Management's Discussion and Analysis

For the three and nine months ended September 30, 2021 and 2020

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED SEPTEMBER 30, 2021

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Guanajuato Silver Company Ltd. ("GSilver" or the "Company"), formerly VanGold Mining Corp., for the three and nine months ended September 30, 2021 and the related notes contained therein, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As well as the annual audited consolidated financial statements for the year ended December 31, 2020, which are in accordance with IFRS and the related annual MD&A.

All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A has been prepared as of November 26, 2021 and includes "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.

## FORWARD-LOOKING STATEMENTS

*Certain sections of this MD&A contain forward-looking statements and forward-looking information. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements or forward-looking information, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words.*

*Forward-looking statements and forward-looking information contained or incorporated by reference in this MD&A may relate to the Company's future financial condition, results of operations, plans, objectives, performance or business developments including, among other things, potential property acquisitions, exploration and work programs, permitting and drilling plans and timing of permitting approvals and drilling, the performance characteristics of the Company's exploration and evaluation assets, exploration results of various projects of the Company, projections of market prices and costs, supply and demand for gold, silver and other precious metals, expectations regarding the ability to raise capital and to acquire resources and/or reserves through acquisitions and/or development, treatment under governmental regulatory regimes and tax laws, and capital expenditure programs and the timing and method of financing thereof. Forward-looking statements and forward-looking information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as of the date of such statements and information, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A, which may prove to be incorrect, include, but are not limited to: (1) there being no significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions, COVID 19 or otherwise; (2) permitting, access, exploration, expansion and acquisitions at our projects (including, without limitation, land acquisitions for and permitting of exploration, development and production plans) being consistent with the Company's current expectations; (3) the viability, permitting, access, exploration, development and operation of the El Cubo and El Pinguico properties being consistent with the Company's current expectations; (4) political developments in Mexico including, without limitation, the implementation of new mining laws and related regulations being consistent with the Company's current expectations; (5) the exchange rate between the Canadian dollar and the U.S. dollar or between the Canadian dollar and the Mexican Peso being approximately consistent with current levels; (6) certain price assumptions for gold, silver and other precious metals; (7) prices for and availability of equipment, labor, natural gas, fuel oil, electricity, water and other key supplies remaining consistent with current levels; (8) the results of the Company's exploration, development and production programs on the El Cubo and El Pinguico properties being consistent with the Company's expectations; (9) labour and materials costs increasing on a basis consistent with the Company's current expectations; and (10) the availability and timing of additional financing being consistent with the Company's current expectations. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements and forward-looking information. Such factors include, but are not limited to: the timing and availability of additional capital, fluctuations in the currency markets; fluctuations in the spot and forward price of gold, silver or other commodities (such as diesel fuel and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Mexico, or other countries in which the Company may carry on business in the future; business opportunities that may be presented to, or pursued by, us; our ability to successfully integrate acquisitions; operating or technical difficulties in connection with exploration, development and production activities; employee relations; the speculative nature of silver and gold exploration and development, including the risks of obtaining necessary licenses and permits; competition for, among other things, capital, acquisitions of resources and/or reserves, undeveloped lands and skilled personnel, incorrect assessments of the value of acquisitions, geological, technical, drilling and processing problems, fluctuations in foreign exchange or interest rates and stock market volatility, changes in income tax laws or changes in tax laws and incentive programs relating to the mineral resource industry; and contests over title to properties, particularly title to undeveloped properties. In addition, there are risks and hazards associated with the business of mineral exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins, flooding and silver and gold concentrate losses (and the risk of inadequate insurance, or the inability to obtain insurance, to cover these risks). Many of these uncertainties and contingencies can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements or forward-looking information made by, or on behalf of, the Company. There is also uncertainty about the spread of COVID-19 and variants of concern and the impact they will have on the Company's operations, personnel, supply chains, ability to access properties or procure exploration equipment, contractors and other personnel on a timely basis or at all and economic activity in general. There can be no assurance that forward-looking statements and forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements and information. Forward-looking statements and forward-looking information are provided for the purpose of providing information about management's expectations and plans relating to the future. All of the forward-looking statements and forward-looking information made in this MD&A are qualified by these cautionary statements and those made in our other filings with applicable securities regulators in Canada including, but not limited to, the Financial Statements. These factors are not intended to represent a complete list of the factors that could affect the Company and readers should not place undue reliance on forward-looking statements or forward-looking information* *in this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements and forward-looking information, whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements and forward-looking information, except to the extent required by applicable law.*

*The forward-looking statements and forward-looking information contained herein are based on information available as of November, 26, 2021.*

