



ZACATECAS SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Zacatecas Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of Zacatecas Silver Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income (loss) and comprehensive income (loss), cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred losses since inception and does not currently have the financial resources to sustain operations in the long-term. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year ended. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined that matters described below to be key audit matters to be communicated in our auditor's report.

Assessment of Impairment Indicators of Mineral Properties

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's Mineral Properties was \$47,360,538 as of December 31, 2023. As more fully described in Notes 2 and 3 to the consolidated financial statements, management assesses Mineral Properties for indicators of impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.



The principal considerations for our determination that the assessment of impairment indicators of the Mineral Properties is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the Mineral Properties, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the Mineral Properties.

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

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the Mineral Properties through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Assessing compliance with agreements and expenditure requirements including reviewing option agreements and vouching cash payments and share issuances.
- Obtaining, on a test basis through correspondence with legal counsel, confirmation of title to ensure mineral rights underlying the Mineral Properties are in good standing.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 25, 2024

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

	December 31, 2023	December 31, 2022
ASSETS		
Current		
Cash	\$ 12,968	\$ 1,112,343
Prepaid expenses and advances	51,669	57,669
Receivables (Note 4)	<u>16,183</u>	<u>70,469</u>
	80,820	1,240,481
Equipment (Note 5)	65,858	127,459
Mineral property (Note 6)	<u>47,360,538</u>	<u>47,155,615</u>
	<u>\$ 47,507,216</u>	<u>\$ 48,523,555</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 1,451,328	\$ 1,022,687
Contingent consideration (Note 6)	<u>8,349,429</u>	<u>21,594,607</u>
	<u>9,800,757</u>	<u>22,617,294</u>
Shareholders' equity		
Share capital (Note 8)	45,557,822	42,506,184
Contributed surplus (Note 8)	3,210,282	2,832,229
Accumulated other comprehensive income	578,411	102,051
Deficit	<u>(11,640,056)</u>	<u>(19,534,203)</u>
	<u>37,706,459</u>	<u>25,906,261</u>
	<u>\$ 47,507,216</u>	<u>\$ 48,523,555</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on April 25, 2024

<u>"Bryan Slusarchuk"</u> Bryan Slusarchuk	Director	<u>"John Lewins"</u> John Lewins	Director
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The accompanying notes are an integral part of these consolidated financial statements.

ZACATECAS SILVER CORP.**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)**

	2023	2022
EXPENSES		
Consulting fees	\$ 51,000	\$ 299,930
Depreciation (Note 5)	60,444	58,299
Directors fees (Note 7)	117,000	79,500
Exploration expenses (Note 6 and 7)	3,408,614	8,722,487
Foreign exchange	274,251	(77,736)
Management fees (Note 7)	346,899	332,815
Marketing and shareholder communications	280,252	1,602,768
Office expense	188,386	278,012
Professional fees (Note 7)	564,615	401,921
Project investigations	-	51,360
Share-based payments (Notes 7 and 8)	-	714,201
Transfer agent and filing fees	41,227	48,725
Travel	<u>27,365</u>	<u>249,647</u>
	(5,360,053)	(12,761,929)
Interest income	2,925	55,841
Gain on sale of assets	6,097	-
Change in fair value of contingent consideration (Note 6)	<u>13,245,178</u>	<u>1,212,460</u>
	13,254,200	1,268,301
Income (loss) for the year	\$ 7,894,147	\$ (11,493,628)
Other comprehensive income		
Exchange difference on translation of foreign operations	<u>476,360</u>	<u>129,406</u>
Income (loss) and comprehensive income (loss) for the year	\$ 8,370,507	\$ (11,364,222)
Basic and diluted earnings (loss) per common share	\$ 0.09	\$ (0.16)
Weighted average number of common shares outstanding – basic and diluted	87,629,525	71,759,272

