



ZACATECAS SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
(Unaudited)

FOR THE THREE AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

NOTICE TO READER

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

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

ZACATECAS SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars - Unaudited)
AS AT

	September 30, 2023	December 31, 2022
ASSETS		
Current		
Cash	\$ 87,273	\$ 1,112,343
Prepaid expenses and advances	59,563	57,669
Receivables (Note 3)	<u>72,553</u>	<u>70,469</u>
	219,389	1,240,481
Equipment (Note 4)	86,059	127,459
Mineral properties (Note 5)	<u>47,348,512</u>	<u>47,155,615</u>
	<u>\$ 47,653,960</u>	<u>\$ 48,523,555</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 992,391	\$ 1,022,687
Contingent consideration (Note 5)	<u>17,175,985</u>	<u>21,594,607</u>
	<u>18,168,376</u>	<u>22,617,294</u>
Shareholders' equity		
Share capital (Note 7)	45,926,247	42,506,184
Contributed surplus (Note 7)	2,864,374	2,832,229
Accumulated other comprehensive loss	485,510	102,051
Deficit	<u>(19,790,547)</u>	<u>(19,534,203)</u>
	<u>29,485,584</u>	<u>25,906,261</u>
	<u>\$ 47,653,960</u>	<u>\$ 48,523,555</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on November 28, 2023

<u>"Bryan Slusarchuk"</u> Director	<u>"John Lewins"</u> Director
Bryan Slusarchuk	John Lewins

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ZACATECAS SILVER CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars - Unaudited)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
EXPENSES				
Consulting	\$ -	\$ 105,555	\$ 51,000	\$ 253,055
Depreciation (Note 4)	18,196	7,484	45,179	42,307
Directors fees (Note 6)	27,000	18,000	81,000	45,000
Exploration expenses (Note 5 and 6)	568,969	2,827,883	3,140,690	6,766,237
Foreign exchange	(63,869)	(29,994)	281,895	(26,296)
Management fees (Note 6)	86,153	82,333	258,188	244,678
Marketing and shareholder communications	21,000	142,958	229,276	925,603
Office expense	46,127	9,558	120,920	55,189
Professional fees (Note 6)	70,927	141,029	360,602	306,849
Project investigations	-	-	-	51,360
Share-based payments (Notes 6 and 7)	-	385,220	-	714,201
Transfer agent and filing fees	11,326	10,703	103,315	46,809
Travel	96	30,470	5,770	139,286
	(785,925)	(3,731,199)	(4,677,835)	(9,564,278)
Interest income	657	8,612	2,869	27,253
Change in fair value of contingent consideration (Note 5)	(287,847)	(1,756,921)	4,418,622	(1,822,829)
	(287,190)	(1,748,309)	4,421,491	(1,795,576)
Income (loss) for the period	(1,073,115)	(5,479,508)	(256,344)	(11,359,854)
Other comprehensive loss				
Exchange difference on translation of foreign operations	(54,449)	59,640	383,459	72,150
Income (loss) and comprehensive income (loss) for the period	\$ (1,127,564)	\$ (5,419,868)	\$ 127,115	\$ (11,287,704)
Basic and diluted income (loss) per common share	\$ (0.01)	\$ (0.07)	\$ 0.00	\$ (0.16)
Weighted average number of common shares outstanding – basic and diluted	90,410,991	80,663,753	86,692,181	68,976,376

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ZACATECAS SILVER CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars - Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30,

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ (256,344)	\$ (11,359,854)
Items not affecting cash		
Depreciation	45,179	42,307
Share-based payments	-	714,201
Change in fair value of contingent consideration	(4,418,622)	1,822,829
Non-cash working capital item changes:		
Prepaid expenses and advances	(1,894)	93,368
Receivables	(2,084)	(186,182)
Accounts payable and accrued liabilities	<u>(30,296)</u>	<u>(591,805)</u>
Net cash used in operating activities	<u>(4,664,061)</u>	<u>(9,465,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Esperanza	-	(7,368,278)
Acquisition of equipment	-	(65,057)
Cash acquired with Esperanza Silver de Mexico S.A. de C.V.	<u>-</u>	<u>37,726</u>
Net cash used in investing activities	<u>-</u>	<u>(7,395,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	3,514,276	19,151,521
Share issuance costs	<u>(62,068)</u>	<u>(1,265,367)</u>
Net cash provided by financing activities	<u>3,452,208</u>	<u>17,886,154</u>
Change in cash for the period	(1,211,853)	1,025,409
Effect of changes in exchange rates on cash	186,783	(73,652)
Cash, beginning of period	<u>1,112,343</u>	<u>2,584,317</u>
Cash, end of period	<u>\$ 87,273</u>	<u>\$ 3,536,074</u>

