



**ZACATECAS SILVER CORP.**

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

**FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2022**

## **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**

	June 30, 2022	December 31, 2021
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 8,166,123	\$ 2,584,317
Prepaid expenses and advances	331,044	274,542
Receivables (Note 3)	<u>146,394</u>	<u>27,575</u>
	8,643,561	2,886,434
Equipment (Note 5)	135,378	75,191
Exploration advances	191,518	202,831
Mineral properties (Note 4)	<u>46,347,459</u>	<u>2,492,261</u>
	<u>\$ 55,317,916</u>	<u>\$ 5,656,717</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 2,081,050	\$ 340,589
<b>Contingent consideration</b> (Note 4)	<u>22,219,439</u>	<u>-</u>
	<u>24,300,489</u>	<u>340,589</u>
<b>Shareholders' equity</b>		
Share capital (Note 7)	42,506,184	11,788,437
Contributed surplus (Note 7)	2,447,009	1,595,621
Accumulated other comprehensive loss	(14,845)	(27,355)
Deficit	<u>(13,920,921)</u>	<u>(8,040,575)</u>
	<u>31,017,427</u>	<u>5,316,128</u>
	<u>\$ 55,317,916</u>	<u>\$ 5,656,717</u>

**Nature and continuance of operations** (Note 1)

Approved and authorized by the Board on August 26, 2022.

<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)

	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
<b>EXPENSES</b>				
Accretion expense (Note 4)	\$ -	\$ -	\$ -	\$ 29,569
Consulting fees	147,500	-	147,500	-
Depreciation (Note 5)	26,741	7,312	35,664	10,537
Directors' fees (Note 6)	18,000	-	27,000	-
Exploration expenses (Note 4 and 6)	2,372,468	343,543	3,938,354	566,180
Foreign exchange	55,642	(21,380)	3,698	(63,954)
Management fees (Note 6)	81,535	100,342	162,345	254,121
Marketing and shareholder communications	268,579	282,633	782,645	780,012
Office and administrative expense	20,388	13,510	44,790	25,587
Professional fees (Note 6)	79,839	79,109	165,820	199,724
Project investigation	-	-	51,360	-
Share-based payments (Notes 6 and 7)	-	-	328,981	1,825,910
Transfer agent and filing fees	33,878	11,637	36,106	41,637
Travel	67,052	10,783	108,816	16,061
<b>Loss from operations</b>	(3,171,622)	(827,489)	(5,833,079)	(3,685,384)
Interest income	17,357	3,981	18,641	11,075
Change in fair value of contingent consideration (Note 4)	(65,908)	-	(65,908)	-
	(48,551)	3,981	(47,267)	11,075
<b>Loss for the period</b>	(3,220,173)	(823,508)	(5,880,346)	(3,674,309)
Other comprehensive loss				
Exchange difference on translation of foreign operations	755	-	12,510	-
<b>Loss and comprehensive loss for the period</b>	\$ (3,219,418)	\$ (823,508)	\$ (5,867,836)	\$ (3,674,309)
<b>Basic and diluted loss per common share</b>	\$ (0.04)	\$ (0.02)	\$ (0.09)	\$ (0.09)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	78,704,723	52,755,850	63,364,459	39,963,518

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 SIX-MONTH PERIOD ENDED

	June 30, 2022	June 30, 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (5,880,346)	\$ (3,674,309)
Items not affecting cash		
Accretion	-	29,569
Depreciation	35,664	10,537
Foreign exchange	-	(43,669)
Share-based payments	328,981	1,825,910
Change in fair value of contingent consideration	65,908	-
Non-cash working capital item changes:		
Prepaid expenses and advances	(56,502)	(317,849)
Receivables	(92,356)	(386,554)
Accounts payable and accrued liabilities	<u>697,748</u>	<u>(18,514)</u>
Net cash used in operating activities	<u>(4,900,903)</u>	<u>(2,574,879)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of mineral property	(7,368,278)	(1,896,150)
Acquisition of equipment	(13,124)	(61,656)
Cash acquired with Esperanza Silver de Mexico S.A. de C.V.	<u>37,726</u>	<u>-</u>
Net cash used in investing activities	<u>(7,343,676)</u>	<u>(1,957,806)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	19,151,521	266,250
Share issuance costs	<u>(1,265,367)</u>	<u>(27,600)</u>
Net cash provided by financing activities	<u>17,886,154</u>	<u>238,650</u>
<b>Change in cash for the period</b>	<b>5,641,575</b>	<b>(4,294,035)</b>
<b>Effect of changes in exchange rates on cash</b>	<b>(59,769)</b>	<b>-</b>
<b>Cash, beginning of period</b>	<u><b>2,584,317</b></u>	<u><b>9,303,104</b></u>
<b>Cash, end of period</b>	<u><b>\$ 8,166,123</b></u>	<u><b>\$ 5,009,069</b></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)

