

Geology & Mineralization at the Margaritas Gold Property, Durango State, Northern Mexico

**Claims T-214558, T-204356,
UTM Zone 12R, 492,417 E 2, 542,574 N; NAD27 (Mexico) Datum**

A Technical Report for:

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By

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May 12th, 2015
Updated December 2020

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PROPERTY DESCRIPTION AND LOCATION

Property Description and Location

The Margaritas property consists of two concessions owned by Impulsora de Proyectos Mineros: Margaritas and Ampliacion las Margaritas, covering 500 hectares located in the SW corner of the State of Durango (Fig. 1). The property lies in the eastern side of the Barranca section of the Sierra Madre Occidental, 120 km S20°W of the city of Durango in the Municipality of Pueblo Nuevo, Durango at the limits with the state of Nayarit. The concessions are centered around coordinates 2,542,574 N and 492,417 E at elevations between 1200 to 1600 m above sea level.

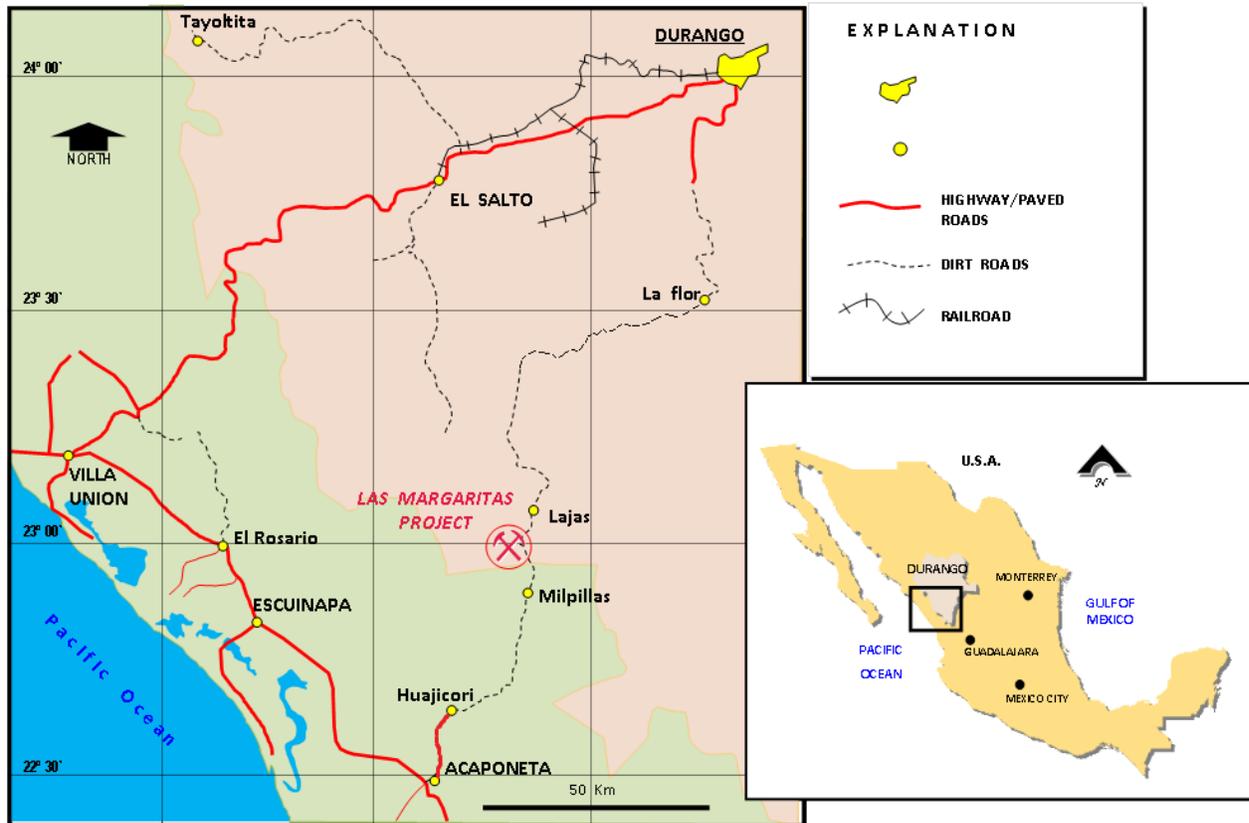


Figure 1. Location map and access to the Margaritas project.

Land Status and surface rights

In July 2011, Impulsora de Proyectos Mineros, a wholly owned Mexican subsidiary of Zapata Exploration Ltd. acquired 100% of the mineral rights of the property's concessions by means of an Assignment of Rights and Transfer of Concessions Agreement. The property is subject to a 1% NSR payable to former concessionaire Gabriel Arce Rodriguez. The royalty is capped at US\$600,000 and can be purchased anytime on or before December 20, 2018. On June 4, 2018, the royalty was renegotiated resulting in a reduction to the purchase price to US\$375,000 of which

US\$100,000 have been paid to date. US\$250,000 are due in December 2021 and US\$25,000 on December 2020.

