined over a strike length of more than 800 metres on surface;
  - The breccia zone is strongly anomalous in silver, gold, zinc and arsenic at surface, with increasing geochemical anomalism toward the north, where the zone passes under thin quaternary soil cover;
  - Structural analysis indicates the zone is a nest of broadly north-south-striking faults that dip moderately to steeply toward the east. The structure is possibly of the same age and affinity as the gold-bearing El Orito fault system mined in the southern part of the Zacatecas district;

- Its revised interpretation of the gross dip of the zone means that over 600 metres of strike length of the northern, more geochemically anomalous segment of the breccia remains untested by previous drilling;
  - The company is actively planning a drill program to test the highly prospective and untested northern segment of the breccia in the coming months.
- Announced it has achieved a key milestone to commence its drilling activities at its highly prospective Panuco silver deposit and San Gill breccia zone by securing an access agreement with the Ejido "Pанuco" municipality, Zacatecas. Further, Zacatecas Silver has entered into a 10,000-metre diamond drill contract with Major Drilling de Mexico CV.
- Announced it completed first-pass geological mapping of the San Manuel vein system. The San Manuel vein system lies immediately to the west of the San Gill breccia system. Highlights included:
  - Multiple oxidized, silver-/base-metal-mineralized veins defined over a strike length of at least three kilometres;
  - Eight vein sets have been defined to date, which are associated with a zone of extension that is at least 600 metres wide;
  - It is common for veins to bifurcate and/or form sigmoidal offsets -- such dilational zones represent robust drill targets;
  - Only seven angled diamond holes drilled by a previous operator -- of which four were focused on a 300-metre strike length of only two veins; most of the system has never been drill tested;
  - Two of the historical diamond drill hole intersected significant mineralization: one hole intersected 1.65 metres of 0.36 gram per tonne gold and 437 grams per tonne silver; the other intersected 4.16 metres of 1.14 grams per tonne gold, 128 grams per tonne silver, 2.23 per cent lead and 1.86 per cent zinc.
- Received positive preliminary metallurgical test results from SGS Minerals at Lakefiled ("SGS") for both bulk flotation and sequential flotation recovery options, with the bulk flotation demonstrating recoveries of 96.2% silver, 93.6% gold, 96.5% zinc, and 92.1% lead into a rougher concentrate. The work completed by SGS was a first-pass bench-scale scoping study based on a small bulk sample of historical drill core, being 100 kg. It is the first metallurgical test-work completed at Panuco and demonstrates robust gold, silver, lead and zinc recoveries above 90% are achievable. The metallurgical test work supports both bulk flotation flow-path and sequential flotation flow-path, with the bulk floatation flow-path producing a single gold, silver, lead and zinc rougher concentrate (15 minutes of floatation and 23% mass pull). Zacatecas Silver has retained SGS to complete a second stage of test work with specific emphasis on optimizing flotation recovery, determining cyanide recovery of gold and silver in bulk rougher concentrates, enhanced recovery of silver-lead and zinc in lead and zinc concentrates, and potential to recover silver and gold from pyrite concentrates.
- Completed access agreements with all landowners at the San Gill Breccia Zone and San Gill Vein System. Furthermore, the Company has submitted its environmental study on the San Gill-San Manuel area to SEMARNAT as a final requirement for drill permitting in this area of its large land package in Zacatecas, Mexico.
- Announced that its common shares are now eligible for electronic clearing and settlement through the Depository Trust Company ("DTC") in the United States. DTC is a subsidiary of the Depository Trust & Clearing Corporation, a U.S. company that manages the electronic clearing and settlement of publicly traded companies. Securities that are eligible to be electronically cleared and settled through DTC are considered to be "DTC eligible". DTC eligibility is expected to simplify the process of trading and enhance liquidity of the Company's common shares in the United States. With the Company's shares now traded electronically, existing investors benefit from potentially greater liquidity and execution speeds, while we've also opened the door to new investors that may have been previously restricted from our stock.
- Announced it has received drilling permits for the Panuco and San Gill projects. Highlights for the upcoming drill program include:

- Drill permit awarded by SEMARNAT and three- to five-year land access agreements in place with the municipality, Panuco Ejido and private landowners for Panuco;
  - Drill permit awarded by SEMARNAT and two-year land access agreements in place with all private land-owners at San Gill encompassing all areas delineated for further exploration and drill targeting;
  - Drill contract in place with Major Drilling for an initial 10,000 metres of angled diamond drilling;
  - Environmental studies complete at San Manual and El Cristo. Drill permit applications for both areas submitted.
- Reported the drill rig arrival and commencement of the 10,000 metre drill program on the Panuco silver deposit and San Gill breccia zone.
  - Provided an update on its diamond drilling program at Panuco deposit located within the Zacatecas Property. Highlights include:
    - Completed 4 angled drill holes at the eastern edge of the Panuco Central vein for a total of 1088 metres. All intercepted visible quartz-sulphide vein hosted mineralization at, or close to, target depths.
    - Two angled diamond holes have been completed and third ongoing at The Tres Cruces vein system. Approximately 600 metres of drilling has been completed at Tres Cruces.
    - The core from six drill holes has now been logged and sampled. Samples have been submitted to the ALS.
    - Rig will be moved to the San Gill breccia where several exploratory holes will be drilled, while awaiting drill core assay results from Panuco.