## QUALIFIED PERSON

*The scientific and technical information contained in this MD&A relating to the Company's mines and mineral projects has been reviewed and approved by Hernan Dorado Smith, MBA and a Qualified Person by the Mineral and Metallurgical Society of America, Chief Operating Officer and director of GSilver, and a Qualified Person with the meaning of National Instrument 43-101, "Standards for Disclosure of Mineral Projects."*


*General Manager, Gerardo Dorado Cantú and COO, Hernan Dorado Smith*
*Father and son mining engineering team*

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*GSilver's Chairman & CEO, James Anderson*

## PROFILE & STRATEGY

GSilver is a precious metals producer engaged in reactivating past producing silver and gold mines near the city of Guanajuato, Mexico. The company is currently producing silver and gold at its 100% owned El Cubo mine and mill (the "El Cubo Complex"), while simultaneously advancing the nearby El Pinguico Mine Project ("El Pinguico"). Both projects are located within 11km of the city of Guanajuato, which has an established 480-year mining history.


*General location of the El Cubo and El Pinguico properties*

The Company has completed the refurbishment of the El Cubo Mill and has commenced the processing of silver and gold bearing material. The Company is producing silver and gold concentrate which is being sold in bulk to Ocean Partners UK Ltd. The Company continues to stockpile mineralized material at the El Cubo mine and explore the historical El Pinguico mine to evaluate its potential to support production from both stockpile and in-situ mineralized material, while continuing exploration on its other mineral concessions located in the State of Guanajuato, Mexico. The Company intends to process mineralized materials from both its El Pinguico and El Cubo properties at the mill beginning in the fourth quarter of 2021 (the "Combined Project"), ramping up to a stable throughput of 22,500 per month.

The Company's focus is to develop mining operations within central Mexico through the advancement of its existing mineral concessions and through acquisition of additional mineral resources, principally in the Guanajuato area.

GSilver also owns several exploration properties which include Segunda Ampliación Pinguico, Patito I and II mineral concessions located within 15 kilometres ("km") of Guanajuato, Mexico. The Analy I and II exploration projects are located 25 km east of San Miguel de Allende, as well as the El Ruso and Ysabela mineral concessions, which are located within the state of Guanajuato, some 200 km east of Guanajuato City, and the Camila mineral concession located near the El Ruso and Ysabela claims, in the state of Queretero. See *Mine Development and Exploration* below.

The Company has historically funded its acquisition, exploration and development activities through equity financings and a recently established debt facility. The Company also recently announced a non-brokered private placement offering of 15,000,000 units for estimated gross proceeds of C$8,250,000. The Company may choose to fund additional capital requirements through equity, debt, convertible debenture or other financings, on an as-needed basis, in order facilitate growth or fund operations until the Company achieves positive cash flow.

On March 31, 2020, the Mexican government declared a national health emergency with extraordinary measures due to the COVID-19 pandemic. Numerous health precautions were decreed, including the suspension of non-essential businesses, with only essential services to remain open.

The Company implemented measures to minimize the risks of the COVID-19 virus, both to employees and to the business. The Company is following government health protocols and is closely monitoring the pandemic with local health authorities. The Company has posted health advisories to educate employees about the COVID-19 symptoms, best practices to avoid contracting and spreading the virus, and procedures to follow if symptoms are experienced and infection detected.

As the COVID-19 global pandemic is dynamic and, given that the ultimate duration and severity of the pandemic remains unclear, the impact on the Company's production ramp-up at its El Cubo operation and the associated costs has greater uncertainty. Globally, and in Mexico, positive COVID-19 continues to spread at a significant rate, while the availability and effectiveness of vaccine distribution remains uncertain. A local outbreak, an impediment to supply or market logistics or change in government health orders remains a significant risk.

The Company's long-term business could be significantly adversely affected by the on-going effects of the COVID-19 pandemic. The Company cannot accurately predict the impact COVID-19 will have on third parties' ability to meet their obligations with the Company, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the duration of vaccine distribution and the length of travel and quarantine restrictions imposed by governments of affected countries.

In particular, the continued spread of COVID-19 globally could materially and adversely impact the Company's business including without limitation, employee health, restrictions on travel, the availability of industry experts and personnel, restrictions to mining and processing operations and drill programs, and other factors that will depend on future developments beyond the Company's control. In addition, the COVID 19 pandemic could adversely affect the economies and financial markets of many countries (including those in which the Company operates), resulting in an economic downturn that could negatively impact the Company's operating results and ability to raise capital.

As of September 30, 2021, the Company held $7,716,144 in cash and had negative working capital of $1,716,835. Subsequent to September 30, 2021, the Company had 3,181,045 warrants exercised for gross proceeds of $990,523, repaid the outstanding promissory note of $2,958,766 plus $194,631 deemed interest (USD$2,475,000) to Endeavour Silver Corp. ("Endeavour") for the acquisition of El Cubo, received an 18 month loan of $1,897,950 ($USD1,500,000) for prepayment of concentrate sales and announced an $8,250,000 non-brokered private placement. Management believes these measures ensure there is sufficient working capital to meet the Company's current obligations, however the ultimate duration of the COVID pandemic remains uncertain and it, as well as other potential unforeseen developments, could impact the financial liquidity of the Company.