Supplemental disclosure with respect to cash flows (Note 10).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ZACATECAS SILVER CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian Dollars – Unaudited)

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2021	53,051,015	\$ 11,788,437	\$ 1,595,621	\$ (27,355)	\$ (8,040,575)	\$ 5,316,128
Acquisition of Esperanza	12,140,000	13,354,000	-	-	-	13,354,000
Shares issued for cash	17,410,474	19,151,521	-	-	-	19,151,521
Share issue costs	-	(1,787,774)	522,407	-	-	(1,265,367)
Share based payments	-	-	714,201	-	-	714,201
Loss and comprehensive loss for the period	-	-	-	72,150	(11,359,854)	(11,287,704)
Balance, September 30, 2022	82,601,489	\$ 42,506,184	\$ 2,832,229	\$ 44,795	\$ (19,400,429)	\$ 25,982,779
Balance, December 31, 2022	82,601,489	\$ 42,506,184	\$ 2,832,229	\$ 102,051	\$ (19,534,203)	\$ 25,906,261
Shares issued for cash	7,809,502	3,514,276	-	-	-	3,514,276
Share issue costs	-	(94,213)	32,145	-	-	(62,068)
Income and comprehensive income for the period	-	-	-	383,459	(256,344)	127,115
Balance, September 30, 2023	90,410,991	\$ 45,926,247	\$ 2,864,374	\$ 485,510	\$ (19,790,547)	\$ 29,485,584

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ZACATECAS SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023 (Expressed in Canadian Dollars - Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Zacatecas Silver Corp. (the “Company”) was incorporated in Canada under the Business Corporations Act (British Columbia) on July 22, 2020. The Company is principally engaged in the acquisition and exploration and development of mineral properties in Mexico. The Company’s shares are publicly traded on the TSX Venture Exchange (the “TSXV”) under the symbol ZAC. The head office and principal address of the Company is 400-850 West Hastings Street, Vancouver, British Columbia, V6C 1E1. The Company is in the process of investing in potential new acquisitions and exploring and evaluating its resource properties and has not yet determined whether the properties contain reserves that are economically recoverable.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and their effect on the Company’s business or ability to raise funds.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”).

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2022.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, as listed below. All inter-company balances and transactions are eliminated on consolidation.

Company	Place of Incorporation	Principal Activity
Desarrollos Mineros Zacatecas Silver S.A de C.V.	Mexico	Exploration and Evaluation
Esperanza Silver de Mexico S.A de C.V*	Mexico	Exploration and Evaluation
Servicios Mineros Te Tlama S.A de C.V*	Mexico	Exploration and Evaluation
1260410 B.C Ltd.	Canada	Holding

* Esperanza Silver de Mexico S.A de C.V and Servicios Mineros Te Tlama S.A de C.V were acquired on April 12, 2022, as described in the Mineral Property note below.

ZACATECAS SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

2. BASIS OF PREPARATION (cont'd...)

These consolidated financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Basis of Measurement

These consolidated financial statements are presented in Canadian dollars, which is also the Company's and 1260410 B.C Ltd.'s functional currency. Desarrollos Mineros Zacatecas Silver S.A de C.V. has a functional currency of the Mexican Peso and Esperanza Silver de Mexico S.A de C.V and Servicios Mineros Te Tlama S.A de C.V have a functional currency of the US dollar.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

Functional currency

The functional currency of the Company and its subsidiary is the currency of their respective primary economic environment. Judgement is necessary in evaluating each entity's functional currency.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise additional funding to cover its ongoing operating expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances (Note 1).

Impairment of exploration and evaluation assets

The carrying value and recoverability of exploration and evaluation assets requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resource prices and the long-term forecasts, and the overall economic viability of the project. Management has assessed these indicators and does not believe an impairment provision is required.

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

2. BASIS OF PREPARATION (cont'd...)**Significant Accounting Judgments and Estimates (cont'd...)***Acquisitions*

The acquisition of Esperanza, as described in Note 5, required management to make a judgment as to whether the entity constituted a business under the definitions of IFRS 3. The assessment required management to assess the inputs, processes and ability of that entity to produce outputs at the time of acquisition. Pursuant to the assessment, the acquisition was determined to be an asset acquisition.