Please refer to the Company's news releases which are available at [www.sedar.com](http://www.sedar.com) for the complete news releases.

There were no other material events during or subsequent to the period ended September 30, 2021 to the date of this report.

## Outlook

**COVID-19** - In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

The Company has completed a \$8,500,000 financing, completed the acquisition of the Zacatecas project, commenced trading on the TSX Venture Exchange under the symbol ZAC, and recently awarded a 10,000 drill program to Major Drilling de Mexico CV. The Company has sufficient working capital to: (i) fund the recommended exploration programs as described in the Company's National Instrument 43-101 Technical Report which includes drilling, and (ii) meet its ongoing obligations and general administrative expenses over the next twelve months.

## EXPLORATION PROJECTS

Below is a description of the project and the acquisition terms of the Zacatecas Project, Zacatecas State, Mexico. For additional information about the project please refer to the Company's 43-101 technical report titled Independent Technical Report on the Zacatecas Properties, Zacatecas State, Mexico ("Zacatecas Technical Report") filed on SEDAR on January 6, 2021.

### Zacatecas Project, Mexico

On August 18, 2020, the Company entered into an agreement with third parties to acquire a 100% interest in certain claims known as the Zacatecas project, in Zacatecas, Mexico. The Company acquired a 100% interest in the property by issuing 5,000,000 shares (issued with a fair value of \$750,000), agreeing to pay outstanding property taxes on the project of MxP3,977,515 (\$278,080 - paid), and by paying USD\$1,500,000 (paid).

The fair value of the deferred payments was determined to be \$1,559,046 on the date of the acquisition using a discounted cash flow model with a discount rate of 20%. Total acquisition costs incurred by the Company are as follows:

|  | Zacatecas Project |
|--|-------------------|
| <b>Acquisition Costs</b>                                   |                   |
| Opening balance, July 22, 2020                             | \$ -              |
| Shares issued  | 750,000           |
| Deferred payment   | 1,559,046         |
| Assumption of outstanding property taxes                   | 278,080           |
| Closing balance, December 31, 2020, and September 30, 2021 | \$ 2,587,126      |

#### *Property Location*

The Zacatecas Property is located adjacent to the city of Zacatecas, in the municipalities of Panuco, Veta Grande, Morelos, Zacatecas and Guadalupe, Zacatecas State, Mexico. The Zacatecas Property consists of 149 mining concessions comprising 7,826.3 hectares, within the Zacatecas Mining District.

#### *District History*

The Zacatecas Mining District has had a long history of mining dating back to pre-colonial times when local indigenous people (Huichol people) mined silver (and some gold) from the oxide zones of the vein deposits located around what is now known as the State of Zacatecas.

The Zacatecas mining district covers an area of over 700 km<sup>2</sup>. It is part of the largest silver district in the world — the Mexican Silver Belt — which extends from Sonora to Oaxaca and define a ca. 1500 km long NW-trending belt that includes the world-class mining districts of Zacatecas, Guanajuato and Fresnillo.

Mining by the Spaniards commenced in 1548 with production from three mines — the Albarrada Mine on the Veta Grande vein system, and the San Bernabe and Los Tajos Mines on the Mala Noche vein system. By the late 1800's silver from the Zacatecas Mining District accounted for 60% of the value of all Mexican exports. The Mexican Geological Survey estimate that almost 750 Moz of silver was produced from the Zacatecas Mining District between 1548 and 1987 (Ponce & Clark, 1988).

#### *Property History*

Due to the large number of veins within the Zacatecas Mining District, and the long history of mining, there are a significant number of relatively small mineral concessions. The more recent mining history is complex with multiple owners working different combinations of licences. As a consequence — the mining history prior to 1990 is not well constrained or documented.

Between 1994 and 2010 Golden Minerals — via its local subsidiary Minera Largo S. de RL de CV — completed geological mapping, and trench and surface rock-chip sampling, within the Zacatecas district. This included the Panuco deposit and the Muleros, El Cristo, and San Manuel-San Gil exploration targets.

Between 2007 and 2011, Golden Minerals completed 36,178 meters of diamond drilling at Panuco, Muleros, El Cristo and San Manuel-San Gil – of which over 23,000 metres was at the Panuco deposit. Please refer to the 43-101 for a summary of the work completed.

Between November 2015 and October 2016 Santacruz conducted exploration within the Zacatecas region — including the Property.

Between July and August of 2016 Santacruz conducted surface chip sampling across the Panuco, Muleros, El Cristo and San Manuel-San Gil vein systems. A total of 49 samples were collected at Panuco, one sample was collected at Muleros, two samples at El Cristo and one sample from San Manuel-San Gil.

Chip samples were collected across the width of the vein structure and included altered and mineralized wall rock material on each shoulder of the vein structure. Sample lengths ranged between 0.25 m and 1.9 m and reported assays of between <0.01 g/t Ag and 305.46 g/t Ag. The results of this sampling were effective at confirming the presence of mineralization identified by Golden Minerals — but did not add to the understanding of any vein systems.

