# CAPITAN SILVER CORP.

(formerly Capitan Mining Inc.)

Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2023

(Unaudited - Expressed in Canadian Dollars)

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(formerly Capitan Mining Inc.)

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**NOTICE OF NON-REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The attached condensed interim consolidated financial statements for the three months ended December 31, 2023 have not been reviewed by the Company’s auditors.

**CAPITAN SILVER CORP.**
(formerly Capitan Mining Inc.)
Condensed Interim Consolidated Statements of Financial Position as at
(Unaudited - Expressed in Canadian Dollars)

| | Notes | | December 31, 2023 | | September 30, 2023 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | | $ | 180,505 | $ | 521,614 |
| Restricted cash | 5 | | 25,000 | | 25,000 |
| Taxes receivable | 6 | | 8,241 | | 6,746 |
| Prepaid expenses | 7 | | 51,349 | | 60,051 |
| | | | 265,095 | | 613,411 |
| Equipment | 8 | | 1,261 | | 1,411 |
| VAT receivable | 6 | | 900,297 | | 872,292 |
| Exploration and evaluation assets | 9 | | 10,515,001 | | 10,260,774 |
| **Total Assets** | | **$** | **11,681,654** | **$** | **11,747,888** |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 11 | $ | 70,831 | $ | 43,391 |
| Taxes payable | | | 10,957 | | 6,478 |
| | | | 81,788 | | 49,869 |
| **Shareholders' Equity** | | | | | |
| Share capital | 10 | | 13,827,959 | | 13,827,959 |
| Reserves | 10 | | 380,368 | | 380,192 |
| Accumulated other comprehensive loss | | | 972,968 | | 931,946 |
| Deficit | | | (3,581,429) | | (3,442,078) |
| | | | 11,599,866 | | 11,698,019 |
| **Total Liabilities and Shareholders' Equity** | | **$** | **11,681,654** | **$** | **11,747,888** |

Nature and continuance of operations (Note 1)

On behalf of the Board on February 27, 2024

*John-Mark Staude* Director    *Arturo Bonillas* Director

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

**CAPITAN SILVER CORP.**
(formerly Capitan Mining Inc.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)

| | Notes | | Three months ended December 31, 2023 | | Three months ended December 31, 2022 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Management and consulting fees | 11 | $ | 63,010 | $ | 206,843 |
| Depreciation | 8 | | 159 | | 256 |
| Filing fees | | | 24,121 | | 19,288 |
| Foreign exchange (gain) loss | | | 68 | | 13,548 |
| Investor relations | | | 10,500 | | 12,750 |
| General and administration | | | 10,707 | | 9,974 |
| Professional fees | | | 29,101 | | 20,024 |
| Share-based compensation | 10,11 | | 176 | | 5,532 |
| Travel and meals | | | 5,622 | | - |
| Interest income | | | (4,113) | | (14,794) |
| **Net loss for the period** | | | **(139,351)** | | **(273,421)** |
| Foreign exchange movements | | | 41,022 | | 79,230 |
| **Comprehensive loss for the period** | | **$** | **(98,329)** | **$** | **(194,191)** |
| **Weighted average number of common shares outstanding** | | | 70,590,771 | | 65,318,406 |
| **Loss per share** | | **$** | **(0.00)** | **$** | **(0.00)** |

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

**CAPITAN SILVER CORP.**
(formerly Capitan Mining Inc.)
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months ended December 31,
(Unaudited - Expressed in Canadian Dollars)