The area, title number and expiration dates are shown in the table below and in Figure 2.

Concession	Title	Hectares	Date issued	Expiration
Ampliacion Margaritas	214558	300.00	10/2/01	10/1/2051
Las Margaritas	204356	200.00	1/31/1997	1/30/2047
Total		500.00		

Both concessions are in good standing and up to date in their obligations.

Surface rights belong solely to the community of San Francisco de Lajas. The company has negotiated surface access permits with the Community authorities and its members, maintaining a good working relationship with them.

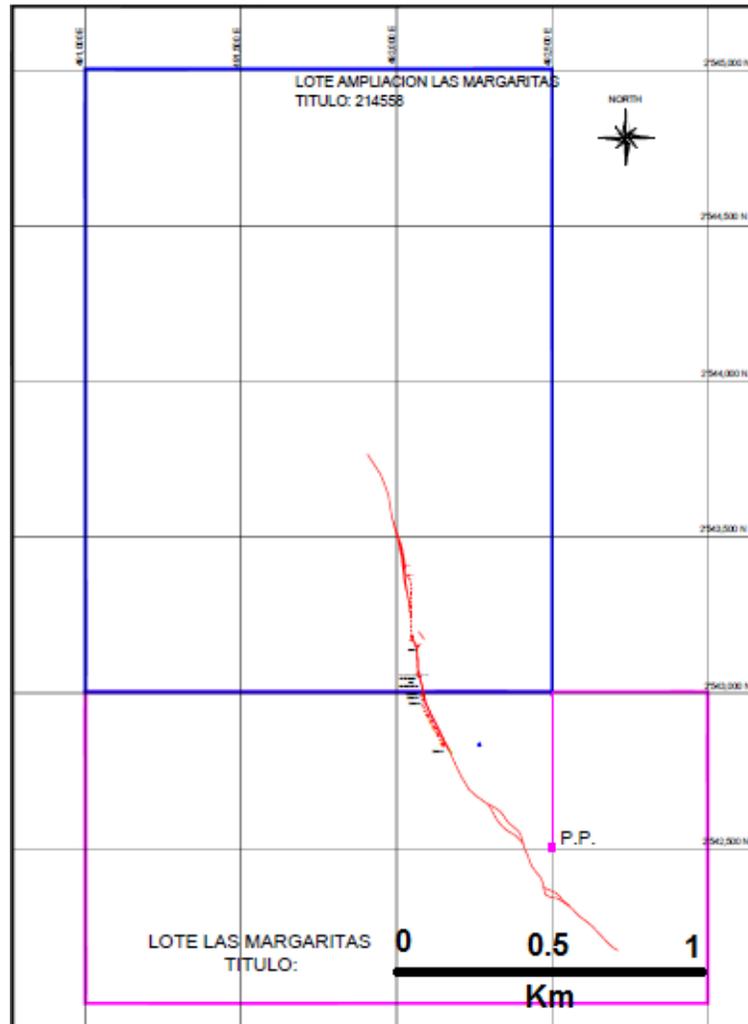


Figure 2. Margaritas Property concessions map showing the position of the vein.

ACCESSIBILITY, INFRASTRUCTURE AND LOCAL RESOURCES

The property is accessed via Nayarit or Durango. Access via Nayarit takes 4 hours from the city of Acaponeta through 21 km of paved road to the town of Huajicori and 73.2 km of dirt road in bad conditions from Huajicori, passing through San Andres Milpillias, to the project area. While this route is often inaccessible during the rainy season, the access via Durango is in general possible year-round.

The access via Durango takes 10 hours through 77 km of paved road to the village of La Flor, 153 km of dirt road in bad conditions to the ranch San Francisco de Lajas (“Lajas”) and from there a, 7 hour walk or mule ride to the project area (Photos 1,2 &3). An existing timber road of approximately 20 km connects Lajas to Margaritas, this road was not accessible at the time of the author’s visit but could be easily rehabilitated with few tens of hours of bulldozer work. Subsequently, in July 2019 the road from Lajas to Margaritas was rehabilitated and is now accessible.

There are a number of small villages around Margaritas with fewer than around 200-300 people the largest of which include Lajas and San Andres Milpillas, but none have electricity, running water or any communication services. The nearest village with services is the town of Huajicori which has a gas station, electricity, medical services and basic grocery stores. Experienced labour and mining supplies can be found in the cities of Mazatlan and Durango.

There is a 300 tpd flotation/gravity plant currently owned by Gainey Capital at El Colomo, outside of Huajicori approximately 6 Km southwest of the property.