In October 2016, Santacruz completed a resource estimate of the Panuco Deposit using the results from trenching and drilling completed by Golden Minerals (Bui & Giroux, 2016). In 2019 Santacruz Silver completed an updated resource estimate in 2019 (Bui & O'Brien, 2019).

### *Property Geology*

With the exception of the Orito vein system, located within the southern-most concessions of the Property, all other veins systems are hosted exclusively by basaltic and andesitic volcanic rocks, volcanoclastic rocks and interbedded marine sedimentary rocks of the Chilitos Formation. Within the Zacatecas Property the Chilitos Formation has been mapped as its component lithologies — yet stratigraphic relations have not been established between lithologies and they may represent facies changes.

### *Panuco Deposit*

*Panuco Lithology:* The Panuco vein system is hosted by andesitic flows, mixed andesites and andesitic tuffs and volcanoclastic sediments of the Chilitos Formation. A small rhyolite body crops out along the western extension of the Panuco Central Vein and is likely related to the Eocene intrusion observed along the Mala Noche Fault system. Jasperoids — presumably related to silica deposition during the mineralizing event — crop out locally.

Quaternary regolith is extensive especially in the NW of the Panuco system and may obscure vein extensions.

*Panuco Structure:* The Panuco vein system is hosted by brittle transverse-normal faults that strike 140°-145°, dip 60°-75° SW, and can collectively be traced over a 4 km strike length. The system is defined by three prominent vein structures — Panuco NW, Panuco Central and Tres Cruces using the nomenclature of Bui and O'Brien (2019). Tristan-Gonzales et al. (2012) suggested that movement along these faults was initially right-lateral followed later by normal left-lateral. Veins pinch and swell from <10 cm to >6 m in outcrop and drill sections.

The Panuco Central vein can be traced over a strike length of 2300 m and dips between 52° and 76° to the southwest. In the southeast area of the Panuco Central vein drilling has traced the vein approximately 755 m down dip from surface. — in the northwest area of the Panuco Central vein drilling has traced the vein approximately 410 m down dip from surface.

Panuco NW is effectively a splay extension of Panuco Central vein that has been traced over a strike length of 1500 m. It dips between 54° and 78° to the southwest and drilling by Golden Minerals has traced the down-dip extension approximately 480 m down dip from surface.

The Tres Cruces vein has been traced over a strike length of 870 m, dipping between 67° and 86° to the southwest. Drilling has traced the vein down dip to approximately 388 m below surface. .

In addition to the three main vein sets — sub-parallel subordinate veins have been identified especially within the structural hanging wall of each vein.

*Panuco Mineralization:* Silver, gold, and base metal mineralization at the Panuco deposit is hosted in breccia veins, banded, crustiform and colloform quartz veins, and quartz vein stockwork within zones of strong argillic alteration. Mineralization is best developed within coherent andesite volcanic rocks and volcanosedimentary units.

The veins are composite in nature — multiple pulses of quartz-sulfide precipitation and a late infill of quartz and/or carbonate (generally calcite). Galena, sphalerite, chalcopyrite and argentite are the main economic minerals — gangue includes quartz, calcite, pyrite, arsenopyrite, hematite, goethite, illite and clay minerals.

*Panuco Alteration:* Clasts within veins are strongly quartz-illite+/-kaolinite-calcite altered. Argillic alteration is strong proximal to veins and extends with decreasing intensity up to 15 m into wall rocks. Propylitic alteration is widespread.

#### Muleros Target Area

*Muleros Lithology:* Veins at Muleros are hosted by the Chilitos Formation. This is a marine volcano-clastic and sedimentary sequence of andesitic to basaltic pillow-lavas, andesitic flows and tuffs, intercalated with lesser mudstones and basinal limestones. Dioritic dykes, sills and laccoliths were emplaced at the same time. Quaternary regolith and alluvium is extensive and may obscure vein extensions.

*Muleros Structure:* The Panuco vein system is hosted by transverse-normal faults that strike approximately 110° and can collectively be traced over a 3 km strike length. The system is defined by three vein structures — the South Vein, the North Vein (Sabino Vein) and the El Rosario Vein. The South and North Veins dip between 55-80° to the SW and the Rosario Vein dips 70-80° to the NE. Veins vary from <1 to 5 m in true thickness.

The North and South veins splay to the northwest. Drilling has shown that veins may coalesce and splay at depth, and pinch and swell in width from <10 cm to >6 m.

*Muleros Mineralization:* Silver and base metal mineralization at the Muleros deposit is hosted in brecciated veins, banded, crustiform and colloform quartz-carbonate veins, and quartz vein stockworks, within zones of strong argillic alteration. Metallic minerals include galena, sphalerite, chalcopyrite, argentite and proustite — gangue includes quartz, calcite, pyrite, arsenopyrite, hematite, goethite, illite and clay minerals.

*Muleros Alteration:* Argillic alteration is generally strong to intense proximal to veins and may extend with increasing intensity for up to 10 m into wall rocks. Clasts within veins are intensely clay-silica altered.

#### El Cristo Vein System

*El Cristo Lithology:* The El Cristo system is hosted by the Chilitos Formation — a sequence of andesitic to basaltic pillow-lavas, andesitic flows and tuffs, intercalated with mudstones and basinal limestones of marine affinity.