The Company was incorporated under the *Business Corporations Act* of British Columbia in 1978 and is a publicly traded company on the TSX Venture Exchange ("TSX.v") under the symbol "GSVR" and quoted on the OTCQX over-the-counter market in the USA under the symbol "GSVRF". The Company's head office, as well as its registered and records offices, is located at Suite 578 - 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

Additional information relating the Company is available on SEDAR at www.sedar.com and the Company's website www.GSilver.com.

*A Jumbo Drill working to provide access to additional stopes at El Cubo*

## HIGHLIGHTS

- On November 8, 2021, the Company announced an $8,250,000 non-brokered private placement of 15,000,000 units at a price of $0.55 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant is exercisable to purchase one common share at $0.75 for two years after closing, subject to acceleration provisions. The private placement is expected to close in early December 2021.

- During November 2021, the Company's subsidiary OMPSA signed a new Collective Bargaining Agreement ("CBA") with El Sindicato Nacional De Trabajores Mineros, Metalúrgicos, Siderúrgicos y Similares De La Republica Mexicana ("the **Union**"), the union representing workers at the Company's El Cubo mining operations.

- During October 2021, the Company commenced processing silver and gold bearing material at its El Cubo mill and completed its first sale of 75 tonnes of bulk silver and gold concentrate, worth approximately US$480,000, to Ocean Partners.

- On September 23, 2021, the Company entered into an 18-month silver and gold concentrate sales agreement with MK Metal Trading Mexico, S.A. de C.V., a division of Ocean Partners Ltd. ("Ocean Partners") which commenced in October 2021. Additionally, in October 2021, Ocean Partners has provided the Company with a prepayment financing facility of $1,897,950 (US$1.5 million) against the proceeds of concentrate sales. This facility will bear interest at 12-month libor + 6.75% (approximately 6.95% annually) and be repaid in fifteen monthly installments after a three-month grace period.

- In the second quarter of 2021, the Company made some significant changes to its management (both in Canada and Mexico) and Board of Directors, to add depth and strengthen the team as the Company rapidly grows the business as follows:

  - On May 12, 2021, Ramon Davila joined the Board of Directors. Mr. Davila has extensive experience in the mining industry with a 14-year tenure on the board of directors of First Majestic Silver Corp., as well as 10 years as its Chief Operating Officer; Mr. Davila was appointed the Minister of Economic Development for the State of Durango from 2016 to 2020.

    In addition, on May 12, 2021, Hernan Dorado was appointed as the Company's Chief Operating Officer and Richard Silas was appointed as Vice President, Corporate Development and Corporate Secretary. Mr. Dorado has previously worked with New Gold Inc. in Canada and Australia as well as Omya group where he led teams in Mexico, Brazil, Ecuador, and the Dominican Republic. Mr Silas has over 25 years of experience in management roles and board positions of public companies, principally in the mining industry.

  - On April 1, 2021, Lisa Dea was appointed as the Chief Financial Officer of the Company. Ms. Dea has been a CFO for over 15 years in various TSX, TSX-v and CSE listed companies including being the CFO of Silvermex Resources Inc. (before being acquired by First Majestic Silver Corp.)

- On July 27, 2021, the Company entered into a 17-month contract with MGA Contratista Minera S.A. de C.V. ("MGA") for contract mining services.

- On June 9th, the Company announced it was changing its name from Vangold Mining Corp. to Guanajuato Silver Company Ltd and began trading on the TSX-V under the symbol GSVR and on the OTCQX as GSVR.F.

- On June 1, 2021, the Company signed a definitive agreement with European based metals trading firm OCIM group to obtain a USD$7.5 million financing in the form of a silver and gold loan. On July 28, 2021, the Company drew down the loan.

- On April 5, 2021, the Company filed a preliminary economic assessment ("PEA") on the Combined Project (See *Mine Development and Exploration - El Cubo / El Pinguico Preliminary Economic Assessment*), completed by Behre Dolbear and Company (USA) Inc, ("Behre"). According to the Company's recently completed PEA the Combined Project contains total indicated resources of 718,655 tonnes grading 160 grams per tonne ("gpt") silver ("Ag") and 1.90 gpt gold ("Au"), or 306 gpt AgEq, which equates to 7.2 M oz AgEq, and total inferred resources of 1,453,000 tonnes grading 214 gpt Ag and 2.78 gpt Au, or 435 gpt AgEq, which equates to 20.4 M oz AgEq. These estimates use a 1:80 ratio for Au and Ag prices.