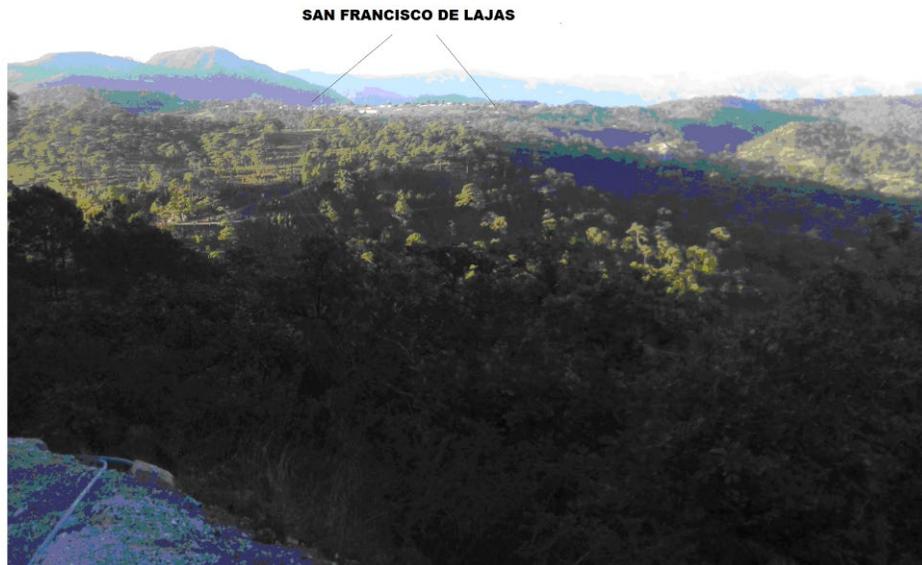


Photo 1. San Francisco de Lajas: view to the north from the trails to the Margaritas property.



Photo 2, 3. Views of the village San Francisco de Lajas. The pole on the picture on the left carries the electrical line, still under construction at the time of the visit in July 2015.

HISTORY

There are various pits, trenches, and shallow mine workings in the property but no records of when and who dug them nor records of past production or evidence of drilling.

GEOLOGICAL SETTING & MINERALIZATION

Regional Geology

Margaritas is located in the Barranca Sub-province of the Sierra Madre Occidental Province (“SMO”), a 2,000-meter-thick volcanic pile composed of andesite and rhyolite volcanic rocks of Tertiary age. These rocks are divided into two groups: the upper volcanic sequence (“UVS”) and lower volcanic sequence (“LVS”). The UVS consists mainly of ignimbrites and other tuffs of rhyolite to rhyodacite composition of late Oligocene to early Miocene age (21 to 34 Ma.) that cap the entire volcanic sequence as well as the highest ridges of the SMO, thus forming the rim of the barrancas throughout the SMO. The LVS is composed mainly of andesite flows, tuffs, agglomerates and lesser breccias with alternating members of rhyolite composition of late Cretaceous to Eocene age. It unconformably underlies the UVS and generally presents regional propylitic alteration (calcite, chlorite, and epidote). The oldest rocks are strongly folded meta-sandstones and black slates that crop out in a few of the deepest canyons in the sierra for example the Metates areas and others. The entire stratigraphic sequence is affected by diorite and granite intrusions which vary in age from late Cretaceous to mid-Tertiary.

Property Geology

The lithology in and around the property consists largely of ignimbrites of the UVS including white to grayish lithic tuffs with andesite and rhyolite fragments, massive ignimbrites with fiamme structures as well as rhyolitic tuffaceous breccias (Photo 4,5) all lying nearly horizontal to subhorizontal, gently dipping east and west. By the southern part of the property, approximately 200 meters south of the El Columpio ridge and 200+ south of the PP, the lithology consists of mid to thin-bedded sequence of compact light brown to tan colored dacite to rhyolite tuffs alternating with greenish shales derived from andesitic volcanic tuffs mapped by the SGM as andesites, probably belonging to the LVS (Photo 6, 7 and Fig. 3). These rocks crop out only on this part of the property putting the UVS (on the footwall of the vein) in fault contact with the LVS on the hanging wall of the vein with the beds dipping at a high angle between 65° to 70° to the west.



Photo 4,5 Picture on the left: Ignimbrite with fiamme structures. On the right grayish lithic ash flow tuff with andesite and rhyolite fragments. Both are part of the UVS and are the host rocks of Margaritas vein.



Photo 6,7 Picture on the left: thin-bedded rhyolitic tuffs alternating with greenish shales derived from andesitic tuffs probably belonging to the Lower Volcanic Sequence. On the right: altered andesites and rhyolites of the Lower Volcanic Sequence.