*El Cristo Structure:* The El Cristo vein system comprises several subparallel veins which form a sigmoidal complex that coalesces to the northwest and southeast. Veins extends for over 2.5 km along a strike of 120° to 130° over a width of up to 600 m. Dip varies from vertical to 60° to both northeast to southwest.

*El Cristo Mineralization:* Silver and base metal mineralization at El Cristo is hosted in brecciated veins, banded, crustiform and colloform quartz-carbonate veins, that vary in thickness from 10 cm to 7 m.

MADSA completed a petrographic and fluid inclusion study of 12 surface samples taken along the strike length of the El Cristo vein system (Albinson, 2009). The study noted four paragenetic stages: 1) early brecciation of and cementation of wall rock fragments by fine grained silica-disseminated pyrite; 2) deposition of complex banded, coarse-crystalline quartz-calcite-sulfide; 3) late coarse-crystalline quartz and amethyst as centimeter-sized prismatic crystals in vughs; and late coarse crystalline calcite infilling vughs.

*San Manuel-San Gill Vein System*

*San Manuel-San Gill Lithology:* The San Manuel-San Gil vein system is underlain by basaltic and andesitic volcanics, volcanoclastics, interbedded marine sedimentary rocks of the Chilitos Formation. To the south of the concessions, Tertiary rhyolite flows and domes are observed on Cerro San Gil and Cerro Seirpe — rhyolites are interpreted to have intruded a flexure in the in the Mala Noche structure and provide evidence of proximal heat source for hydrothermal system. Most of the San Manuel-San Gil area is covered by recent regolith and soil cover.

*San Manuel-San Gill Structure:* Two major structural trends are present at San Manuel-San Gill: a NS oriented hematitic breccia; and NW oriented quartz-carbonate-sulphide veins.

The hematitic breccia has a NS-trending strike of approximately 800 m, is up to 40 m wide, and is most likely vertical. The NS orientation of the breccia suggest the system may be gold-enriched — as evidenced by other gold-mineralized NS oriented veins in the Zacatecas region. This is consistent with the results of the five hole drill program of Golden Minerals which returned assays such as 4.16 m at 1.14 g/t Au, 128 g/t Ag, 2.23% Pb and 1.86% Zn (Hole MG 11-08).

Quartz-carbonate-sulphide veins of between 10 cm to >7 m wide, trend NW-SE over a strike length of at least 2 km. Individual veins are between 400 to 1400 m long. Veins splay to the SE where multiple sub-parallel veins intersect — but do not cross — the hematite breccia.

*San Manuel-San Gill Mineralization:* Silver, gold, and base metal mineralization is hosted in breccia veins, banded, crustiform and colloform quartz veins, and quartz vein stockwork within zones of strong argillic alteration. Ore minerals include galena, sphalerite, chalcopyrite and argentite. Gangue minerals include pyrite, hematite, goethite, quartz, calcite, illite and clay minerals.

*San Manuel-San Gill Alteration:* Alteration envelopes around fault-veins is variable depending largely upon host lithology. Argillic alteration of andesitic flows sills and dykes is limited to narrow envelopes — alteration in volcanoclastics and sedimentary units is more pervasive and extends meters from the vein. Late stage calcite veins generally lack alteration selvages.

*Other Targets:*

Outside the central block of concessions that forms the bulk of the Zacatecas Property are satellite concessions that have not been part of the recent exploration. These blocks include the El Oro, El Orito, La Cantera, Monserrat, El Peñón, San Judas and San Juan

- *Orito Concession:* The Orito concessions are located within and along the southern boundary of the city of Zacatecas. The concessions overlie the Orito vein system which is hosted volcanoclastics of the Chilitos Formation. Mineralization is present in three parallel north-northwest striking veins that dip 54°-85° to both the east and west. Mineralization is confined to veins and consists of banded sulfides and adularia. The El Compas vein system to the south of the Orito concessions is gold rich and silver-base metal poor (Zamora-Vega, 2018).
- *Cantera Concession:* The Cantera concessions are located along the northern limits of the city of Zacatecas and host veins of the Cantera-El Bote vein system. Veins strike southeast, dip 60° to 90° to the southwest, and juxtapose the volcanic rocks of the Chilitos Formation to the north against the Zacatecas Red Conglomerate to the south. The Cantera concessions surrounds the past producer Cantera Mine of Santacruz Silver.
- *Monserrat Concession:* The Monserrat concessions are located along the eastern margin of the Sierra Zacatecas — the southeastern projection of the Veta Grande vein system. The concessions overlie andesites, basalts, and volcanoclastics of the Chilitos Formation.

- *El Peñón Concession:* The El Peñón concession is located approximately 20 km north of the city of Zacatecas. The concession overlies the contact between the volcanoclastics of the Chilitos Formation and porphyritic rhyolitic intrusives. Mineralization comprises a manganese prospect that has not been described.
- *San Juan Concession:* The San Juan concession is located 6 km east of the city of Guadalupe on highway 45. The concession covers andesites of the Chilitos Formation. Mineralization is hosted by a 1.7 m wide oxidized vein that trends 290°, dips 70° northeast, and strikes 200 m.
- *San Judas Concession:* San Judas concessions are located to the east of El Orito. Work by previous owners was limited to mapping northwest-southeast striking veins hosted within phyllites and sandstones of the Zacatecas Formation.