	Share Capital				Accumulated Other Comprehensive Loss		
	Number	Amount	Contributed Surplus			Deficit	Total
Balance, December 31, 2020	34,810,001	\$ 2,635,598	\$ 58,900	\$ -	\$ (1,133,120)	\$ 1,561,378	
Conversion of subscription receipts	17,000,000	8,500,000	-	-	-	8,500,000	
Options exercised	532,500	463,046	(196,796)	-	-	266,250	
Share issue costs – shares	458,514	(27,600)	-	-	-	(27,600)	
Share based payments	-	-	1,825,910	-	-	1,825,910	
Loss for the period	-	-	-	-	(3,674,309)	(3,674,309)	
Balance, June 30, 2021	52,801,015	\$ 11,571,044	\$ 1,688,014	\$ -	\$ (4,807,429)	\$ 8,451,629	
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	-	-	328,981	-	-	328,981	
Loss for the period	-	-	-	12,510	(5,880,346)	(5,867,836)	
Balance, June 30, 2022	82,601,489	\$ 42,506,184	\$ 2,447,009	\$ (14,845)	\$ (13,920,921)	\$ 31,017,427	

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**

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Zacatecas Silver Corp. (the “Company”) was incorporated under the British Columbia 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 exploring and evaluating its resource properties and has not yet determined whether the properties contain reserves that are economically recoverable.

These condensed consolidated interim 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.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. While this had not had a material impact on the Company to date, it is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

The condensed consolidated interim 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.

#### **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, 2021.

The Company adopted the following accounting policies in the current period to address new reporting requirements:

##### *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.

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**2. BASIS OF PREPARATION (cont'd...)****Statement of Compliance (cont'd...)**

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.

*Metal stream contract*

The Company entered into a streaming arrangement with a third party ("Silver Stream") as partial consideration for the acquisition of the Esperanza Gold Project (Note 4). 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 4 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").

**Basis of Consolidation**

These condensed consolidated interim 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.

<b>Company</b>	<b>Place of Incorporation</b>	<b>Principal Activity</b>
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	Inactive
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**  
(Expressed in Canadian Dollars - Unaudited)  
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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

**Basis of Consolidation (cont'd...)**

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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. and Servicios Mineros Te Tlama S.A de C.V have a functional currency of the Mexican peso. Esperanza Silver de Mexico S.A de C.V has a functional currency of the United States dollar.

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are carried at fair value. In addition, these condensed consolidated interim 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 condensed consolidated interim 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**

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**2. BASIS OF PREPARATION (cont'd...)****Basis of Consolidation (cont'd...)***Acquisitions*

The acquisition of Esperanza, as described in Note 4, 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 4).

*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 4).

*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 4).

**3. RECEIVABLES**

	June 30, 2022	December 31, 2021
Goods and service tax ("GST") receivable	\$ 98,377	\$ 8,468
Other	<u>48,017</u>	<u>19,107</u>
Total	<u>\$ 146,394</u>	<u>\$ 27,575</u>

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**4. 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 a 100% interest in the property by issuing 5,000,000 shares (issued), agreeing to pay outstanding property taxes on the project of MXN3,977,515 (\$278,080 - paid), and agreeing to make total payments of USD\$1,500,000 over a period of two years from listing, 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%. During the period, the Company amended the Zacatecas Project purchase agreement between Santacruz, IMSC and DMZS. Under the terms of the amended purchase agreement:

- a. DMZS will pay the USD\$1,500,000 on the listing date (paid);
- b. The 5,000,000 common shares were subject to resale restrictions ranging from 2 to 4 months from listing date (issued).