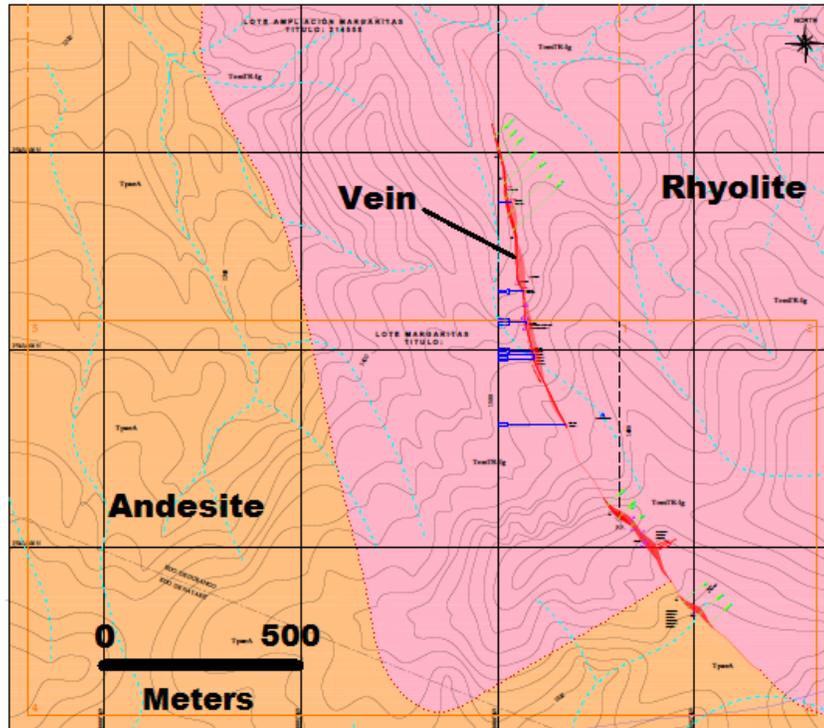


Figure 3. Surface geology of the Margaritas property.

Structure

A series of circular and other geological features in the area suggest the presence of a resurgent caldera in the Margaritas region. The circular features seem to be related to ring fractures occurring around a window of weathered tuffs in an area 12 km in diameter from Lajas to Margaritas, crowned by a thick pile of ignimbrites dipping outward of the window. Calderas may be significant because of its association with precious metal mineralization in important mining districts such as la Cienega in northern Durango.

Other relevant structures are N-NW30° faults, fractures, and veins, one of which is the Margaritas vein and others in the Aguilillas mineralized zone extending 5 km to the north of Margaritas, and NE30-45° faults and fractures.

N-NW30° faults, as is the case of the Margaritas vein, may have vertical displacements of perhaps a few hundreds of meters. The NE structures truncate the ring structures north of Margaritas (Fig. 4) and also displace the Margaritas vein in its southern end. Thick vegetation and soil cover has impeded identifying the continuation of the Margaritas vein south of the NE fault.