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

ZACATECAS SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year	\$ 7,894,147	\$ (11,493,628)
Items not affecting cash		
Depreciation	60,444	58,299
Gain on sale of assets	(6,097)	-
Share-based payments	-	714,201
Change in fair value of contingent consideration	(13,245,178)	(1,212,460)
Non-cash working capital item changes:		
Prepaid expenses and advances	6,000	216,873
Receivables	63,086	1,305
Accounts payable and accrued liabilities	428,641	(377,157)
Net cash used in operating activities	<u>(4,798,957)</u>	<u>(12,092,567)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral property	-	(7,368,278)
Acquisition of equipment	-	(66,644)
Exploration advances	-	202,831
Cash acquired with Esperanza Silver de Mexico S.A. de C.V.	<u>-</u>	<u>16,506</u>
Net cash used in investing activities	<u>-</u>	<u>(7,215,585)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	3,514,276	19,151,521
Share issuance costs	<u>(84,585)</u>	<u>(1,265,367)</u>
Net cash provided by financing activities	<u>3,429,691</u>	<u>17,886,154</u>
Change in cash for the year	(1,369,266)	(1,421,998)
Effect of changes in exchange rates on cash	269,891	(49,976)
Cash, beginning of year	<u>1,112,343</u>	<u>2,584,317</u>
Cash, end of year	<u>\$ 12,968</u>	<u>\$ 1,112,343</u>

Supplemental disclosure with respect to cash flows (Note 12).

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

ZACATECAS SILVER CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	<u>Share Capital</u>		Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	Number	Amount				
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 – shares	-	(1,787,774)	522,407	-	-	(1,265,367)
Share based payments	-	-	714,201	-	-	714,201
Loss and comprehensive loss for the year	-	-	-	129,406	(11,493,628)	(11,364,222)
Balance, December 31, 2022	82,601,489	42,506,184	2,832,229	102,051	(19,534,203)	25,906,261
Private Placement	7,809,502	3,162,848	351,428	-	-	3,514,276
Share issue costs	-	(84,585)	-	-	-	(84,585)
Fair value of warrants issued as finders' fees	-	(26,625)	26,625	-	-	-
Income and comprehensive income for the year	-	-	-	476,360	7,894,147	8,370,507
Balance, December 31, 2023	90,410,991	\$ 45,557,822	\$ 3,210,282	\$ 578,411	\$ (11,640,056)	\$ 37,706,459

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

ZACATECAS SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Zacatecas Silver Corp. (the “Company”) was incorporated in Canada under the British Columbia Corporations Act 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 IFRS Accounting 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, and necessary financings, or generate profitable operations in the future.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”).

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

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.

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

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.

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 subsidiaries 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.

Acquisitions

The acquisition of Esperanza, as described in Note 6, 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:

ZACATECAS SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(Expressed in Canadian Dollars)

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

Basis of Consolidation (cont'd...)

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 6).

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 6).

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 6).

3. MATERIAL ACCOUNTING POLICY INFORMATION

Financial instruments

Financial assets

The Company classified its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI"), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company's accounting policy for each of the categories is as follows:

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statements of loss and comprehensive loss.

Financial assets at FVTOCI: Financial assets carried at FVTOCI are recorded at fair value and transaction costs are expensed in the statement (loss) income. Realized and unrealized gains and losses arising from changes in fair value of the financial assets held at FVTOCI are included in other comprehensive (loss) income.

Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income in they arise.

Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

ZACATECAS SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd...)

Financial instruments (cont'd...)

Financial assets (cont'd...)

Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The following table shows the classification of the Company's financial assets:

Financial asset	IFRS 9 Classification
Cash	Amortized cost
Receivables	Amortized cost

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term and includes contingent consideration. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statements of loss and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, deferred acquisition costs, and subscription receipts, which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statements of loss and comprehensive loss immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

The following table shows the classification of the Company's financial liabilities:

Financial liability	IFRS 9 Classification
Accounts payable and accrued liabilities	Amortized cost
Contingent consideration	FVTPL

Exploration and evaluation - mineral property

The Company is in the process of exploring its mineral property interests and has not yet determined whether these properties contain ore reserves that are economically recoverable.

All costs related to the acquisition of mineral properties, including option payments, are capitalized on an individual prospect basis. Amounts received for the sale of mineral properties and for option payments are treated as reductions of the cost of the property, with payments in excess of capitalized costs recognized in profit or loss. The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof. Subsequent recovery of the resulting carrying value depends on successful development or sale of the mineral property. If a mineral property does not prove viable, all unrecoverable costs associated with the project net of any impairment provisions are written off.

Exploration and evaluation expenditures are recognized in profit or loss. Costs incurred before the Company has obtained legal rights to explore on areas of interest are recognized in profit or loss. Expenditures incurred by the

ZACATECAS SILVER CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

(Expressed in Canadian Dollars)

3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd...)