### Future Exploration Plans

The Company intends to use the proceeds raised from the subscription receipts financing to complete the first phase work program as outlined in the NI43-101 dated 24 December 2020. It is anticipated that the full phase one exploration program would take place over a 12-month period, and would cost an estimated \$5,817,600 (US\$4,545,000), which is inclusive of a contingency for cost-overruns.

The initial planned work program is focused on remodelling the historical Panuco mineral resource estimate in order to establish a current NI43-101 compliant mineral resource estimate. This will be followed by a 10,000 metre inclined diamond drill program at Panuco which has been contracted to Major Drilling. Planned work at Panuco accounts for approximately \$3,840,000 (US\$ 3,000,000) of the phase one budget.

Recent geological mapping at El Cristo — considered to be the northwest strike extension of the Veta Grande vein system — has defined robust untested drill targets. The Company has completed a soil geochemical sampling program and detailed structural mapping. Assay results are pending. Approximately 2500 m of inclined reconnaissance diamond drill program is planned.

Preliminary mapping and rock-chip grab sampling of the San Gill breccia has defined a large and robust target. Further detailed mapping and geochemical sampling is planned during phase one — with 1500 metres of diamond drilling to be allocated once all field work is complete. The diamond drilling at El Cristo and San Gill is in addition to the Panuco drill program.

Phase one will also include reconnaissance geological mapping and select geochemical sampling of the company's entire landholding at Zacatecas — with an emphasis on targets such as the Oritia vein system. Detailed geological and structural mapping will be completed over high priority targets.

**Exploration costs:**

During the period ended September 30, 2021, the Company incurred exploration costs as follows:

| Exploration Expenditures | September 30,<br>2021 |
|--------------------------|-----------------------|
| Administrative costs     | \$ 4,312              |
| Assay                    | 54,508                |
| Camp costs               | 57,113                |
| Drilling                 | 163,792               |
| Mining duties            | 85,621                |
| Field expenditures       | 132,594               |
| Field labour             | 103,682               |
| Geological consulting    | 188,061               |
| Permits                  | 28,150                |
| Project Management       | 114,518               |
| Report preparation       | 47,464                |
| Surveying                | 41,560                |
| Travel                   | 53,301                |
|                          | \$ 1,074,676          |

*Dr. Chris Wilson, (FAusIMM (CP), FSEG.), a Qualified Person under the meaning of Canadian National Instrument 43-101 and an officer of Zacatecas, is responsible for the technical content of this Management's Discussion and Analysis.*

**Results of Operations**

The condensed consolidated interim financial statements reflect the financial condition of the Company's business for the three and nine-month period ended September 30, 2021. The significant events during the period which impact the financial results of the Company, some of which are discussed above in the performance summary, are:

- Complete the Zacatecas Projects acquisition
- The commencement of exploration activities
- The conversion of the subscription receipt financing and the release of \$8,500,000 from escrow.
- The completion of the listing process, including the filing of the prospectus.

Note: The Company was incorporated on July 22, 2020 and comparative balances are for the period from incorporation on July 22, 2020 to September 30, 2020.

During the nine-month period ended September 30, 2021, the Company incurred a net loss of \$4,755,164 and during the three-month period ended September 30, 2021 a net loss of \$1,080,855 (2020 - \$131,395). Significant expenditures included:

- Accretion expense of \$nil (2020 - \$24,952) for the three-month period ended September 30, 2021 and \$29,569 (2020 - \$24,952) for the nine-month period ended September 30, 2021 which related to the accretion on the deferred acquisition payments totaling US\$1,500,000 for the Zacatecas Project. During the period the payment schedule was amended and the full amount of US\$1,500,000 was paid.
- Exploration expenditures incurred were \$508,496 (2020 - \$27,435) for the three-month period ended September 30, 2021, and \$1,074,676 (2020 - \$27,435) for the nine-month period ended September 30, 2021. The Company commenced exploration activities, including starting a satellite survey program, reviewing historical exploration work and data, commencing field work, and developing drill-targets. The Company also commenced the 10,000 metre drill program.

- Investor relations of \$71,000 (2020 - \$nil) were incurred during the three-month period ended September 30, 2021 and \$291,124 (2020 - \$nil) for the nine-month period ended September 30, 2021. The Company commenced investor relations in North America and Europe during the lead up to and following the listing as it raised awareness of the Company and its projects.
- Management fees of \$77,700 (2020 - \$40,017) were incurred during the three-month period ended September 30, 2021 and \$331,821 (2020 - \$40,017) for the nine-month period ended September 30, 2021, which included fees paid to officers of the Company.
- Professional fees of \$39,620 (2020 - \$27,718) were incurred during the three-month period ended September 30, 2021 and \$239,344 (2020 - \$27,718) for the nine-month period ended September 30, 2021, which included fees relating to the listing process and ongoing legal, accounting and audit related activities.
- Share based payments of \$nil (2020 - \$nil) for the three-month period ended September 30, 2021 and \$1,825,910 (2020 - \$nil) during the nine-month period ended September 30, 2021. During the period ended December 31, 2020 the Company granted 5,100,000 stock options vested out to listing.
- Marketing and shareholder communication expenses of \$290,764 (2020 - \$7,593) were incurred during the three-month period ended September 30, 2021 and \$850,652 (2020 - \$7,593) for the nine-month period ended September 30, 2021. The expenses incurred were to bring awareness to the Company's project and future exploration plans.