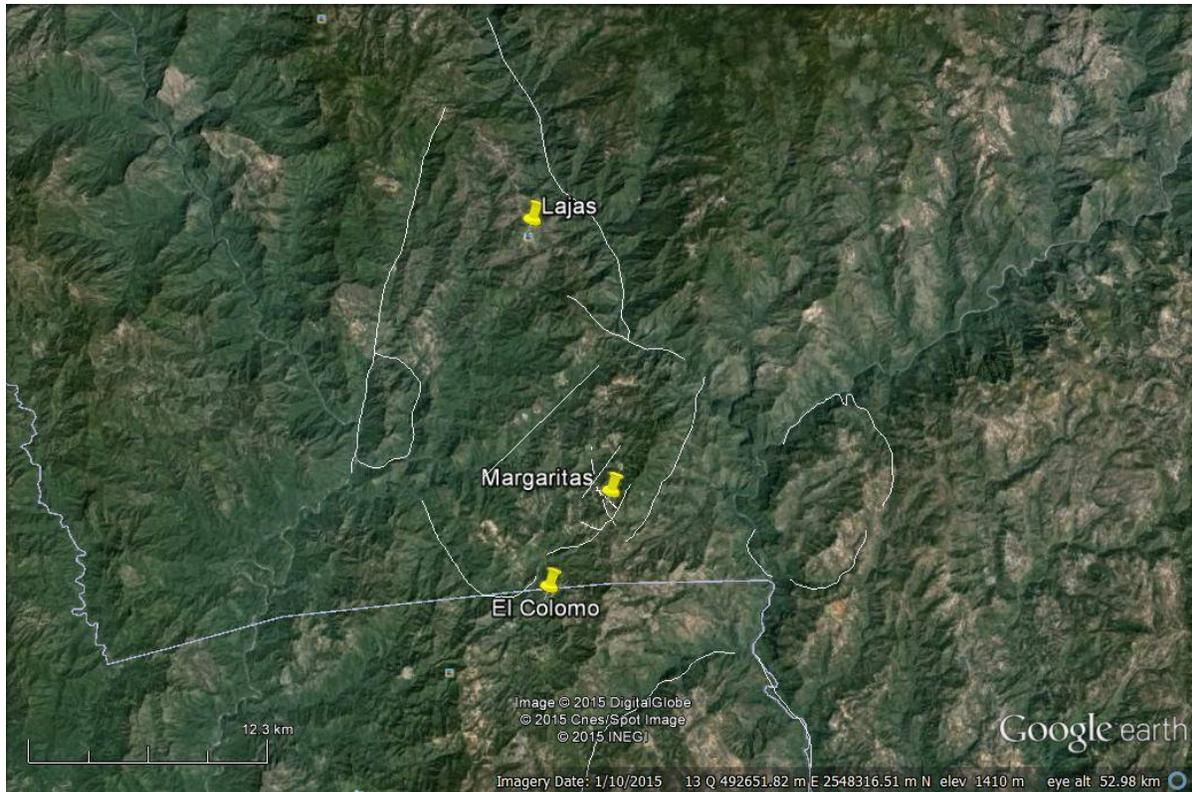


Figure 4. Google view of the Margaritas property. Note linear structures striking NE are one of the crosscutting faults that affect the Margaritas vein. Curved lines are interpreted as ring fractures of caldera systems.

Alteration

Argillization and propylitic alteration are common in rhyolites of the UVS and andesites of the LVS respectively. As mentioned in the regional geology section, the propylitic alteration consists of a low-grade regional alteration found nearly throughout the entire Sierra Madre Occidental. Argillization, common in rhyolites of the UVS is generally a result of weathering.

Hydrothermal alteration in the Margaritas property area includes moderate to weak silicification and argillization in rhyolite volcanic rocks hosting the vein. Iron oxides occur sparsely and chloritic alteration is present in andesite rocks. The silicification occurs as patchy narrow halo fewer than 5 meters around the Margaritas vein. It does not form a ridge or ledges along the vein but may be prominent in the footwall due to structural effects of the normal fault hosting the vein. Argillization including kaolin, illite and other white clays forms a halo from a few centimeters up to 10 m wide around the vein (Photos 8,9). When mixed with iron oxides and silicified patches, these argillic zones often report high gold grades. Chloritic alteration consisting of pulverulent silty and green clayish material was observed in rocks

containing andesites such as the southern part of the Margaritas vein in an area called El Columpio located south of El Columpio saddle.



Photo 8,9 Left picture: argillization (kaolin and other white clays) in the footwall of the vein. Right picture Chloritic alteration consisting of pulverulent silty and green clayish material containing chlorite and perhaps illite-montmorillonite.

Property Mineralization

The mineralization at Margaritas consists of gold hosted in a quartz vein controlled by a fault and fractures hosted in Tertiary rhyolites of the UVS. Visible gold is commonly found in small pits and trenches dug along the vein. The gold can be seen by crushing the vein material and panning the pulverized rock. The vein is a NNW20° structure dipping 75°W that crops out for 1500 meters, is approximately a meter wide and has a vertical exposure of 240 meters (from 1380 m to 1620 m of elevation).

The property represents an exploration project that to date has not been tested by drilling.

Gold mineralization has been identified in numerous surface outcrops, in some pits and trenches and in the shallow historic workings as seen at the scattered workings along the vein (Photo 10, 11).



Photo 10, 11 Left picture pit exposing the vein (yellowish tone center of picture looking south. Right picture open cut looking north, few meters north of the PP where coordinate 2,543N intersects the vein.

As observed on surface, the vein averages approximately 1 meter wide, narrowing and swelling from 30 cm to 4 meters wide, variations perhaps controlled by openings created by the movement of the fault-structure that hosts the vein along changes in strike and dip of the structure. In general, the vein strikes NW20° however, north of coordinate 2,543,000N the vein strikes NW10° and, south of coordinate 2,542,600N it strikes NW40° to 45°, while the dips range from steep to shallow (75-85° to 50-55° to the east).

Surface grades reported by SGM and previous workers are between 0.01-9.88 g/t Au in channels and rock chips in outcrops and up to 23 g/t Au in dumps. Overall silver grades range from 1 to 35 g/t Ag. Silver to gold ratios range from 1:1 to 20:1. Visible gold - 30 to 50 grains up to 0.1mm were obtained from a half a kilogram of fines and ground up quartz fragments found in a dump.

The mineralization consists of native gold, often coarse and visible to the naked eye as well as accessory silver and gangue of silica, clays, and traces of pyrite. No other sulfides are visible; a few patches of iron oxides and boxworks in the vein as well as within the argillic halo suggest spotty concentrations of pyrite. Oxidation however seems weak and scarce. Other than gold and scarce iron oxides, there are no other visible metals. Traces of lead between 0 and 100 ppm were detected on wet chem assays.

Silica (opaline and chalcedonic quartz), clays and traces of pyrite as well as absence of base metal sulfides suggest the upper part of the hydrothermal system. Alteration, vein mineralogy and stratigraphy indicate that the precious metal mineralization is open at depth with excellent upside especially at the Upper Volcanic-Lower Volcanic sequence red-ox interphase.