| | | 2023 | | 2022 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | $ | (139,351) | $ | (273,421) |
| Items not involving cash: | | | | |
| Depreciation | | 159 | | 256 |
| Share-based compensation | | 176 | | 5,532 |
| Foreign exchange | | 3,497 | | 79,182 |
| Changes in non-cash working capital items: | | | | |
| Accounts payable and accrued liabilities | | 16,878 | | (159,446) |
| Taxes receivable | | (35,393) | | (67,460) |
| Prepaid expenses | | 8,702 | | 11,640 |
| | | (145,332) | | (403,717) |
| **INVESTING ACTIVITIES** | | | | |
| Exploration and evaluation assets | | (195,777) | | (612,439) |
| | | (195,777) | | (612,439) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from shares issuance, net of issuance costs | | - | | 3,200,000 |
| | | - | | 3,200,000 |
| Increase (decrease) in cash | | (341,109) | | 2,183,844 |
| Cash, beginning of the period | | 521,614 | | 78,882 |
| Cash, end of the period | **$** | **180,505** | **$** | **2,262,726** |

During the period ended December 31, 2023, non-cash transaction for mineral property expenditures included in accounts payable was $21,964 (September 30, 2023 - $6,923).

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

**CAPITAN SILVER CORP.**
(formerly Capitan Mining Inc.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited - Expressed in Canadian Dollars)

| | | Capital Stock | | | | | Accumulated Other Comprehensive | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Shares** | | **Amount** | | **Reserves** | | **Loss** | | **Deficit** | | **Total** |
| **Balance at September 30, 2022** | | **53,785,797** | **$** | **10,438,790** | **$** | **360,023** | **$** | **199,963** | **$** | **(2,695,667)** | **$** | **8,303,109** |
| Private placement | 10 | 16,000,000 | | 3,200,000 | | | | | | | | 3,200,000 |
| Share-based payments | 10 | - | | - | | 5,532 | | - | | - | | 5,532 |
| Foreign exchange movement | | - | | - | | - | | 79,230 | | - | | 79,230 |
| Loss for the period | | - | | - | | - | | - | | (273,421) | | (273,421) |
| **Balance at December 31, 2022** | | **69,785,797** | **$** | **13,638,790** | **$** | **365,555** | **$** | **279,193** | **$** | **(2,969,088)** | **$** | **11,314,450** |
| **Balance at September 30, 2023** | | **70,590,771** | **$** | **13,827,959** | **$** | **380,192** | **$** | **931,946** | **$** | **(3,442,078)** | **$** | **11,698,019** |
| Share-based payments | 10 | - | | - | | 176 | | - | | - | | 176 |
| Foreign exchange movement | | - | | - | | - | | 41,022 | | - | | 41,022 |
| Loss for the period | | - | | - | | - | | - | | (139,351) | | (139,351) |
| **Balance at December 31, 2023** | | **70,590,771** | **$** | **13,827,959** | **$** | **380,368** | **$** | **972,968** | **$** | **(3,581,429)** | **$** | **11,599,866** |

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

## 1. Nature and continuance of operations

Capitan Silver Corp., formerly Capitan Mining Inc. was incorporated on October 30, 2019, under the laws of the Business Corporation Act (British Columbia) as part of a plan of arrangement (the "Plan of Arrangement") to reorganize Riverside Resources Inc. ("Riverside"). The Company's head office address is 550 – 800 West Pender Street, Vancouver, British Columbia, Canada V6C 2V6. On August 21, 2020, the Company listed on the TSX Venture Exchange (the "Exchange") with symbol CAPT.

On March 23, 2023, the Company changed its name from Capitan Mining Inc. to Capitan Silver Corp.("Capitan" or the "Company"). The Company's shares will continue to trade under the same symbol "CAPT" on the Exchange and the number of shares outstanding will not change.

The Company's business activity is the acquisition and exploration of mineral properties in Mexico.

The Company's ability to continue operations is uncertain and is dependent upon the ability of the Company to obtain necessary financing to meet the Company's liabilities and commitments as they become payable, acquiring assets or a business, and the ability to generate future profitable production or operations or sufficient proceeds from the disposition thereof. The outcome of these matters cannot be predicted at this time. 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. The Company had incurred a net loss of $139,351 for the period ended December 31, 2023 and accumulated losses of $3,581,429 as of December 31, 2023. 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.

