



ZACATECAS SILVER CORP.

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

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021

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 STATEMENT OF FINANCIAL POSITION**

(Expressed in Canadian Dollars - Unaudited)

AS AT

	June 30, 2021	December 31, 2020
ASSETS		
Current		
Cash	\$ 5,009,069	\$ 796,569
Restricted cash (Note 7)	-	8,506,535
Prepaid expenses and advances	405,598	173,913
Receivables (Note 3)	<u>491,762</u>	<u>19,044</u>
	5,906,429	9,496,061
Mineral property (Note 4)	2,587,126	2,587,126
Equipment (Note 5)	<u>51,119</u>	<u>-</u>
	<u>\$ 8,544,674</u>	<u>\$ 12,083,187</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 93,045	\$ 111,559
Deferred acquisition payments (Note 4)	-	1,910,250
Subscription receipts (Note 7)	<u>-</u>	<u>8,500,000</u>
	<u>93,045</u>	<u>10,521,809</u>
Shareholders' equity		
Share capital (Note 7)	11,571,044	2,635,598
Contributed surplus (Note 7)	1,688,014	58,900
Deficit	<u>(4,807,429)</u>	<u>(1,133,120)</u>
	<u>8,451,629</u>	<u>1,561,378</u>
	<u>\$ 8,544,674</u>	<u>\$ 12,083,187</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on August 26, 2021.

"Bryan Slusarchuk"
Bryan Slusarchuk

Director

"Jonathan Richards"
Jonathan Richards

Director

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

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

(Expressed in Canadian Dollars - Unaudited)

	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2021
EXPENSES		
Accretion expense (Note 4)	\$ -	\$ 29,569
Depreciation expense	7,312	10,537
Exploration expenses (Note 4 and 6)	343,543	566,180
Insurance	5,000	10,000
Investor relations	21,000	220,124
Management fees (Note 6)	100,342	254,121
Meals, entertainment, and travel	10,783	16,061
Marketing and shareholder communications	261,633	559,888
Office expense	8,510	15,587
Professional fees (Note 6)	79,109	199,724
Share-based payments (Notes 6 and 7)	-	1,825,910
Transfer agent and filing fees	<u>11,637</u>	<u>41,637</u>
Loss from operations	(848,869)	(3,749,338)
Interest income	3,981	11,075
Foreign Exchange	<u>21,380</u>	<u>63,954</u>
	25,361	75,029
Loss and comprehensive loss for the period	\$ (823,508)	\$ (3,674,309)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.09)
Weighted average number of common shares outstanding – basic and diluted	52,755,850	39,963,518

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

ZACATECAS SILVER CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

(Expressed in Canadian Dollars - Unaudited)

	For the Six Months Ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss for the period	\$ (3,674,309)
Items not affecting cash	
Accretion	29,569
Depreciation	10,537
Foreign exchange	(43,669)
Share-based payments	1,825,910
Non-cash working capital item changes:	
Prepaid expenses and advances	(317,849)
Receivables	(386,554)
Accounts payable and accrued liabilities	<u>(18,514)</u>
Net cash used in operating activities	<u>(2,574,879)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of mineral property	(1,896,150)
Acquisition of equipment	<u>(61,656)</u>
Net cash used in investing activities	<u>(1,957,806)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from exercise of stock options	266,250
Share issuance costs	<u>(27,600)</u>
Net cash provided by financing activities	<u>238,650</u>
Change in cash for the period	(4,294,035)
Cash, beginning of period	<u>9,303,104</u>
Cash, end of period	\$ <u>5,009,069</u>

The Company issued 458,514 common shares as finders fees valued at \$229,257 and reclassified \$196,796 from contributed surplus to share capital from the exercise of stock options. There were no other significant non-cash financing and investing activities and no cash paid for interest or taxes during the period ended June 30, 2021.

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

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

	Number	Amount	Contributed Surplus	Deficit	Total
Balance, July 22, 2020	-	\$ -	\$ -	\$ -	-
Shares issued for cash	29,810,001	1,907,626	-	-	1,907,626
Share issuance costs – cash	-	(22,028)	-	-	(22,028)
Acquisition of exploration and evaluation assets	5,000,000	750,000	-	-	750,000
Share-based payments	-	-	58,900	-	58,900
Loss for the period	-	-	-	(1,133,120)	(1,133,120)
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

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 THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

1. NATURE AND CONTINUANCE OF OPERATIONS

Zacatecas Silver Corp. (the “Company”) was incorporated in Canada under the British Columbia Business 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 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 ended December 31, 2020.

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.

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

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

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

Basis of Measurement

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

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

3. RECEIVABLES

	June 30, 2021	December 31, 2020
Mexican tax receivable ("IVA")	\$ 338,807	\$ -
Goods and service tax ("GST") receivable	64,253	19,044
Other	<u>2,538</u>	<u>-</u>
Total	\$ 405,598	\$ 19,044

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

4. 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 USD\$1,500,000 over a period of two years from listing, which was subsequently amended and paid as noted below.

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 will be subject to the following resale restrictions (issued):
 - i. 1,250,000 will be restricted until 2 months after the listing date;
 - ii. 1,250,000 will be restricted until 6 months after the listing date;
 - iii. 1,250,000 will be restricted until 10 months after the listing date; and
 - iv. 1,250,000 will be restricted until 14 months after the listing date.