As mentioned above, the vein is hosted in rhyolite volcanics of the upper volcanic sequence which leaves open the possibility that better grades and thicknesses are found at the contact with andesite rocks of the lower volcanic sequence. The most favorable location for gold deposits in the Sierra Madres often occur at the contact horizon of the upper rhyolitic and lower andesitic volcanic units.

DEPOSIT TYPES

The Margaritas gold deposit is an epithermal low sulfidation-type vein hosted in Tertiary rhyolites of the UVS. The vein is a NNW30° structure dipping 75°W that crops out for 1500 meters, is approximately a meter wide and has a vertical exposure of 240 meters (from 1380 m to 1620 m of elevation).

EXPLORATION

The property has been mapped and sampled by the SGM and other companies in the past, but no drilling has been done to date. Geological maps and sections have been reviewed and edited by Zapata's geologists.

Raul Diaz conducted reconnaissance of the property between the 23rd and 26th of July 2015 and collected three samples for preliminary verification of gold grades reported by the SGM. Panning for gold in various pits along the vein easily collected abundant visible gold.

Samples 40559 and 40560 were collected in dumps and sample 40561 in an outcrop of the footwall of the vein. Relevant results are shown in the table below.

Sample	Au (g/t)	Ag (g/t)	Fe (%)	Pb (ppm)	Zn (ppm)	Cu (ppm)	As (ppm)	Sb (ppm)
40559	29.3	15.95	2.07	82.4	78	9.2	26.9	21.4
40560	16.9	28.5	0.94	24.3	17	4.4	12.7	9.04
40561	0.96	2.41	1.26	31	21	1.4	9.5	22.4

Gainey Capital Exploration

Gainey Capital conducted an exploration programs between July-August 2018 and between August-October 2019. Rafael Gallardo, a consultant working for Tucson-based IMDEX group of geologists and logistical suppliers mapped and sampled the area and designed a drilling program. Geological mapping extended the vein to 3,500 meters, of which 1,600 meters were systematically sampled collecting 81 rock samples. Assays report gold values between <0.05 g/t

and 73.7 g/t and silver between 0.2 g/t and 38 g/t over widths between 0.3 m to 2 meters (Fig. 5 Appendix I).

Gainey worked in the Margaritas property from 2018 to December 2020 under an option agreement signed with previous owner First Mining Gold. Said agreement was terminated in December 2020 due to Gainey's breach of contract.

11.0 INTERPRETATION AND CONCLUSIONS

Margaritas is a high gold-grade exploration project that has never been drilled or had modern exploration conducted over it. Located in the prolific Sierra Madre Occidental in southern Durango near the limits with the state of Nayarit, the project consists of an epithermal quartz vein with bonanza gold grades, and favorable topography from to explore and develop two adits at multiple elevations. Gold grades are high enough to make the project attractive for companies looking for a qualifying property or entry level gold production. The vein is open along strike and the hydrothermally altered wall rocks contain additional gold which will likely significantly increase the potential. Gainey's work done in 2019 has already extended the mapped length of the vein to 3,500 meters. The high gold grades, low cost of maintenance, superb geological and metallogenic location as well as its excellent upside, merit an exploration program, not only focused on the vein but over an area extensive enough to find other epithermal style outcrops.

12.0 RECOMMENDATIONS

Exploration Program and Budget

Zapata Exploration intends to maintain the property in good standing and find a joint venture partner to continue exploration on its Margaritas gold property. Drill permits are in place. It is recommended that the program includes the following:

- Dig trenches every 50 meters on both the northern and southern extensions of the vein to determine the continuity of the structure (For approximately 300 meters along the southern end and 1,500 meters on the northern end).

- Cut continuous samples with saw throughout the structure.
- Drill 3,000 meters in 10 diamond drill holes at depths of 100m, 200m and 300m from surface to:
 - Determine continuity of the vein at depth
 - Determine the width and location of the ore band (economic ore horizon)
 - Determine grade and vein potential.

13.0 REFERENCES

Rodriguez-Solis, L. (2010): Informe de la visita de asesoria geologica al lote Ampliacion las Margaritas, ubicado en la comunidad de San Andres Milpillas, Municipio de Pueblo Nuevo, Estado de Durango. Servicio Geologico Mexicano, 12 pages.