There are many external factors that can adversely affect general workforces, economies and financial markets globally such as global health conditions and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of the adverse results of these factors and its effects on the Company's business or ability to raise funds.

## 2. Basis of presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, which are stated at their fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

## 3. Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS 34"), "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these interim financial statements comply with International Accounting Standards ("IAS") 34 "Interim Financial Reporting".

## 4. Significant accounting policies

These condensed interim consolidated financial statements as at December 31, 2023 have been prepared following the same accounting policies as the annual consolidated financial statements as at September 30, 2023.

(Unaudited - Expressed in Canadian Dollars)

## 5. Restricted cash

Restricted cash of $25,000 held in GIC earning a variable rate of 2.70% per annum represents collateral in respect to the corporate credit card facility with a financial institution.

## 6. Taxes receivables

Taxes receivables mainly consist of tax refunds from the Federal Government of Canada and Mexico.

| | December 31, 2023 | September 30, 2023 |
|---|---|---|
| GST recoverable amounts in Canada | $ 8,241 | $ 6,746 |
| VAT recoverable amounts in Mexico | 900,297 | 872,292 |
| | $ 908,538 | $ 879,038 |

## 7. Prepaid expenses

The breakdown of prepaid expenses is as follows:

| | December 31, 2023 | September 30, 2022 |
|---|---|---|
| Expense advances | $ 40,105 | $ 39,662 |
| Insurance | 6,244 | 15,389 |
| Prepaid deposit | 5,000 | 5,000 |
| | $ 51,349 | $ 60,051 |

## 8. Equipment

| | Computer hardware |
|---|---|
| **Cost** | |
| Balance at September 30, 2023 | $ 3,200 |
| Additions | - |
| Foreign exchange movement | 21 |
| **Balance at December 31, 2023** | **$ 3,221** |
| | |
| **Accumulated depreciation** | |
| Balance at September 30, 2023 | $ (1,789) |
| Depreciation | (159) |
| Foreign exchange movement | (12) |
| **Balance at December 31, 2023** | **$ (1,960)** |
| | |
| **Net book value** | |
| Balance at September 30, 2023 | $ 1,411 |
| **Balance at December 31, 2023** | **$ 1,261** |

(Unaudited - Expressed in Canadian Dollars)

## 9. Exploration and evaluation assets

The exploration and evaluation assets in which the Company has an interest are located in Mexico. Title to exploration and evaluation asset interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation asset interests and, to the best of its knowledge, title to all of its interests is in good standing.

Cruz de Plata, Durango, Mexico

On August 14, 2020, the Company completed the acquisition of 100% interest in the Cruz de Plata Property (previously known as the Peñoles Property) for $3,500,000 by issuing 17,500,000 common shares to Riverside in connection with the Plan of Arrangement.

On January 10, 2022 and as amended on March 1, 2022, the Company entered into a purchase agreement to acquire all outstanding net smelter royalties ("NSR's") on mining claims in the Cruz de Plata Property from Exploraciones del Altiplano ("Altiplano"), a private Mexican exploration company (the "Royalty Purchase"). This included a 2% NSR on the Capitan Hill claims, 0.75% on claims covering the Jesús María, San Rafael, Pinchazo and Capitan 2 claims and 0.5% on third-party claims. The total consideration for the Royalty Purchase is US$1,000,000, of which US$550,000 will be paid in cash and US$450,000 in the Company's common shares to be issued over 2 years. The Company will also retain a right of first refusal on any shares distributed to Altiplano as consideration.

The transaction details as below:

| Due date | Cash | Common shares in value |
|---|---|---|
| Upon the closing date (January 11, 2022) | US$100,000 (paid) | - |
| On or before the first anniversary of the closing date (January 11, 2023) | US$150,000 (paid) | US$150,000 (issued) |
| On or before the second anniversary of the closing date (January 11, 2024)* | US$300,000 | US$300,000 |

* The cash payment and common shares have not been issued subsequent to period end.