The changes in the balance of the deferred payments are as follows:

Balance, December 31, 2020	\$ 1,910,250
Accretion expense	29,569
Foreign exchange	(43,669)
Payment	(1,896,150)
Balance, December 31, 2021 and June 30, 2022	\$ -

Total acquisition costs incurred by the Company during year ended December 31, 2021 and for the three-month period ended June 30, 2022 are as follows:

	Zacatecas Project
Acquisition Costs	
Closing balance, December 31, 2020	\$ 2,587,126
Foreign currency translation	(94,865)
Closing balance, December 31, 2021	2,492,261
Foreign currency translation	44,569
Closing balance, June 30, 2022	\$ 2,536,830

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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

On April 12, 2022, the Company completed its acquisition of the advanced stage 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 USD\$5,000,000 in cash;
- ii. issued 12,140,000 common shares of the Company; and
- iii. Granted a Silver Stream 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 USD\$5,000,000 within 60 days after approval of an environmental impact assessment report by the applicable governmental authorities;
- v. Pay USD\$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 USD\$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% of the issued and outstanding shares of the Company (on a partially diluted basis).

The Company has also agreed to incur USD\$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**

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**4. MINERAL PROPERTIES (cont'd...)****Esperanza 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:

<b>Purchase price</b>	
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	2,407,926
Transaction costs and finder's fee <sup>(1)</sup>	1,063,278
Fair value of consideration	\$ 42,875,809
<b>Net assets acquired</b>	
Cash	\$ 37,726
Equipment	43,704
Receivables	26,463
Exploration and evaluation assets	43,810,629
Accounts payable and accrued liabilities	(1,042,713)
	\$ 42,875,809

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

The fair value of the contingent 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 will be 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. The changes in the value of the Milestone Payments and Silver Stream ("Contingent Consideration") for the period ended June 30, 2022 are as follows:

Contingent Consideration	Milestone Payments	Silver Stream	Total
Balance, beginning of period	\$ -	\$ -	\$ -
Asset acquisition	19,745,605	2,407,926	22,153,531
Change in fair value	-	65,908	65,908
Balance, end of period	\$ 19,745,605	\$ 2,473,834	\$ 22,219,439

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

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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

During the period ended June 30, 2022 and June 30, 2021, the Company incurred exploration costs on the Zacatecas project as follows:

	<b>Esperanza Gold Project</b>	<b>Zacatecas Project</b>	<b>Total</b>
<b>For the six months ended June 30, 2022</b>			
Administrative, permitting and land access	\$ 108,594	\$ 10,655	\$ 119,249
Corporate social responsibility and community relations	503,005	-	503,005
Drilling and assay	-	1,699,723	1,699,723
General Exploration	398,335	582,329	980,664
Mining duties	-	93,975	93,975
Reporting	17,683	72,100	89,783
Salaries and wages	73,214	-	73,214
Taxes paid (IVA)	98,389	280,352	378,741
	<u>\$ 1,199,220</u>	<u>\$ 2,739,134</u>	<u>\$ 3,938,354</u>

	<b>Zacatecas Project</b>	<b>Total</b>
<b>For the six months ended June 30, 2021</b>		
Administrative, permitting and land access	\$ 19,471	\$ 19,471
Drilling and assay	72,470	72,470
General Exploration	461,850	461,850
Reporting	12,389	12,389
	<u>\$ 566,180</u>	<u>\$ 566,180</u>

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**5. EQUIPMENT**

	<b>Computer Equipment and Software</b>		<b>Field Equipment</b>		<b>Vehicles</b>	<b>Total</b>
<b>Cost</b>						
Balance, December 31, 2020	\$	-	\$	-	\$	-
Additions		78,001		15,944		93,945
Foreign exchange		-		72		72
Balance, December 31, 2021		78,001		16,016		94,017
Additions		50,431		13,124	30,792	94,347
Foreign exchange		275		748	657	1,680
Balance, June 30, 2022		128,707		29,888	31,449	190,044
<b>Accumulated Depreciation</b>						
Balance, December 31, 2020		-		-		-
Depreciation		16,161		2,653		18,814
Foreign exchange		-		12		12
Balance, December 31, 2021		16,161		2,665		18,826
Depreciation		29,763		3,819	2,082	35,664
Foreign exchange		6		156	14	176
Balance, June 30, 2022	\$	45,930	\$	6,640	\$	54,666
Carrying amount at December 31, 2020	\$	-	\$	-	\$	-
Carrying amount at December 31, 2021	\$	61,840	\$	13,351	\$	75,191
Carrying amount at June 30, 2022	\$	82,777	\$	23,248	\$	135,378

**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 six-month periods ended June 30, 2022 and 2021, the Company entered into the following transactions with related parties, not disclosed elsewhere in these condensed consolidated interim financial statements:

	<b>2022</b>	<b>2021</b>
Professional fees	\$ 132,407	\$ 86,287
Exploration costs	179,126	75,923
Director fees	27,000	-
Management fees	162,345	254,121
Share-based payments	328,981	1,145,669
	<u>\$ 829,859</u>	<u>\$ 1,562,000</u>

As at June 30, 2022, \$67,484 (December 31, 2021 - \$44,675) 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**

(Expressed in Canadian Dollars - Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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**7. SHAREHOLDERS' EQUITY****Authorized**

An unlimited number of common shares without par value.