## Summary of Quarterly Results

|                            | September 30,<br>2021  | June 30,<br>2021 | March 31,<br>2021 | December 31,<br>2020 |
|----------------------------|------------------------|------------------|-------------------|----------------------|
|                            | \$                     | \$               | \$                | \$                   |
| Working capital (deficit)  | 4,735,671              | 5,813,384        | 6,581,117         | 1,025,748            |
| Exploration expenditures   | 508,496                | 343,543          | 222,637           | 255,006              |
| Net loss                   | (1,080,855)            | (823,508)        | (2,850,801)       | (1,001,725)          |
| Net loss per share - basic | (0.02)                 | (0.02)           | (0.08)            | (0.01)               |
|                            | September 30,<br>2020* |                  |                   |                      |
|                            | \$                     |                  |                   |                      |
| Working capital (deficit)  | 1,172,224              |                  |                   |                      |
| Exploration expenditures   | 27,435                 |                  |                   |                      |
| Net loss                   | (131,395)              |                  |                   |                      |
| Net loss per share - basic | (0.00)                 |                  |                   |                      |

\* For the period from incorporation on July 22, 2020 to September 30, 2020

## Discussion of Quarterly Results

The significant items impacting Zacatecas's net loss are primarily from the changing levels of financing available, exploration activities, and office and administrative expenses. Changing levels in exploration program and general and administrative costs fluctuate independently according to field activities at our properties or general corporate activities.

Since incorporation the Company has completed various financings, acquired the Zacatecas project and has been focused on commencing exploration and completing the listing process, including completing the Zacatecas Technical Report, necessary audits, and the prospectus.

## Liquidity

Zacatecas's mineral exploration and development activities do not provide a source of income and we therefore have a history of losses and an accumulated deficit. However, given the nature of our business, the results of operations as reflected in the net losses and losses per share do not provide a complete interpretation of our valuation.

As at September 30, 2021, the Company had a working capital of \$4,735,671. The working capital consisted of a cash balance of \$4,218,167 and receivables and prepayments of \$855,298 that was offset by accounts payable and accrued liabilities of \$337,794. During the period ended September 30, 2021, a \$8,500,000 subscription receipt financing was converted to common shares and the proceeds were released from escrow. The conversion of the financing has ensured the Company has sufficient funds to complete the next phase of exploration as described in the Company's 43-101.

To maintain liquidity in the future, the Company continues to investigate financing opportunities and would consider raising capital via share issuances, debt facilities, joint venture arrangements, or a combination of these options. The Company has financed its operations to date primarily through the issuance of common shares. As the Company has no source of revenue at this time, it will continue to require additional capital to carry exploration expenses and ongoing operating costs.

**Operating Activities:** The Company does not generate cash from operating activities. Net cash used in the Company for operating activities, which includes exploration activities, for the period ended September 30, 2021 was \$3,360,299.

**Investing Activities:** During the period ended September 30, 2021, the Company paid \$1,896,150 (US\$1,500,000) towards the acquisition of the Zacatecas property and paid \$67,138 to acquire computer software, computers and various pieces of field equipment.

**Financing Activities:** During the period ended September 30, 2021, the Company received \$266,250 from the exercise of stock options and paid share issuance costs of \$27,600 relating to the subscription receipt financing.

The condensed consolidated interim financial statements have been prepared 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 business for the foreseeable future. The Company's continuing operations rely on the ability of the Company to continue to raise capital.

## Related Party Transactions

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries Desarrollos Mineros Zacatecas Silver SA DE (Mexico) and 1260410 B.C Ltd (Canada)

Key management personnel includes those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Board and corporate officers, including the Company's Chief Executive Officer and Chief Financial Officer.

During the period ended September 30, 2021 the Company entered into the following transactions with related parties, not disclosed elsewhere in these consolidated financial statements:

- a) Management fees of \$229,571 (2020 - \$20,009) were paid during the nine-month period ended September 30, 2021 to a company controlled by Bryan Slusarchuk, an officer and director of the Company.
- b) Management fees of \$102,250 (2020 - \$20,009) were paid during the nine-month period ended September 30, 2021 to a company controlled by James Hutton, Chairman of the Company.

- c) Exploration Fees of \$114,518 (2020 – \$18,519) during the nine-month period ended September 30, 2021 to a company controlled by Chris Wilson, an officer and director of the Company.
- d) Professional fees of \$85,642 (2020 - \$9,995) were paid during the nine-month period ended September 30, 2021 to Red Fern Consulting Ltd., a company controlled by Jonathan Richards, an officer and director of the Company.
- e) Professional fees of \$112,046 were paid during the nine-month period ended September 30, 2021 to O'Neill Law LLP., a firm which Charles Hethey a director of the Company is a partner of, of which \$67,171 is recorded in share issuance costs and \$44,875 is recorded in professional fees.
- f) Director fees of \$21,000 (2020 - \$nil) were paid during the nine-month period ended September 30, 2021 to a company controlled by John Lewins, a director of the Company.