  Behre prepared a discounted cash flow model for the Combined Project to determine the Net Present Value (NPV), Internal Rate of Return (IRR), Initial Capital and Sustaining Capital, and payback period. Cash flow estimates were prepared on an after-tax basis and in accordance with NI 43-101 Standards of Disclosure for PEA studies, using Base Case metal prices of $1,527 for gold and $19.49 for silver. The PEA considers a plan to ramp up to a 750 tonne-per-day ("tpd") operation, with an initial mine life of 7 years. On an after-tax basis, the Combined Project generates a Base Case NPV (5%) of $32.9 million and an IRR of 105%, excluding El Cubo acquisition costs. Using commodity prices of $22.41/oz Ag and $1,756/oz Au, the after-tax NPV (5%) is $79.0 million and the IRR is 344%.

  Behre calculates a Base Case payback period of 1.87 years. Behre's PEA provides a high-level view of GSilver's plan to process material from both El Pinguico and El Cubo at a centrally located mill.

- On March 16, 2021, the Company signed a definitive asset purchase agreement (the "Agreement") with Endeavour to acquire the El Cubo Complex in Guanajuato, Mexico and on April 9, 2021 asset purchase transaction closed. As consideration for the El Cubo Complex, the Company:

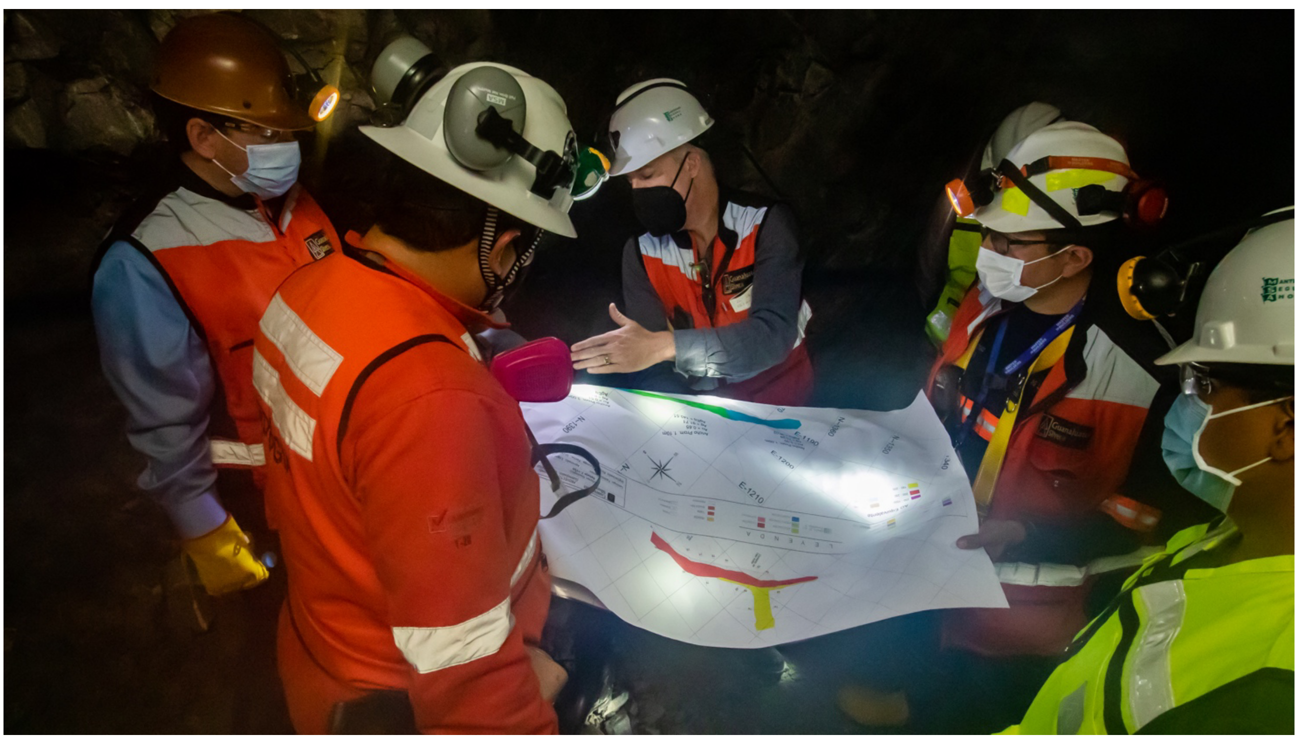
a) paid a non-refundable cash deposit of $638,750 (US$500,000) on December 18, 2020.
b) paid $8,780,800 (US$7,000,000) cash on closing
c) issued 21,331,058 common shares of the Company on closing with a fair value of $12,347,356 (US$9,862,894)
d) issued a $3,136,000 (US$2,500,000) unsecured, non-interest bearing promissory note due on April 8, 2022. A market discount rate of 13% was used to calculate $2,855,858 (US$2,212,389), the fair value of the promissory note.