The significant areas of assumptions and estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Acquisition of a subsidiary

The acquisition of Esperanza required management to make significant estimates with respect to the fair value of consideration transferred, including contingent consideration, and fair value of the assets acquired and liabilities assumed (Note 5).

Contingent consideration

The contingent consideration payable pursuant to the Esperanza acquisition requires management to make significant assumptions and estimates at each reporting period with respect to the likelihood and magnitude of an outflow of resources (Note 5).

Metal stream valuation

The liability representing the Company's obligation to deliver silver metal under the Silver Stream is subject to significant estimate with respect to the likelihood of delivery under the arrangement as well as discount rates and future silver prices (Note 5).

3. RECEIVABLES

	September 30, 2023	December 31, 2022
Goods and service tax ("GST") receivable	\$ 28,630	\$ 21,749
Other	<u>43,923</u>	<u>48,720</u>
Total	<u>\$ 72,553</u>	<u>\$ 70,469</u>

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

4. EQUIPMENT

	Computer and office equipment		Field equipment	Vehicles		Total		
Cost								
Balance, December 31, 2021	\$	78,001	\$	16,016	\$	-	\$	94,017
Additions		52,475		22,422		30,792		105,689
Foreign exchange		834		3,412		2,262		6,508
Balance, December 31, 2022		131,310		41,850		33,054		206,214
Foreign exchange		1,788		4,887		(58)		6,617
Balance, September 30, 2023		133,098		46,737		32,996		212,831
Accumulated Depreciation								
Balance, December 31, 2021		16,161		2,665		-		18,826
Depreciation		41,021		9,788		7,490		58,299
Foreign exchange		381		1,026		223		1,630
Balance, December 31, 2022		57,563		13,479		7,713		78,755
Depreciation		26,960		10,009		8,210		45,179
Foreign exchange		904		1,909		25		2,838
Balance, September 30, 2023	\$	85,427	\$	25,397	\$	15,948	\$	126,772
Carrying amount at December 31, 2022	\$	73,747	\$	28,371	\$	25,341	\$	127,459
Carrying amount at September 30, 2023	\$	47,671	\$	21,340	\$	17,048	\$	86,059

5. MINERAL PROPERTIES**Zacatecas Project, Mexico**

On August 18, 2020, the Company entered into a purchase agreement with Santacruz Silver Mining Ltd. (“Santacruz”), Impulsora Minera Santacruz, S.A. de D.V. (“IMSC”), being a wholly owned subsidiary of Santacruz, and Desarrollos Mineros Zacatecas Silver, S.A. de C.V. (“DMZS”), a wholly owned subsidiary of the Company. Under the terms of the purchase agreement, DMZS acquired a 100% interest in certain claims known as the Zacatecas Project, in Zacatecas, Mexico, subject to certain underlying royalties. The Company acquired an 100% interest in the property by issuing 5,000,000 shares (issued), agreeing to pay outstanding property taxes on the project of MxP3,977,515 (\$278,080 - paid), and agreeing to make total payments of US\$1,500,000 over a period of two years from listing on the TSXV, which was subsequently amended and paid on listing.

The fair value of the deferred payments of \$1,559,046 was determined on the date of the acquisition using a discounted cash flow model with a discount rate of 20%. Subsequently the Company amended the Zacatecas Project purchase agreement between Santacruz, IMSC and DMZS, such that DMZS paid the US\$1,500,000 on the listing date and the 5,000,000 common shares were subject to resale restrictions from 2 to 14 months from the TSXV listing date.

Total acquisition costs and movement incurred by the Company on the Zacatecas project during the nine-month period ended September 30, 2023 and for the year ended December 31, 2022 are as follows:

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023
(Expressed in Canadian Dollars - Unaudited)****5. MINERAL PROPERTIES (cont'd...)****Zacatecas Project, Mexico (cont'd...)**

	Zacatecas Project
Acquisition Costs	
Balance, December 31, 2021	\$ 2,492,261
Foreign currency translation	<u>174,504</u>
Balance, December 31, 2022	2,666,765
Foreign currency translation	<u>192,897</u>
Balance, September 30, 2023	<u>\$ 2,859,662</u>

Esperanza Gold Project, Mexico

On April 12, 2022, the Company completed its acquisition of the Esperanza Gold Project, located in Morelos State, Mexico, pursuant to the terms of a Share Purchase Agreement dated February 28, 2022 (the "Share Purchase Agreement") with Minas De Oro Nacional, S.A. De C.V. ("Minas De Oro"), a subsidiary of Alamos Gold Inc. ("Alamos").