As at September 30, 2021, \$67,694 (December 31, 2020 - \$28,107) was included in accounts payable and accrued liabilities owing to officers and directors of the Company in relation to fees and reimbursement of expenses.

## Outstanding Share Data

### Common Shares:

The Company is authorized to issue an unlimited number of common shares without par value. As at the date of this report the Company had 52,801,015 common shares issued and outstanding.

### Escrowed shares

As at the date of this report:

- 13,031,251 common shares are subject to an escrow agreement to be entered into by the Company, Odyssey Trust and certain escrowed security holders. Under the terms of the escrow agreement, 10% of the escrowed shares will be released on the listing date and 15% of the escrowed shares will be released every six months thereafter.
- An additional 8,717,500 common shares are subject to various restrictions on resale for a period of up to 18 months from listing.

### Stock Options:

As at the date of this report the Company has 4,567,500 stock options outstanding, exercisable at a price of \$0.50 per common share, expiring March 2, 2026.

### Warrants:

At the date of this report, the Company had no warrants outstanding.

## Contractual Obligations

Except as described herein or in the Company's consolidated financial statements at September 30, 2021, the Company had no material contractual obligations.

## Off-Balance Sheet Arrangements

As at September 30, 2021, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## Proposed Transactions

Except as elsewhere disclosed in this document, there are no other proposed transactions under consideration.

## Capital Resources

The Company has no commitments for capital expenditures at the date of this report.

The Company will continue to seek capital. In the past the Company has raised capital through the issuance of common shares pursuant to private placement. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements. barter

## Risk Factors

Companies in the exploration stage face a variety of risks and, while unable to eliminate all of them, the Company aims at managing and reducing such risks as much as possible. The Company faces a variety of risk factors such as project feasibility and practically, risks related to determining the validity of mineral property title claims, commodities prices, changes in laws and environmental laws and regulations. Management monitors its activities and those factors that could impact them in order to manage risk and make timely decisions. Risks and uncertainties the Company considers material in assessing its financial statements are described below.

*Zacatecas will require additional funding.*

As at September 30, 2021, the Company held cash of \$4,218,167. The Company had accounts payable and accrued liabilities of \$337,794. The Company is well financed to complete the next phase of the exploration program as described in the 43-101. While the Company will be financed for the next phase, the Company does not have any source of revenue and will require additional funding. The Company has relied upon equity subscriptions to satisfy its capital requirements and will likely continue to depend upon these sources to finance its activities. There can be no assurances that the Company will be successful in raising the desired level of financing on acceptable terms.

*Zacatecas is subject to government regulation.*

The Company's mineral exploration is, and any development activities will be, subject to various laws governing exploration, development, production, taxes, labour standards and occupational health, mine safety, environmental protection, toxic substances, land use, water use and other matters. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory authorities curtailing the Company's operations or requiring corrective measures, any of which could result in the Company incurring substantial expenditures. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration or development.

*Exploration, development and mining activities can be hazardous and involve a high degree of risk.*

The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of base or precious metals, including, without limitation, unusual and unexpected geologic formations, seismic activity, rock bursts, pit-wall failures, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and legal liability. Milling operations, if any, are subject to various hazards, including, without limitation, equipment failure and failure of retaining dams around tailings disposal areas, which may result in environmental pollution and legal liability.

*Zacatecas may be adversely affected by fluctuations in metal prices.*

The value and price of the Company's common shares, the Company's financial results, and exploration, development and mining activities of the Company, if any, may be significantly adversely affected by declines in the price of metals. Mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as interest rates, exchange rates, inflation or deflation, global and regional supply and demand, and the political and economic conditions of mineral producing countries throughout the world.

#### *Infrastructure*

Exploration, development and ultimately mining and processing activities depend, to one degree or another, on the availability of adequate infrastructure. Reliable air service, roads, bridges, power sources and water supply are significant contributors in the determination of capital and operating costs. Inadequate infrastructure could significantly delay or prevent the Company exploring and developing its projects and could result in higher costs.

*Zacatecas does not and likely will not insure against all risks.*

The Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to environmental liability or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Zacatecas to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

*Zacatecas may be subject to disputes.*

The Company may be involved in disputes with other parties in the future, which may result in litigation or arbitration. The results of litigation or arbitration cannot be predicted with certainty. If the Company is unable to resolve these disputes favorably, it may have a material adverse impact on the Company.

All industries, including the mining industry, are subject to legal claims that are with and without merit. Due to the inherent uncertainty of the litigation process and dealings with regulatory bodies, there is no assurance that any legal or regulatory proceeding will be resolved in a manner that will not have a material and adverse effect on the Company.

*Zacatecas is dependent on key personnel.*

The Company's success depends in part on its ability to recruit and retain qualified personnel. Due to its relatively small size, the loss of the services of one or more of such key management personnel could have a material adverse effect on the Company. In addition, despite its efforts to recruit and retain qualified personnel, even when those efforts are successful, people are fallible and human error could result in a significant uninsured loss to the Company.

*Zacatecas's officers and directors may have potential conflicts of interest.*

Zacatecas's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. However, applicable law requires the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders and in the case of directors, to refrain from participating in the relevant decision in certain circumstances.