Exploration and evaluation - mineral property (cont'd...)

Company in connection with the exploration and evaluation of mineral resources after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable are capitalized.

Title to mineral properties involves inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyance history characteristics of many mineral properties. The Company has investigated title to all of its mineral properties and proposed acquisition of mineral property interests and to the best of its knowledge the properties are in good standing.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning provision

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral properties, oil and gas interests, and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the related asset.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd...)

Equipment

Equipment includes computer and office equipment, field equipment and vehicles, which is carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures directly attributable to bringing the asset to its operating location and condition necessary for it to be capable of operating in the intended manner.

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of equipment.

Depreciation is based on the cost of the assets less estimated residual value and the expected useful life. Depreciation commences when an asset is available for use and is recorded until an asset is disposed of or otherwise removed from services. Depreciation is recorded using the straight-line method over three years for equipment. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

Share capital

Equity financing transactions may involve the issuance of units. Units comprise common shares and share purchase warrants. The Company accounts for unit offering proceeds between common shares and share purchase warrants using the residual value method, with the common shares being valued first and the balance, if any, is allocated to the attached warrants

Income and Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd...)

Income taxes (cont'd...)

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

Foreign Currencies

The presentation currency of the Company is the Canadian dollar. The functional currency is the currency of the primary economic environment in which the entity operates.

Entities whose functional currencies differ from the presentation currency are translated into Canadian dollars as follows: assets and liabilities – at the closing rate as at the reporting date, and income and expenses – at the average rate of the period. All resulting changes are recognized in other comprehensive loss as cumulative translation differences.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to profit or loss.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive loss related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive loss related to the subsidiary are reallocated between controlling and non-controlling interests.

Business combinations and asset acquisitions

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in an acquisition is generally measured at fair value, as are the identifiable net assets acquired. Where an acquisition is determined to be an asset acquisition, the net value is attributed to a single identifiable asset or group of similar identifiable assets.

Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value at each reporting date. The Company has elected to record subsequent changes in the fair value of the contingent consideration on an asset acquisition to profit or loss.

Transaction costs incurred in an asset acquisition are capitalized to the cost of the asset acquired.

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3. MATERIAL ACCOUNTING POLICY INFORMATION (cont'd...)

Metal stream contract

The Company entered into a streaming arrangement (“Silver Stream”) with a third party as partial consideration for the acquisition of the Esperanza Gold Project (Note 6). Under the Silver Stream, the Company will deliver a portion of any future silver production from the Esperanza Gold Project and will in turn receive a cash payment as metal is delivered to the customer. See Note 6 for details on the Silver Stream.

The Company has recognized the liability as the obligation to deliver good in the future which will be recognized at fair value until such time that the terms of delivery, defined by the parameters of economic feasibility and future operations of the Esperanza Gold Project, are established under IFRS 15 *Revenue from contracts with customers* (“IFRS 15”).

New standards and standards not yet adopted

The Company adopted the following amendments to accounting standards, which are effective for annual periods beginning on or after January 1, 2023:

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – the amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

Definition of Accounting Estimates (Amendments to IAS 8) – the amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

The Company has not early adopted any other new accounting standard or amendment that has been issued but is not yet effective.

4. RECEIVABLES

	December 31, 2023	December 31, 2022
Goods and service tax (“GST”) receivable	\$ 5,312	\$ 21,749
Other	<u>10,871</u>	<u>48,720</u>
Total	<u>\$ 16,183</u>	<u>\$ 70,469</u>

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5. 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
Disposal	-	-	(10,688)		(10,688)
Foreign exchange	1,974	5,234	(1,292)		5,916
Balance, December 31, 2023	\$ 133,284	\$ 47,084	\$ 21,074	\$ -	\$ 201,442
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	36,027	13,437	10,980		60,444
Disposal	-	-	(6,479)		(6,479)
Foreign exchange	1,011	2,124	(271)		2,864
Balance, December 31, 2023	\$ 94,601	\$ 29,040	\$ 11,943	\$ -	\$ 135,584
Carrying amount at December 31, 2022	\$ 73,747	\$ 28,371	\$ 25,341	\$ -	\$ 127,459
Carrying amount at December 31, 2023	\$ 38,683	\$ 18,044	\$ 9,131	\$ -	\$ 65,858

6. MINERAL PROPERTY**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 a 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.