Under the terms of the Share Purchase Agreement, the Company acquired all the issued and outstanding shares of Esperanza Silver de Mexico S.A de C.V ("Esperanza Mexico"), which holds title to the Esperanza Gold Project. In consideration, the Company

- i. paid Minas de Oro US\$5,000,000 in cash;
- ii. issued 12,140,000 common shares of the Company; and
- iii. Granted a Silver Stream ("Silver Stream Obligation") under which Alamos is entitled to receive 20% of the silver produced from the Esperanza Gold Project at a cash price of 20% of the prevailing spot silver price, subject to a maximum of 500,000 ounces of silver delivered to Alamos.

The Share Purchase Agreement further provides that the Company will make certain additional payments contingent upon the completion of key milestones on the Esperanza Gold Project ("Milestone Payments"):

- iv. Pay US\$5,000,000 within 60 days after approval of an environmental impact assessment report by the applicable governmental authorities;
- v. Pay US\$14,000,000 within 60 days of the earlier of (i) completion of a feasibility study on the Esperanza Gold Project or (ii) the Company announcing its decision to commence construction of a mine on the Esperanza Gold Project; and
- vi. Pay US\$20,000,000 within 180 days after commencement of commercial production on the Esperanza Gold Project.

The Company may, at its sole election, satisfy up to 50% of the contingent payments by issuing shares at a price equal to the 10-day volume-weighted average price prior to the issuance of such shares provided that such share issuance does not cause Alamos to exceed 19.99% ownership of the issued and outstanding shares of the Company (on a partially diluted basis).

The Company has also agreed to incur US\$7,500,000 in expenditures to advance the Esperanza Gold Project over the three years following the acquisition. If the Company fails to meet the expenditure commitment, an amount equal to the shortfall will be added to the next contingent payment.

The transaction did not meet the definition of a business combination and therefore, was accounted for as an asset purchase of mineral property interests. The fair value of the consideration paid for the acquisition of Esperanza has been allocated to the assets acquired and liabilities assumed, based on management's best estimate and taking into account all available information at the time of acquisition.

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

5. MINERAL PROPERTIES (cont'd...)**Esperanza Gold Project, Mexico (cont'd...)**

The following table summarizes the fair value of the total consideration paid and the aggregate fair value of the identified assets acquired and liabilities assumed:

Purchase price	
Cash (US\$5,000,000)	\$ 6,305,000
12,140,000 common shares	13,354,000
Fair value of Milestone Payments	19,745,605
Fair value of Silver Stream	3,061,463
Transaction costs and finder's fee ⁽¹⁾	1,063,277
Fair value of consideration	\$ 43,529,345
Net assets acquired	
Cash	\$ 16,506
Equipment	39,045
Receivables and prepayments	44,199
Mineral properties	44,488,850
Accounts payable and accrued liabilities	(1,059,255)
	\$ 43,529,345

⁽¹⁾ The Company paid a finder's fee of US\$500,000 to a third party.

The fair value of the contingent Milestone Payments of \$19,745,605 was estimated on the date of acquisition based on management assumptions on the probability and timing of such payments using a probability-weighted discounted cash flow model. The Company used a discount rate of 9.75%. The Milestone Payments and Silver Stream are revalued at each reporting period based on the prevailing facts and circumstances of the Esperanza Gold Project. The fair value is determined using discounted cash flows based on significant inputs and assumptions such as a discount rate, an estimate of timelines to advance the project and a success probability factor. The fair value at each reporting period is also impacted by prevailing foreign exchange rates. As at September 30, 2023 the Company used a discount rate of 14.75% (2022 - 12.75%). The changes in the fair value of the Milestone Payments and Silver Stream ("Contingent Consideration") for the period ended September 30, 2023 and the year ended December 31, 2022 are as follows:

Contingent Consideration	Milestone Payments	Silver Stream	Total
Balance, December 31, 2021	\$ -	\$ -	\$ -
Asset acquisition	19,745,605	3,061,463	22,807,068
Change in fair value	(899,370)	(313,091)	(1,212,461)
Balance, December 31, 2022	18,846,235	2,748,372	21,594,607
Change in fair value	(3,339,141)	(1,079,481)	(4,418,622)
Balance, September 30, 2023	\$ 15,507,094	\$ 1,668,891	\$ 17,175,985

The Milestone Payments are considered to be in level 3 of the fair value hierarchy (Note 9).