14.0 APPENDICES

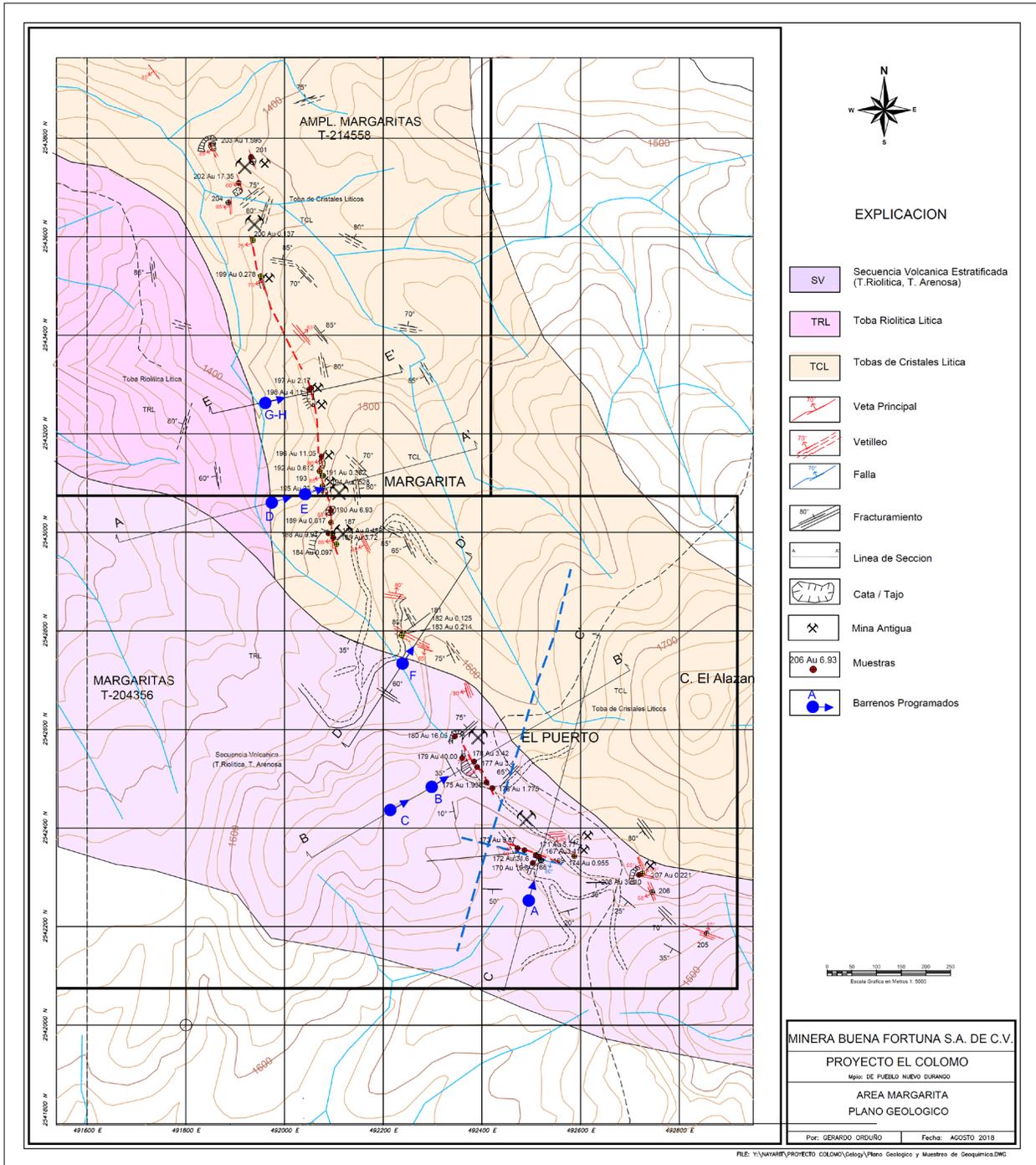


Figure 1. Geology and sampling map of the Margaritas Vein (By R. Gallardo, 2018).