Esperanza 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”).

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6. MINERAL PROPERTY (cont'd...)

Esperanza Project, Mexico (cont'd...)

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.

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

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6. MINERAL PROPERTY (cont'd...)

Esperanza Project, Mexico (cont'd...)

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 December 31, 2023 the Company used a discount rate of 14.75% (December 31, 2023 - 12.75%). The changes in the fair value of the Milestone Payments and Silver Stream ("Contingent Consideration") for the year ended December 31, 2023 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	(11,921,737)	(1,323,441)	(13,245,178)
Balance, December 31, 2023	\$ 6,924,498	\$ 1,424,931	\$ 8,349,429

The Milestone Payments are considered to be in level 3 of the fair value hierarchy (Note 11).

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

Inputs and Assumption	December 31, 2023	December 31, 2022
Debt discount rate	14.75%	12.75%
Average silver price	US\$22.71	US\$21.44

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:

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6. MINERAL PROPERTY (cont'd...)

Esperanza Project, Mexico (cont'd...)

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	94,743 (94,743)
- Discount rates	- Discount rates were 1% higher - Discount rates were 1% lower	109,321 (109,321)
- Foreign exchange rates	- Exchange rate was 10% higher - Exchange rate was 10% lower	94,743 (94,743)
Key unobservable inputs		
- Estimated mineral resources	- Estimated mineral resources were 10% higher - Estimated mineral resources were 10% lower	94,743 (94,743)
- Milestone probability weighting	- Increase in probability weighting by 10% - Decrease in probability weighting by 10%	94,743 (94,743)

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	-	204,923	204,923
Balance, December 31, 2023	\$44,488,850	\$ 2,871,688	\$47,360,538

Exploration Expenditures

During the year ended December 31, 2023 and December 31, 2022, the Company incurred exploration costs on the Esperanza Gold and Zacatecas silver projects as follows:

	Esperanza Gold Project	Zacatecas Project	Total
For the year ended December 31, 2023			
Administrative, permitting and land access	\$ 529,900	\$ -	\$ 529,900
Corporate social responsibility and community relations	698,159	-	698,159
Drilling and assay	-	6,665	6,665
General Exploration	525,572	619,294	1,144,866
Mining duties	491,168	244,474	735,642
Reporting and technical studies	73,849	21,630	95,479
Taxes paid (IVA)	157,360	40,543	197,903
	\$ 2,476,008	\$ 932,606	\$ 3,408,614

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6. MINERAL PROPERTY (cont'd...)

Esperanza Project, Mexico (cont'd...)

For the year ended December 31, 2022	Esperanza Gold Project	Zacatecas Project	Total
Administrative, permitting and land access	\$ 521,421	\$ 14,920	\$ 536,341
Corporate social responsibility and community relations	1,536,711	-	1,536,711
Drilling and assay	-	2,179,546	2,179,546
General Exploration	849,012	1,172,539	2,021,551
Mining duties	435,715	194,594	630,309
Reporting and technical studies	920,336	152,038	1,072,374
Taxes paid (IVA)	<u>372,544</u>	<u>373,111</u>	<u>745,655</u>
	\$ 4,635,739	\$ 4,086,748	\$ 8,722,487

7. 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 years ended December 31, 2023 and December 31, 2022, the Company entered into the following transactions with related parties, not disclosed elsewhere in these consolidated financial statements:

	2023	2022
Professional fees	\$ 242,994	\$ 222,619
Acquisition costs – professional fees	-	49,508
Exploration costs	257,293	305,529
Director fees	117,000	79,500
Management fees	346,899	332,815
Share-based payments	-	469,061
	<u>\$ 964,186</u>	<u>\$ 1,459,032</u>

As at December 31, 2023, \$461,606 (2022 - \$201,420) was included in accounts payable and accrued liabilities owing to officers and directors of the Company in relation to fees and reimbursement of expenses.

8. SHAREHOLDERS' EQUITY

Authorized

An unlimited number of common shares without par value.

Escrowed shares

As at December 31, 2023, 2,606,250 common shares were held in escrow which will be released on March 2, 2024.

Issued share capital

For the year ended December 31, 2023

On May 10, 2023, the Company closed a non-brokered financing for total gross proceeds of \$3,514,276 pursuant to the issuance of 7,809,502 units at a price of \$0.45 per unit. 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.