   On November 17, 2021, the Company repaid the outstanding promissory note of $2,958,766 plus deemed interest of $194,631 (USD$2,475,000) to Endeavour. In consideration for the prepayment, Endeavour reduced the issued principal amount of the note by US$25,000 and agreed to settle the associated Mexican value added tax ("VAT") payable for common shares of the Company. As a result, the Company issued 901,224 common shares to Endeavour at a deemed price of $0.55 per share to settle VAT of $495,000 (US$396,000).

Additionally, the Agreement requires certain contingent payments to Endeavour as follows:

a) US$1,000,000 upon the Company producing 3,000,000 ounces of silver equivalent ounces at from the El Cubo Complex from material derived from either El Cubo or from El Pinguico (Contingent Payment #1). At the Company's option, the Company can issue common shares for up to 50% of Contingent Payment #1, based on the volume weighted average trading price of the Company's common shares for the 10 trading days immediately preceding the date of such payment. The Company has accrued this liability as a long-term payable on its statement of financial position.
b) $US1,000,000 if the London Bullion Market Association ("LBMA") spot price of gold closes at or above US$2,000 per ounce for 20 consecutive trading days within two years after closing.
c) $US1,000,000 if the LBMA spot price of gold closes at or above US$2,200 per ounce for 20 consecutive trading days within three years after closing.

- On March 11, 2021, the Company completed a private placement for gross proceeds of $16,950,000, consisting of 56,500,000 units at $0.30 per unit. Each unit consists of one common share and one share purchase warrant, where each warrant is exercisable at $0.45 per share for a period of 2 years. In connection with the private placement, the Company paid finder's fees of $395,152, issued 518,139 common shares and issued 1,648,669 finder warrants. The warrants issued as finders' fees have the same terms as the warrants issued under the private placement.



*Management discussing current and future mineral extraction at the main Villalpando vein structure*

## MINE DEVELOPMENT AND EXPLORATION

The Combined Project is located within the major epithermal mineral vein system common to the Guanajuato area and together share many of the same geological, mineralogical, metallurgical characteristics, and mining methods. El Cubo is approximately 8 kilometers (km) from El Pinguico. It is anticipated that both properties will utilize El Cubo's existing mill infrastructure and administration facilities, processing blended (or campaigned) mineralized material from the El Cubo mine and the El Pinguico stockpiles.

El Pinguico is located approximately 7 km southeast of the City of Guanajuato and 8 km southwest by road of the El Cubo property. Due to the proximity of Guanajuato, the area offers excellent infrastructure with paved and well maintained gravel district roads, local grid power to both projects, as well as a local skilled labor force.

Mining on the El Cubo property has occurred since the 17th Century. In the 19th and 20th Centuries, mining at El Cubo focused on northwest striking veins known as the Villalpando, Dolores, La Loca, and La Fortuna.

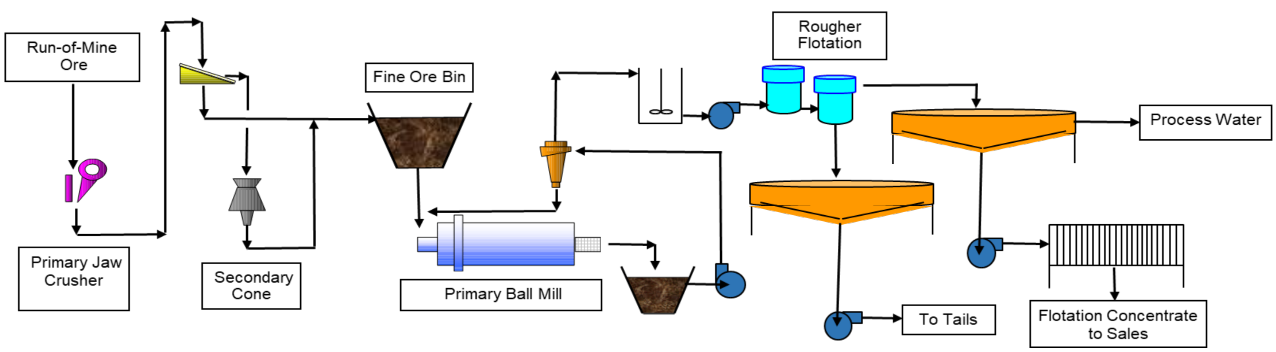
**El Cubo Complex**

The Company completed the refurbishment of the El Cubo mill in September 2021, with crushing and grinding of mill feed from El Cubo commencing on October 8, 2021, after GSilver had accumulated over 20,000 tonnes of stockpiled material in the El Cubo storage yard.