Significant inputs and assumptions into the model are summarize in the following table:

Inputs and Assumption	September 30, 2023	December 31, 2022
Debt discount rate	14.75%	12.75%
Average silver price	US\$22.42	US\$21.19

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

5. MINERAL PROPERTIES (cont'd...)**Esperanza Gold Project, Mexico (cont'd...)**

Sensitivity Analysis:

The fair value of the Silver Stream Obligation was estimated using Level 3 inputs and is most sensitive to changes in future metal prices, discount rates, foreign exchange rates, and estimated mineral resources.

For the fair value of the Silver Stream Obligation, reasonably possible changes at the reporting date to one of the significant inputs, holding other inputs constant, would have the following effects:

Key Inputs	Inter-relationships between significant inputs and fair value measurement	Estimated Fair Value Increase (decrease)	
Key observable inputs			
- Metal prices	- Future silver prices were 10% higher - Future silver prices were 10% lower	166,890 (166,890)	
- Discount rates	- Discount rates were 1% higher - Discount rates were 1% lower	163,877 (163,877)	
- Foreign exchange rates	- Exchange rate was 10% higher - Exchange rate was 10% lower	166,890 (166,890)	
Key unobservable inputs			
- Estimated mineral resources	- Estimated mineral resources were 10% higher - Estimated mineral resources were 10% lower	166,890 (166,890)	
- Milestone probability weighting	- Increase in probability weighting by 10% - Decrease in probability weighting by 10%	166,890 (166,890)	
Total Acquisition costs			
	Esperanza Gold Project	Zacatecas Project	Total
Balance, December 31, 2021	\$ -	\$ 2,492,261	\$ 2,492,261
Acquisition of Esperanza Gold Project	44,488,850	-	44,488,850
Foreign currency translation	-	174,504	174,504
Balance, December 31, 2022	44,488,850	2,666,765	47,155,615
Foreign currency translation	-	192,897	192,897
Balance, September 30, 2023	\$44,488,850	\$ 2,859,662	\$47,348,512

ZACATECAS SILVER CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023

(Expressed in Canadian Dollars - Unaudited)

5. MINERAL PROPERTIES (cont'd...)**Exploration Expenditures**

During the period ended September 30, 2023 and September 30, 2022, the Company incurred exploration costs on the Esperanza Gold and Zacatecas silver projects as follows:

For the nine months ended September 30, 2023	Esperanza Gold Project	Zacatecas Project	Total
Administrative, permitting and land access	\$ 444,718	\$ -	\$ 444,718
Corporate social responsibility and community relations	663,568	-	663,568
Drilling and assay	-	6,665	6,665
General Exploration	468,759	672,371	1,141,130
Mining duties	488,144	119,489	607,633
Reporting and technical studies	73,395	21,568	94,963
Taxes paid (IVA)	<u>143,551</u>	<u>38,462</u>	<u>182,013</u>
	\$ 2,282,135	\$ 858,555	\$ 3,140,690

For the nine months ended September 30, 2022	Esperanza Gold Project	Zacatecas Project	Total
Administrative, permitting and land access	\$ 275,408	\$ 14,561	\$ 289,969
Corporate social responsibility and community relations	1,061,385	-	1,061,385
Drilling and assay	-	2,113,454	2,113,454
General Exploration	634,653	923,181	1,557,834
Mining duties	424,874	189,890	614,764
Reporting	343,482	87,549	431,031
Salaries and wages	126,166	-	126,166
Taxes paid (IVA)	<u>210,930</u>	<u>360,704</u>	<u>571,634</u>
	\$ 3,076,898	\$ 3,689,339	\$ 6,766,237

6. RELATED PARTY TRANSACTIONS

Key management personnel include 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 nine-month periods ended September 30, 2023 and 2022, the Company entered into the following transactions with related parties, not disclosed elsewhere in these condensed consolidated interim financial statements:

	2023	2022
Professional fees	\$ 199,532	\$ 207,354
Exploration costs	191,394	240,625
Director fees	81,000	45,000
Management fees	258,188	244,678
Share-based payments	-	469,061
	\$ 730,114	\$ 1,206,718

As at September 30, 2023, \$119,533 (December 31, 2022 - \$201,420) was included in accounts payable and accrued liabilities owing to officers and directors of the Company.