In addition to the NSR's held by Altiplano, the Cruz de Plata Property has a 1% NSR owned by Riverside which was created as part of the Plan of Arrangement. The Company has the option to purchase and retire the Riverside royalty for $250,000 at any time.

On November 28, 2022, the Company executed an option agreement with Minera Fresnillo S. A. de C. V. (a wholly owned subsidiary of Fresnillo plc) ("Minera"), to acquire a 100% interest for certain mineral concessions at the Cruz de Plata Project.

The terms of the option agreement include the right to explore and an option to acquire 100% interest in the mineral concessions for total payable amount of US$1,000,000 over the three-year period. In the event the Company acquires 100% interest, Minera will maintain a 1% NSR which the Company can buy-back for US$1,000,000.

(Unaudited - Expressed in Canadian Dollars)

## 9. Exploration and evaluation assets (continued)

The transaction details as below:

| Due date | Cash |
|---|---|
| Upon the closing date (November 28, 2022) | US$50,000 (paid) |
| 18 months from the date of signing (May 28, 2024)* | US$156,300 |
| On or before the second anniversary of the closing date (November 28, 2024) | US$150,000 |
| 30 months from the date of signing (May 28, 2025) | US$150,000 |
| On or before the third anniversary of the closing date (November 28, 2025) | US$500,000 |

*At November 29, 2023, an amendment agreement was entered into with Minera, where the second payment date was extended from November 28, 2023 to May 28, 2024 and total payment due is US$156,300.

The breakdown of exploration and evaluation assets is as follows:

| | December 31, 2023 | September 30, 2023 |
|---|---|---|
| Acquisition costs | $ 570 | $ 528,254 |
| Exploration costs: | | |
| Assaying | 8,471 | 101,843 |
| Data acquisition | - | 24,245 |
| Field & camp costs | 5,868 | 27,112 |
| Geological consulting | 143,163 | 662,416 |
| Drilling | - | 128,567 |
| Transport & support | 14,703 | 141,290 |
| Total current exploration costs | 172,205 | 1,085,473 |
| Professional fees: | | |
| Legal fees | 12,082 | 83,880 |
| Business development | 25,961 | 20,592 |
| Total current professional & other fees | 38,043 | 104,472 |
| Total costs incurred during the period | 210,818 | 1,718,199 |
| Balance, Opening | 10,260,774 | 7,832,792 |
| Foreign exchange movements | 43,409 | 709,783 |
| Balance, End of the period | $ 10,515,001 | $ 10,260,774 |
| Cumulative costs: | | |
| Acquisition | $ 4,241,074 | $ 4,240,504 |
| Exploration | 4,993,341 | 4,821,136 |
| Professional & other fees | 185,338 | 147,295 |
| Foreign exchange movements | 1,095,248 | 1,051,839 |
| | $ 10,515,001 | $ 10,260,774 |

(Unaudited - Expressed in Canadian Dollars)

## 10. Share capital and reserves

The common shares have no par value and the number of authorized shares is unlimited.

Shares issued for the period ended December 31, 2023

There were no common shares issued during the period.

Shares issued for the year ended September 30, 2023

As of November 2, 2022, the Company completed a non-brokered private placement, issuing 16,000,000 common shares at $0.20 each raising gross proceeds of $3,200,000. There was no finder's fee paid on this private placement.

On January 11, 2023, the Company issued 804,974 commons shares at a fair market value of US$150,000 to Altiplano per net smelter royalties ("NSR's") purchase agreement.