The completed US$3.5 million in planned upgrades at the El Cubo floatation processing plant included cleaning and refurbishing the ball mills, including replacing the ball mill liners, and completing mechanical inspections throughout the plant. A used secondary crusher, a Symons 4.25ft Standard in excellent condition, and a new tertiary crusher, also a Symons 4.25ft Standard, were both craned into the plant, installed, and commissioned by September 2021. Installation of additional pumps, upgraded lubricating systems and a complete electrical re-wiring were also completed with over 8 km of wires being installed.

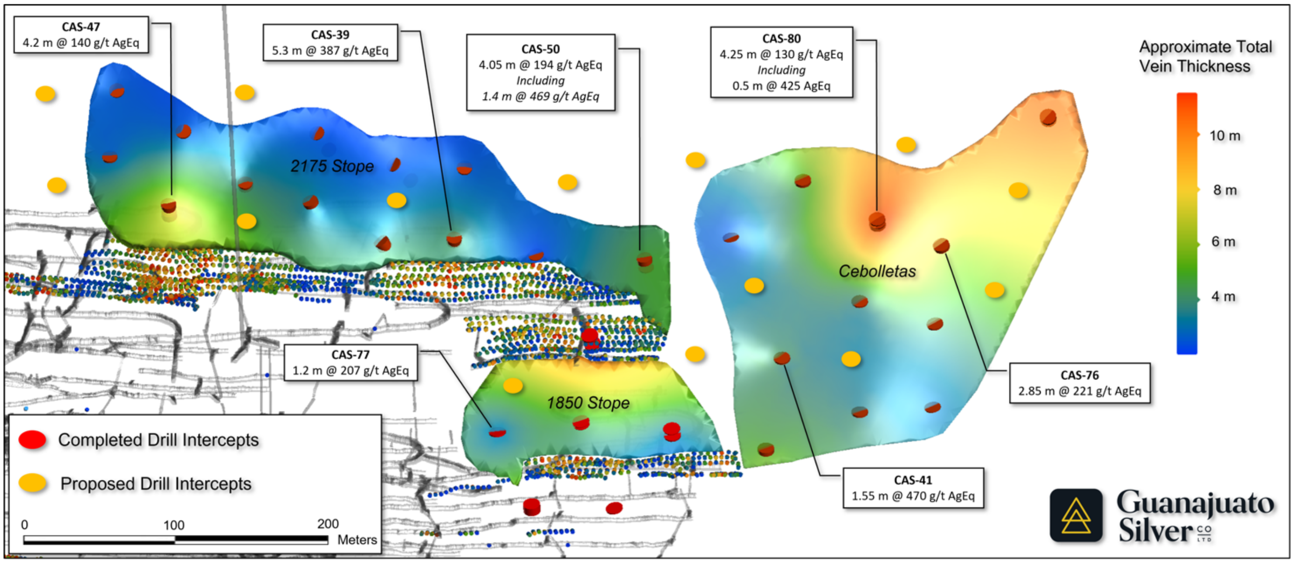
The plant is capable of handling approximately 1500 tonnes per day, or over 500,000 tonnes per year. With initial mine production from El Cubo planned at 750 tonnes per day, the Company's mill has ample capacity for expansion to handle material from nearby El Pinguico and/or other sources of material from the greater Guanajuato Mining District.

The plant was constructed with a two-stage crushing circuit, ball mill grinding, reagent storage, flotation, and flotation concentrate filtration for product shipment with tailings disposal through a conventional tailings pond facility. Water supply for the El Cubo Mill will be from the existing underground workings, which currently provide sufficient water for the plant requirements. Power supply for the El Cubo Mill will be from an existing 13 kV overhead transmission line. A simplified process flow diagram below outlines the milling process.