*Permits, licenses and approvals*

In countries where we carry out exploration activities, the mineral rights or certain portions of them are owned by the relevant governments. These governments have entered into contracts with us, or granted permits or concessions that allow us to carry out operations or development and exploration activities there, but government policy could change. Any change that affects our rights to conduct these activities could have a material and adverse effect on the Company.

In addition, mineral exploration and mining activities can only be conducted by entities that have obtained or renewed exploration or mining permits and licenses in accordance with the relevant mining laws and regulations. The duration and success of each permitting effort are contingent upon many factors we do not control. In the case of foreign operations, governmental approvals, licenses and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental officials. There may be delays in the review process. There is no guarantee that we will be granted the necessary permits and licenses, that they will be renewed, or that we will be in a position to comply with all conditions that are imposed.

All mining projects require a wide range of permits, licenses and government approvals and consents. It is not certain that we will be granted these at all, or in a timely manner. If we do not receive them for our mineral projects or are unable to maintain them, it could have a material and adverse effect on the Company.

*Title to our mineral properties*

We have investigated title to all of our mineral properties and, to the best of our knowledge we have or are entitled to title to all of our properties subject to the items described in the MD&A and in our financial statements dated September 30, 2021. Challenges may be made to the title to any of our properties and, if successful, they could impair development and/or operations at our mines or projects. There is no assurance that title to any of our properties will not be challenged.

New laws and regulations, or amendments to laws and regulations relating to mineral tenure and land title and usage, including expropriations and deprivations of contractual rights, if proposed and enacted, may affect our rights to our mineral properties. There is no assurance that we will be able to operate our properties as currently permitted or that we will be able to enforce our rights with respect to our properties.

*Corruption and bribery*

Our operations are governed by, and involve interactions with, many levels of government in foreign countries. We may not be able to complete some business transactions if we are subject to corruption or demands for bribes. Like most companies, we are required to comply with anti-corruption and anti-bribery laws, including the Canadian Corruption of Foreign Public Officials Act, as well as similar laws in the countries in which we conduct our business. In recent years, there has been a general increase in both the severity of penalties and frequency of enforcement under such laws, resulting in greater punishment and scrutiny to companies convicted of violating anti-bribery laws. Furthermore, a company may be found liable for violations by not only its employees, but also any third-party agents. If we find ourselves subject to an enforcement action or are found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions being imposed on us resulting in a material adverse effect on the Company.

*Reputational risk*

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Although we believe that we operate in a manner that is respectful to all stakeholders and take care in protecting our image and reputation, we do not have control over how we are perceived by others. Any reputation loss could result in decreased investor confidence and increased challenges in developing and maintaining community relations which may have adverse effects on the Company and the price of the Company's securities.

## Critical Accounting Policies and Estimates

Zacatecas's accounting policies are described in Notes 2 and 3 of its audited consolidated financial statements for the year ended December 31, 2020. Management considers the following policies to be the most critical in understanding the judgments that are involved in the preparation of our consolidated financial statements and the uncertainties that could impact its results of operations, financial condition and cash flows:

### Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses (including option payments) and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition of mineral properties are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the profit and loss statement. The Company expenses costs related to the exploration and development of mineral properties and they are incurred.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial mining, or alternatively, sale of the respective areas of interest.

### Share-based payments

Share-based payments are arrangements in which the Company receives goods or services in consideration for its own equity instruments granted to non-employees. These are accounted for as equity settled share-based payment transactions and measured at the fair value of goods and services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

### Use of Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made.

The most significant estimates relate to the valuation of deferred income tax amounts, impairment testing and calculation of share-based payments. Share-based payments, as measured with respect to the fair value of common shares issued. The Company has reviewed its exploration and evaluation assets for indications of impairment and adjusted the carrying values of the exploration and evaluation assets to reflect management's decision to impair certain properties. The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred tax assets.

The most significant judgments relate to the functional currency of the Company and its subsidiaries, the valuation of shares issued for exploration and evaluation properties, the assessment of the exploration and evaluation property acquisition agreement, and the classification of subscription receipts

## Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: Zacatecas has no assurance that the licences will be issued nor if issued, that they will be issued in a timely manner, general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

This MD&A contains certain forward-looking statements. Although forward-looking statements and information contained in this MD&A are based on the beliefs of Zacatecas management, which we consider to be reasonable, as well as assumptions made by and information currently available to Zacatecas management, there is no assurance that the forward-looking statement or information will prove to be accurate. The forward-looking statements and information contained in this MD&A are subject to current risks, uncertainties and assumptions related to certain factors including, without limitations, obtaining all necessary approvals, feasibility of mine and plant development, exploration and development risks, expenditure and financing requirements, title matters, operating hazards, metal prices, political and economic factors, competitive factors, general economic conditions, relationships with vendors and strategic partners, governmental regulation and supervision, seasonality, technological change, industry practices, and one-time events as well as risks, uncertainties and other factors discussed in our quarterly and annual and interim management's discussion and analysis. Should any one or more of these risks or uncertainties materialize or change, or should any underlying assumptions prove incorrect, actual results and forward-looking statements and information may vary materially from those described herein. Accordingly, readers should not place undue reliance on forward-looking statements and information contained in this MD&A. We undertake no obligation to update forward-looking statements or information except as required by law.