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

	\$
Balance, July 22, 2020	-
Asset acquisition	1,559,046
Accretion expense	99,285
Accelerated accretion due to change in terms	297,091
Foreign exchange	(45,172)
Balance, December 31, 2020	1,910,250
Accretion expenses	29,569
Foreign exchange	(43,669)
Payment	(1,896,150)
Balance, June 30, 2021	-

Total acquisition costs incurred by the Company are as follows:

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

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

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

During the six-month period ended June 30, 2021, the Company incurred exploration costs as follows:

Exploration Expenditures	Zacatecas Project
Administrative costs	\$ 3,859
Assay	72,470
Camp costs	54,809
Field expenditures	74,489
Field labour	68,371
Geological consulting	103,071
Permits	15,612
Project Management	75,923
Report preparation	12,389
Surveying	41,422
Travel	43,765
	<u>\$ 566,180</u>

5. EQUIPMENT

	Computer Equipment and Software	Field Equipment	Total
Cost			
Balance, December 31, 2020	\$ -	\$ -	\$ -
Additions	50,693	10,963	61,656
Balance, June 30, 2021	<u>50,693</u>	<u>10,963</u>	<u>61,656</u>
Accumulated Depreciation			
Balance, December 31, 2020	-	-	-
Depreciation	9,868	669	10,537
Balance, June 30, 2021	<u>\$ 9,868</u>	<u>\$ 669</u>	<u>\$ 10,537</u>
Carrying amount at December 31, 2020	\$ -	\$ -	\$ -
Carrying amount at June 30, 2021	<u>\$ 40,825</u>	<u>\$ 10,294</u>	<u>\$ 51,119</u>

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 period of six months ended on June 30, 2021, the Company entered into the following transactions with related parties, not disclosed elsewhere in these condensed consolidated interim financial statements:

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

6. RELATED PARTY TRANSACTIONS (Cont'd...)

	June 30, 2021
Professional fees	\$ 86,287
Exploration costs	75,923
Management fees	254,121
Share-based payments	1,145,669
	<u>\$ 1,562,000</u>

As at June 30, 2021, \$18,706 (December 31, 2020 - \$28,107) was included in accounts payable and accrued liabilities owing to officers and directors of the Company in relation to fees and reimbursement of expenses. As at June 30, 2021, expense advances to officers and directors of \$54,600 (December 31, 2020 - \$nil) were included in receivables and prepayments.

7. SHAREHOLDERS' EQUITY**Authorized**

An unlimited number of common shares without par value.

Escrowed shares

As at June 30, 2021, 15,637,501 common shares are held in escrow and an additional 15,360,000 common shares were subject to contractual resale restrictions. The release schedules on listing range from 2 months to 36 months.

Issued share capital

During the period ended June 30, 2021, the Company issued 532,500 common shares for proceeds of \$266,250 on exercise of stock options.

During the period ended December 31, 2020, the Company:

- a) Issued one common share at a price of \$1.00 per share.
- b) Completed a non-brokered private placement consisting of 11,475,000 common shares for total proceeds of \$57,375.
- c) Completed a non-brokered private placement consisting of 9,000,000 common shares at a price of \$0.05 per share for gross proceeds of \$450,000.
- d) Issued 5,000,000 common shares, with a fair value of \$750,000, as part of the acquisition costs of the Zacatecas project (note 4).
- e) Completed a non-brokered private placement consisting of 9,335,000 common shares at a price of \$0.15 per share for gross proceeds of \$1,400,250.

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

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

7. SHAREHOLDERS' EQUITY (Cont'd...)**Subscription receipts financing**

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. The subscriptions receipts were included in restricted cash as at December 31, 2020.

On March 1, 2021, the 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.

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 transactions are summarized as follows:

	Stock Options	
	Number	Weighted Average Exercise Price
Outstanding, July 22, 2020	-	\$ -
Granted	<u>5,100,000</u>	0.50
Outstanding, December 31, 2020	5,100,000	0.50
Exercised	<u>(532,500)</u>	0.50
Outstanding and exercisable June 30, 2021	<u>4,567,500</u>	\$ 0.50

The balance of stock options outstanding as at June 30, 2021, was as follows:

Expiry Date	Number	Exercise Price - \$	Remaining Life (Years)
March 2, 2026	4,567,500	0.50	4.67

During the period ended June 30, 2021 the Company granted nil options. During the period ended December 31, 2020, the Company granted 5,100,000 options with a weighted average fair value of \$0.37 per option to directors, officers, employees, and consultants of the Company. Total share-based payments recognized in the statement of loss and comprehensive loss for the period ended June 30, 2021 was \$1,825,910 for incentive options granted and vested. This amount was also recorded as contributed surplus on the statement of financial position.

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**

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

9. FINANCIAL AND CAPITAL RISK MANAGEMENT

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

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

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

Risk management

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

Credit risk

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

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

Liquidity risk

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

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

Market risk

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

a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's practice has been to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at June 30, 2021, 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.

ZACATECAS SILVER CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars - Unaudited)

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2021.

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

Risk management (Cont'd...)

Market risk (Cont'd...)

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.