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8. SHAREHOLDERS' EQUITY (cont'd...)**Issued share capital (cont'd...)**

In accordance with the Company's accounting policy, the gross proceeds were allocated to the common shares and the share purchase warrants using the residual method, resulting in the allocation of \$351,428 to the fair value of the warrants.

The Company paid finders' fees of \$61,967, paid other share issuance costs of \$22,618, and issued 137,706 broker warrants as finders' fees. Each broker warrant is exercisable into one common share at a price of \$0.45 for a period of 2 years. The broker warrants were valued at \$26,625 using the Black-Scholes Option Pricing Model. The Company used the following assumptions when valuing the broker warrants: expected volatility of 92.36%, risk free interest rate of 3.54%, life of 2 years, dividend yield of 0% and forfeiture rate of 0%.

For the year ended December 31, 2022

On March 22, 2022, the Company closed a subscription receipt financing 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.

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, December 31, 2022	9,613,161	1.40	5,817,500	0.59
Granted	<u>7,947,208</u>	0.55	<u>-</u>	-
Outstanding and exercisable, December 31, 2023	<u>17,560,369</u>	\$ 1.05	<u>5,817,500</u>	\$ 0.59

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8. SHAREHOLDERS' EQUITY (cont'd...)

Stock options (cont'd...)

The balance of stock options and warrants outstanding as at December 31, 2023, was as follows:

Expiry Date	Number	Exercise Price - \$	Remaining Life (Years)
Stock Options			
March 2, 2026	4,317,500	0.50	2.17
March 15, 2027	400,000	1.20	3.21
July 18, 2027	1,100,000	0.70	3.55
Warrants			
March 22, 2024	907,924	1.10	0.22
April 12, 2024	8,705,237	1.50	0.28
May 10, 2026	137,706	0.45	1.36
May 10, 2026	7,809,502	0.55	2.36

During the year ended December 31, 2023, the Company did not grant any stock options. During year ended December 31, 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 year ended December 31, 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%

9. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes for the year ended December 31, 2023 and 2022:

	2023	2022
Income (loss) before income taxes	\$ 7,894,147	\$ (11,493,628)
Expected income tax (recovery)	\$ 2,131,000	\$ (3,103,000)
Change in statutory, foreign tax and other	249,000	(183,000)
Permanent differences	(3,345,000)	(131,000)
Share issue costs	(23,000)	(342,000)
Change in foreign exchange	(62,000)	(170,000)
Change in unrecognized deductible temporary differences	<u>1,050,000</u>	<u>3,929,000</u>
Income tax recovery	\$ -	\$ -

The significant components of the Company's deferred income tax assets as at December 31, are as follows:

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9. INCOME TAXES (cont'd...)

	2023	2022
	\$	\$
Non-capital loss carry forward	2,332,000	2,205,000
Exploration and evaluation assets	3,744,000	2,853,000
Share issue and financing costs	337,000	318,000
Property and equipment	43,000	30,000
Unrecognized deferred income tax assets	(6,456,000)	(5,406,000)
Net deferred tax asset	-	-

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2023	2022	Expiry Date Range
Exploration and evaluation assets	\$ 12,478,000	\$ 9,507,000	N/A
Equipment	152,000	104,000	N/A
Share issuance costs	1,250,000	1,178,000	2044 to 2049
Non-capital losses	8,566,000	8,124,000	2026 to 2043

10. 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 6.

11. 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.

11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)

Risk management (cont'd...)

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 December 31, 2022, the Company is not exposed to significant interest rate risk.

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.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2023, the Company:

- a) Granted 137,706 broker warrants valued at \$26,625, which are recorded in share issuance costs and contributed surplus.
- b) Disposed of equipment for net proceeds of \$10,688 which is in receivables.
- c) Allocated \$351,428 using the residual value method to the fair value of the warrants included in the unit financing (note 8).

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12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

During the year ended December 31, 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.

13. SUBSEQUENT EVENTS

On February 13, 2024, the Company closed a non-brokered financing for total gross proceeds of \$2,500,000 pursuant to the issuance of 25,000,000 units at a price of \$0.10 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share at an exercise price of \$0.15 for a period of two years from the date of issuance.

The Company paid \$55,038, issued 315,000 common shares and issued 865,375 broker warrants as finders' fees. Each broker warrant is exercisable into one common share at a price of \$0.10 for a period of 2 years.