PROJECT: MARGARITAS						
DATE:	Aug-18					
						Au
SAMPLE	EAST	NORTH	WIDE(Mts)	TYPE	SAMPLE	ppm
144167	492515	2542342	1.40	CHIP-CHANNEL	144167	3.410
144168	492520	2542335	0.80	CHIP-CHANNEL	144168	<0.005
144169	492519	2542335	0.25	CHIP-CHANNEL	144169	0.071
144170	492503	2542329		DUMP	144170	19.600
144171	492509	2542345		CHIP	144171	5.770
144172	492486	2542355		CHIP	144172	31.600
144173	492472	2542359	0.80	CHIP-CHANNEL	144173	9.870
144174	492587	2542343	0.30	CHIP-CHANNEL	144174	0.955
144175	492409	2542493	0.10	CHIP-CHANNEL	144175	1.935
144176	492421	2542481	1.70	CHIP-CHANNEL	144176	1.775
144177	492390	2542524	0.80	CHIP-CHANNEL	144177	3.400
144178	492384	2542535	0.25	CHIP-CHANNEL	144178	3.420
144179	492360	2542542		DUMP	144179	40.000
144180	492345	2542586		DUMP	144180	16.050
144181	492238	2542793	1.30	CHIP-CHANNEL	144181	0.059
144182	492238	2542792	1.35	CHIP-CHANNEL	144182	0.125
144183	492237	2542791	1.70	CHIP-CHANNEL	144183	0.214
144184	492105	2542976	1.30	CHIP-CHANNEL	144184	0.097
144185	492099	2542989	0.85	CHIP-CHANNEL	144185	3.720
144186	492097	2542998	1.50	CHIP-CHANNEL	144186	0.486
144187	492096	2542998	1.60	CHIP-CHANNEL	144187	0.059
144188	492089	2542998		DUMP	144188	9.940
144189	492094	2543020	0.70	CHIP-CHANNEL	144189	0.617
144190	492094	2543044	0.65	CHIP-CHANNEL	144190	6.930
144191	492078	2543115	0.40	CHIP-CHANNEL	144191	0.382
144192	492071	2543124	0.90	CHIP-CHANNEL	144192	0.612
144193	492077	2543115	1.20	CHIP	144193	0.057
144194	492077	2543094	0.45	CHIP-CHANNEL	144194	0.528
144195	492075	2543086		DUMP	144195	23.300
144196	492075	2543154	1.10	CHIP-CHANNEL	144196	11.050
144197	492054	2543293		CHIP	144197	2.17
144198	492050	2543290		DUMP	144198	4.11
144199	491952	2543520	0.30	CHIP-CHANNEL	144199	0.278
144200	491936	2543593	1.50	CHIP-CHANNEL	144200	0.137
144201	491932	2543762		CHIP	144201	0.009
144202	491907	2543709		DUMP	144202	17.350
144203	491855	2543789	0.30	CHIP-CHANNEL	144203	1.595
144204	491886	2543669	1.10	CHIP-CHANNEL	144204	0.069
144205	492855	2542186	0.30	CHIP-CHANNEL	144205	0.027
144206	492745	2542270	0.45	CHIP-CHANNEL	144206	0.050
144207	492725	2542308		CHIP	144207	0.221
144208	492718	2542305		DUMP	144208	3.610

SAMPLE	EAST	NORTH	WIDE(Mts)	TYPE	Au ppm	Ag ppm
191243	492099	2542996	0.50	Chip-Channel	5.37	2.90
191244	492087	2543046	0.40	Chip-Channel	3.43	2.90
191245	492078	2543093	0.50	Chip-Channel	4.30	3.20
191246	492078	2543093	0.60	Chip-Channel	0.05	1.20
191247	492077	2543093	2.00	Chip-Channel	2.34	2.70
191248	492072	2543130	0.80	Chip-Channel	0.22	1.20
191249	492044	2543293	1.00	Chip-Channel	3.80	1.20
191250	491954	2543517	0.30	Chip-Channel	0.40	0.90
191251	491931	2543597	0.40	Chip-Channel	0.48	1.20
191252	491906	2543718		Dump	19.95	15.80
191253	491907	2543717	2.00	Chip-Channel	0.05	1.00
191254	491861	2543802	0.30	Chip-Channel	2.79	0.70
191255	491824	2543852	0.20	Chip-Channel	1.30	1.00
191256	491689	2544939	0.01	Chip-Channel	<0.005	<0.2
191257	491896	2543664	1.30	Chip-Channel	0.21	0.70
191258	491895	2543664	2.00	Chip-Channel	0.01	0.20
191259	491755	2543635		Chip	<0.005	<0.2
191260	491652	2543662	0.03	Chip-Channel	0.01	0.30
191261	491891	2543103		Chip	<0.005	<0.2
191262	490702	2540829	1.50	Chip-Channel	0.22	1.90
191263	490703	2540829	2.00	Chip-Channel	<0.005	1.20
191264	490708	2540829	0.50	Chip-Channel	<0.005	1.10
191265	490928	2540935	0.30	Chip-Channel	0.02	2.50
191266	490960	2540978	0.40	Chip-Channel	0.10	3.20
191267	491547	2541593	0.10	Chip-Channel	0.07	2.30
191268	491537	2541589	0.30	Chip-Channel	<0.005	0.20
191269	490407	2544393		Float	<0.005	<0.2
191231	492349	2542581		Dump	73.70	38.20
191232	492356	2542584		Chip	1.08	0.90
191233	492396	2542523		Chip	7.93	4.50
191234	492397	2542562		Chip	0.02	<0.2
191235	492518	2542352	1.50	Chip-Channel	0.69	0.80
191236	492499	2542337		Dump	22.00	9.90
191237	492480	2542352	1.00	Chip-Channel	22.80	9.70
191238	492478	2542350		Dump	0.74	5.20
191239	492578	2542355		Chip	1.48	1.20
191240	492606	2542357	1.00	Chip-Channel	0.28	1.40
191241	492685	2542316	1.10	Chip-Channel	0.09	0.70
191242	492166	2542816		Dump	2.51	15.80