**Escrowed shares**

As at June 30, 2022, 7,818,750 common shares are held in escrow, with escrow release schedules on listing ranging from 2 months to 36 months.

**Issued share capital**

*For the period ended June 30, 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%.

*For the year ended December 31, 2021*

During the period ended December 31, 2020, the Company closed a subscription receipt financing in two tranches issuing an aggregate of 17,000,000 subscription receipts at a price of \$0.50 per subscription receipt for gross proceeds of \$8,500,000 ("2020 Subscription Receipts"). The 2020 Subscriptions Receipts were included in restricted cash as at December 31, 2020. On March 1, 2021, the 2020 Subscription Receipts converted to 17,000,000 common shares. The Company paid share issuance costs of \$27,600 and issued 458,514 common shares valued at \$229,257 as finders' fees. During the year ended December 31, 2021, the Company issued 782,500 common shares for proceeds of \$391,250 on exercise of stock options and converted the 2020 Subscription Receipts.

**Stock option plan**

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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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

**7. SHAREHOLDERS' EQUITY (Cont'd...)****Stock options and warrants**

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, 2020	-	\$	5,100,000	\$ 0.50
Exercised	-		(782,500)	0.50
Outstanding, December 31, 2021	-		4,317,500	0.50
Granted	9,613,161	1.4	400,000	1.20
Outstanding and exercisable June 30, 2022	9,613,161	\$ 1.4	4,717,500	\$ 0.56

The balance of stock options outstanding as at June 30, 2022, was as follows:

Expiry Date	Number	Exercise Price - \$	Remaining Life (Years)
March 2, 2026	4,317,500	0.50	3.92
March 15, 2027	400,000	1.20	4.95

During the period ended June 30, 2022, the Company granted 400,000 (2021 – nil) stock options with a weighted average fair value of \$0.82 per option to a director of the Company. Total share-based payments recognized in the statement of loss and comprehensive loss for the period ended June 30, 2022, was \$328,981 (2021 - \$1,825,910) for incentive options granted and vested. This amount was also recorded as contributed surplus on the statement of financial position.

	2022	2021
Risk-free interest rate	2.42%	-
Expected life of options	5 years	-
Annualized volatility	86.31%	-
Dividend rate	0.00%	-
Forfeiture rate	0.00%	-

The balance of warrants outstanding as at June 30, 2022, was as follows:

Expiry Date	Number	Exercise Price - \$	Remaining Life (Years)
March 22, 2024	907,924	1.10	1.73
April 12, 2024	8,705,237	1.50	1.79

**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 4.

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

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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**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.

The fair value measurement of the Milestone Payments under the acquisition of the Esperanza Gold Project (Note 4) is based on unobservable inputs and is therefore classified within Level 3 of the fair value hierarchy. The determination of the fair value of the Milestone Payments requires the Company to make certain estimates and judgements in relation to future events based on the current understanding of the facts and circumstances known. The fair value of the Milestone Payments was 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 Milestone Payments and related measurement of the Silver Stream are discussed in Note 4.

**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.

*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. Contingent consideration is comprised of milestone payments and are due within 60 to 180 days of each milestone. The Milestone Payments are not expected to fall due within the next year and 50% of each Milestone Payment may be settled in shares.

*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.

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

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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**9. FINANCIAL AND CAPITAL RISK MANAGEMENT (Cont'd...)****Risk management (Cont'd...)****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 June 30, 2022, the Company is not exposed to significant interest rate risk.

**b) Foreign currency risk**

The Company's activities proceed in the Canadian dollar, US dollar and Mexican Peso. The Company raises equity in the Canadian dollar which is its functional currency. The majority of purchases are transacted in the Canadian dollar.

The Company has certain Milestone Payments which are denominated in US dollars totaling USD\$39,000,000. The payments are contingent on the Company achieving certain milestones.

Management 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.

**ZACATECAS SILVER CORP.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the six-month period ended June 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.

During the six-month period ended June 30, 2021, the Company Issued 458,514 common shares as finders' fees valued at \$229,257.

**11. SUBSEQUENT EVENT**

Subsequent to June 30, 2022, the Company granted 1,100,000 stock options exercisable at a price of \$0.70 for a period of five years to directors and consultants of the Company.