**Share purchase and finders' warrants**

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Outstanding warrants, September 30, 2020 | 350,000 | $ 0.25 |
| Expired | (350,000) | 0.25 |
| Outstanding warrants, September 30, 2021, 2022 and 2023 and December 31, 2023 | - | $ - |

**Stock options**

The Company has established a rolling stock option plan ("Option Plan") enabling the directors to grant options to employees, officers, directors, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Option Plan, provided that the total number of shares reserved for issuance by the Board shall not exceed 10% of the issued and outstanding listed shares (on a non-diluted basis). Options are non-assignable and may be granted for a term not exceeding that permitted by the Exchange, currently ten years. All stock options issued are subject to vesting terms. Options issued to directors will vest as follows: 33% vest on the grant date and 33% vest on the anniversary of each year for the next two years. Also, options issued to officers and/or consultants vest as follows: 25% options vest on the grant date and 25% options vest on the anniversary of each year for the next three years. The exercise price of each option equals the market price, minimum price, or discounted market price of the Company's shares as calculated on the date of grant.

Share-based payments relating to options vested during the period ended December 31, 2023, using the Black-Scholes option pricing model was $176 (September 30, 2023 - $20,169) which was recorded as reserves on the statements of financial position and as share-based compensation expense on the statements of loss and comprehensive loss. There were no stock options granted for the year ended September 30, 2023 and the three months ended December 31, 2023.

(Unaudited - Expressed in Canadian Dollars)

## 10. Share capital and reserves (continued)

**Stock options (continued)**

The number and weighted average exercise prices of the stock options are as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Outstanding options, September 30, 2022 | 2,393,103 | $ 0.25 |
| Cancelled | (44,643) | 0.19 |
| Expired | (66,147) | 0.27 |
| Outstanding options, September 30, 2023 | 2,282,313 | $ 0.24 |
| Expired | - | - |
| Outstanding options, December 31, 2023 | 2,282,313 | $ 0.24 |

During the period ended December 31, 2023, there is no option expired or cancelled.

As at December 31, 2023, the Company has outstanding stock options exercisable as follows:

| Expiry date (mm/dd/yyyy) | Number of options outstanding | Weighted average remaining life in years | Exercise price | Number of options exercisable |
|---|---|---|---|---|
| 01/08/2024* | 50,583 | 0.02 | $ 0.155 | 50,583 |
| 11/15/2024 | 116,730 | 0.88 | $ 0.100 | 116,730 |
| 09/08/2025 | 2,065,000 | 1.69 | $ 0.250 | 2,065,000 |
| 07/16/2026 | 50,000 | 2.54 | $ 0.260 | 37,500 |
| | 2,282,313 | 1.63 | | 2,269,813 |

* Subsequent to period end, these options expired unexercised.

## 11. Related party transactions

(a) 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 consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the period ended December 31, 2023 is as follows:

| | December 31, 2023 | September 30, 2023 |
|---|---|---|
| Management and consulting fees (i) | $ 70,500 | $ 282,000 |
| Share-based compensation | - | 18,677 |
| | $ 70,500 | $ 300,677 |

(i) Management and consulting fees of the key management personnel for the period ended December 31, 2023 were allocated as follows: $33,000 (2022 - $18,000) expensed to consulting fees and $37,500 (2022- $74,337) capitalized to exploration and evaluation assets.

## 12. Financial instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's cash, restricted cash and accounts payable and accrued liabilities approximate carrying value, which is the amount recorded on the statements of financial position.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2023, the Company had cash of $180,505 (September 30, 2023 - $521,614) to settle current liabilities of $81,788 (September 30, 2023 - $49,869). The Company believes it has sufficient funds to meet its current liabilities as they become due.

*Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, silver and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

*Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to accounts payable and accrued liabilities that are denominated in Mexican pesos.

*Sensitivity analysis*

The Company operates in Mexico and is exposed to risk from changes in the Mexican peso. A 10% fluctuation in the Mexico peso against the Canadian dollar would affect loss for the period by $81,073 (September 30, 2023 - $82,770).

## 13. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of exploration and evaluation assets. In the management of capital, the Company includes components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

## 14. Segmented information

The Company operates in one reportable segment, being the acquisition and exploration of mineral property interests in Mexico.