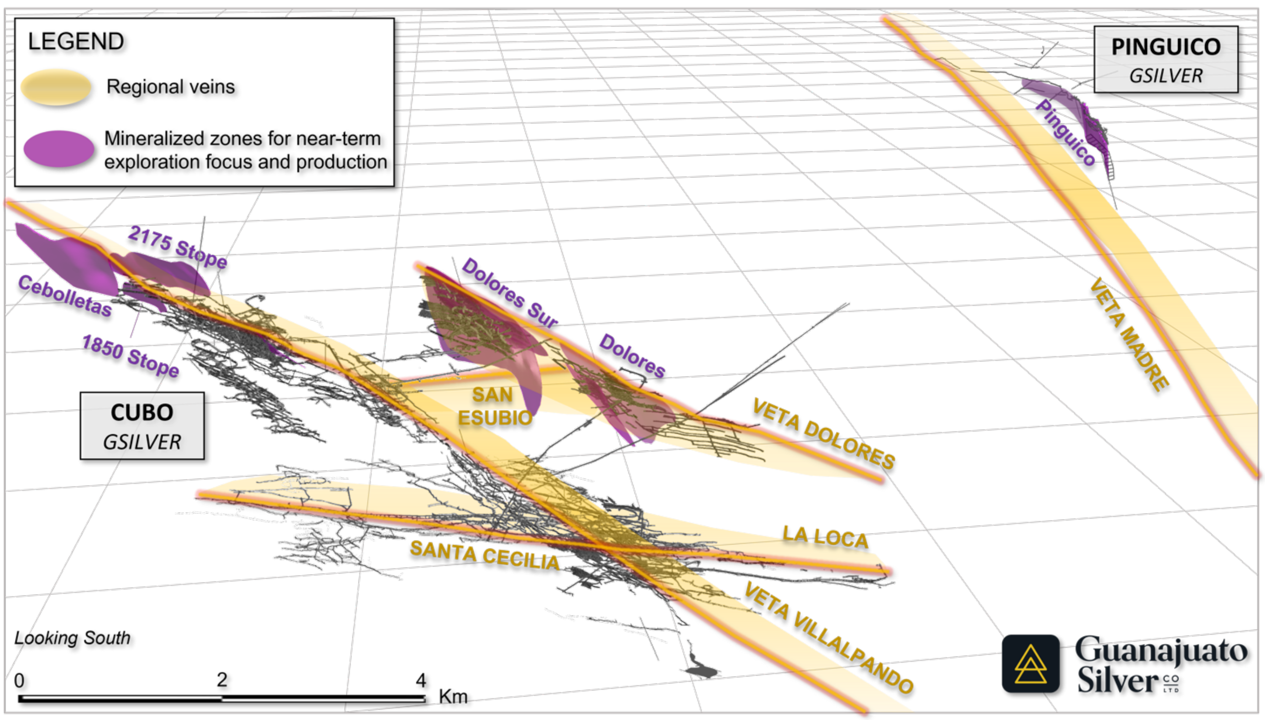



*El Cubo Mill simplified process flow diagram*

Rehabilitation of the mine haulage tunnels from the main Dolores access portal to the 1850 and 2175 and Cebolletas stopes is also complete and the Company is focussing its mining efforts on these stopes which exist within the main Villalpando vein structure, (the"Villalpando Stopes"). The Company intends to focus its El Cubo mining efforts for the next 12-18 months on the Villalpando vein structure. The Company's engineers believe that the Villalpando Stopes could consistently provide up to 15,000 tonnes of mineralised material per month. The Company decided to initially focus on these stopes for several reason; they are readily available, with infrastructure consisting of 4x4m wide access and ramps. Crews have cleaned these access routes, installed new lighting and ventilation services, and have cleared and re-established emergency exit routes from within the mine. Additionally, the Company has hired Rockdrill Mining S.A. de C.V. ("Rockdrill") of Aguascalientes, Mexico to perform underground drilling at El Cubo. The Rockdrill contract envisions a total of 5,200m of underground drilling, using one of their XRD50 machines to drill primarily NQ diameter holes, generally no more than 300m in length. The rig is 'Bobcat' mounted for ease of movement from drill station to drill station within the mine (see drill hole map below). This current drill program is intended to increase the confidence level of the inferred and indicated resources as outlined in the Company's PEA as well as provide better grade control data for mining at the 2175, 1850, and Cebolletas stope areas.




The Villalpando Stopes are just a few of the stopes where mining had previously occurred prior to shutdown of the mine in November 2019. There are numerous other areas of the mine exist where the Company believes it will be able to take the same approach. The areas where the Company plans to focus its mining in the months and years ahead include the Dolores North, Dolores South, La Loca, San Eusebio, and Asuncion vein structures.




As discussed in the Company's PEA, the Company planned to use contract miners in the early stages of its operations at El Cubo. GSilver received bids from six contractors and after a critical review of all the bids, MGA Contratista Minera S.A. de C.V. ("MGA") was selected. MGA has over two decades of experience and has provided mine contracting services to leading companies in Mexican mining including Grupo Mexico, Goldcorp., Fresnillo PLC, Endeavour and First Majestic Silver.

Further, the Company's subsidiary, OMPSA, proactively signed a new Collective Bargaining Agreement ("CBA") with El Sindicato Nacional De Trabajores Mineros, Metalúrgicos, Siderúrgicos y Similares De La Republica Mexicana ("the **Union**"), the union representing workers at the Company's El Cubo mining operations. The long-term agreement calls for the Company to adhere to all Mexican federal labour laws pertaining to health and safety within the mine and plant, and to basic federal standards of compensation. As is customary with these agreements, salaries will be reviewed yearly with employee benefits being reviewed on a bi-annual basis.