ZACATECAS SILVER CORP.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023
(Expressed in Canadian Dollars - Unaudited)**

7. SHAREHOLDERS' EQUITY

Authorized

An unlimited number of common shares without par value.

Escrowed shares

As at September 30, 2023, 2,606,250 common shares were held in escrow and will be released on March 2, 2024.

Issued share capital

During the period ended September 30, 2023, the Company:

Closed a non-brokered financing on May 10, 2023 issuing 7,809,502 units at a price of \$0.45 per unit for total proceeds of \$3,514,276. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase a common share at an exercise price of \$0.55 for a period of three years. The Company paid share issuance costs of \$62,068 and issued 137,706 broker warrants, with each warrant exercisable at a price of \$0.45 per share for a period of two years from the date of issue.

During the year ended December 31, 2022, the Company:

Closed a subscription receipt financing On March 22, 2022 for total gross proceeds of \$19,151,521 pursuant to the issuance of 17,410,474 subscription receipts at a price of \$1.10 per subscription receipt ("2022 Subscription Receipt"). Each 2022 Subscription Receipt was converted into one unit of the Company on April 12, 2022, and the funds were released to the Company. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$1.50 per common share for a period of 24 months from the date of issue.

The Company paid finders' fees of \$998,716, paid other share issuance costs of \$266,651, and issued 907,924 broker warrants as finders' fees. Each broker warrant is exercisable into one common share at a price of \$1.10 for a period of 2 years. The broker warrants were valued at \$522,407 using the Black-Scholes pricing methodology. The Company used the following assumptions when valuing the broker warrants: expected volatility of 85.81%, risk free interest rate of 2.31%, life of 2 years, dividend yield of 0% and forfeiture rate of 0%.

Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years with vesting determined by the board of directors.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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7. SHAREHOLDERS' EQUITY (Cont'd...)

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2021	-	\$ -	4,317,500	\$ 0.50
Granted	<u>9,613,161</u>	1.40	<u>1,500,000</u>	0.83
Outstanding and exercisable, December 31, 2022 and September 30, 2023	<u>9,613,161</u>	\$ 1.40	<u>5,817,500</u>	\$ 0.59

The balance of stock options and warrants outstanding as at September 30, 2023, was as follows:

Expiry Date	Number	Exercise Price - \$	Remaining Life (Years)
Stock Options			
March 2, 2026	4,317,500	0.50	2.42
March 15, 2027	400,000	1.20	3.46
July 18, 2027	1,100,000	0.70	3.80
Warrants			
March 22, 2024	907,924	1.10	0.48
April 12, 2024	8,705,237	1.50	0.53

During the period ended September 30, 2023, the Company did not grant any stock options. During period ended September 30, 2022, the Company granted 1,500,000 stock options with a weighted average fair value of \$0.48 per option to directors and advisors of the Company. Total share-based payments recognized in the statement of loss and comprehensive loss for the period ended September 30, 2023, was \$nil. (2022 - \$714,201) for stock options granted and vested. This amount was also recorded as contributed surplus on the statement of financial position.

	2023	2022
Risk-free interest rate	-	2.42%
Expected life of options	-	5 years
Annualized volatility	-	86.31%
Dividend rate	-	0.00%
Forfeiture rate	-	0.00%

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8. SEGMENT INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration, and evaluation of resource properties in Mexico, as described in Note 5.

9. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments. Cash is valued at a level 1 fair value measurement and is classified as fair value through profit or loss. Receivables are classified at amortized cost. Accounts payable and accrued liabilities are classified as amortized cost.

Risk management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist of goods and services tax receivable from the government of Canada.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities are due within one year.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's practice has been to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at September 30, 2023, the Company is not exposed to significant interest rate risk.

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9. FINANCIAL AND CAPITAL RISK MANAGEMENT (Cont'd...)

Risk management (Cont'd...)

b) Foreign currency risk

The majority of purchases are transacted in the Canadian dollar. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition, exploration and evaluation of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the nine-month period ended September 30, 2023, the Company granted 137,706 broker warrants valued at \$32,145, which are recorded in share issuance costs and contributed surplus.

During the nine-month period ended September 30, 2022, the Company:

- a) Issued 12,140,000 common shares valued at \$13,354,000 and recorded contingent consideration of \$22,153,531 as part of the consideration for the Esperanza Gold Project.
- b) Granted 907,924 broker warrants valued at \$522,407 which are recorded in share issuance costs and contributed surplus.

There was no cash paid for interest or taxes during the periods ended September 30, 2023 and September 30, 2022