The Company negotiated and entered into this new CBA in November 2021, which has favorable base level economics for its mining operations at El Cubo. Annual costs associated with having this new CBA represent a significant cost savings compared with the former CBA at El Cubo The agreement has been ratified and filed with the Federal Board of Conciliation and Arbitration in Mexico City. The agreement establishes a relationship of mutual respect between GSilver and the Union

As compensation to the Union for terminating its last CBA (in place for over 70 years with multiple previous employers) and establishing a more modern and straightforward CBA with GSilver, the Company has agreed to make a one-time payment (the "**One-Time Payment**") of 10 million Mexican pesos (approximately $617,300) to the Union, payable in instalments over an 18-month period. Subject to acceptance of the TSXV and final approval of the Union, a portion of the One-Time Payment may be satisfied in the Company's common shares.

As part of the refurbishment of the El Cubo Complex, the Company has established an internal chemical and metallurgical laboratory. Metallurgical testing of material from El Cubo and El Pinguico was tested at third party laboratories, prior to the establishment of the Company owned laboratory, to determine whether combining material from the two deposits, or treating material from the deposits separately, would generate higher metallurgical recoveries.

At the anticipated run rate of 22,500 tonnes per month, there is tailings capacity of 4.5 years at two different dams at the El Cubo Complex. Wood Engineers PLC of Aberdeen, Scotland (Denver, Colorado office) has been engaged as the Company's ongoing tailings facility supervisor and to perform tailings geotechnical studies. The Company continues to evaluate its options to expand its tailings capacity, including new tailings ponds, dry stacking, and hydraulic fill within the past producing open stopes of the El Cubo mine. The Company's environmental assessment for El Cubo, granted to Endeavour under Mexico's Cambio de Titularidad of the Manifiesto de Impacto Ambiental ("MIA") and authorized by environmental authorities (SEMARNAT) has been transferred to the Company's subsidiary (OMPSA) that holds the El Cubo Complex. The MIA governs all mining activities such as beneficiation, tailings and waste dumps in Mexico.

On September 23, 2023, the Company's subsidiary, OMPSA, entered into an 18-month silver and gold concentrate sales agreement, which commenced in October 2021, with MK Metal Trading Mexico, S.A. de C.V., a division of Ocean Partners Ltd.

Additionally, Ocean Partners provided the Company with an 18-month financing facility of $1,897,950 (US$1,500,000) secured against the proceeds of concentrate sales. This facility bears interest at 12-month libor + 6.75% (or approximately 6.95% annually) and is to be repaid in 15 monthly installments after a 3-month grace period.

The Company had its first sale of concentrate from El Cubo during the week of October 18, 2021, when a total of approximately 75 tonnes of bulk silver and gold concentrate worth approximately US$480,000.00 was delivered. The concentrate graded approximately 200 ounces per tonne silver and 2 ounces per tonne gold. Future shipments are anticipated to be larger and of higher grade once the Company ramps-up production to its planned mineral processing levels of 22,500 tonnes per month, anticipated before the end of the first quarter in 2022.


*Loading of first concentrate at El Cubo*

**El Pinguico Mine Project**

The Company has a 100% interest in the historic El Pinguico mine property which consists of two mining concessions covering 71 hectares, located approximately 7 km southeast of Guanajuato City in Guanajuato State, Mexico, and contains the past-producing high-grade El Pinguico-El Carmen silver-gold mine. The historic mine has two main access adits: the El Carmen Adit and the Sangria del Carmen Adit. The El Pinguico is also located 2 km from Mina Las Torres, owned by Fresnillo PLC.

The property was originally subject to a 4% net smelter return ("NSR") and a 15% net profits interest ("NPI") on minerals recovered from existing stockpiles of mineralized rock and a 3% NSR and 5% NPI on all in-situ mineralization. On August 18, 2020, as amended on November 8, 2020, the Company entered into an option agreement to repurchase the 4% NSR, 3% NSR and the 5% NPI from the vendor. The 15% NPI remains in place on minerals recovered from the existing stockpile of surface and underground mineralized rock.

The Company also owns 302 hectares of surface land that includes El Pinguico and provides significant land area for mining infrastructure, development and construction. The Company has a Use of Land permit, issued by the Guanajuato municipality, that provides the Company with all the rights and entitlement for initiating necessary infrastructure work and preparing the surface stockpile for production. These activities include road construction, building structures, hauling and waste dumping activities.

In March 2021, the Company acquired a further 89.6 hectares of land that covers portions of the surface of the El Pinguico mining claims for $22,773. The Company also has an option to purchase 212.98 hectares covering additional portions of surface area of the El Pinguico mining claims for $44,727.

On February 2020, the Company signed a Surface Land Access Agreement for the mine with the Ejido Calderones, the local Ejido group. The Land Access Agreement allows for unrestricted road access for exploration and mining equipment and personnel to El Pinguico through the community of Calderones. The agreement is for a period of 15 years. Under the terms of the agreement, the Company paid $7,100 and will make annual payments of approximately $3,200 adjusted for yearly inflation.

The surface access and the Company's land use agreements, together with its existing mining rights, provide the Company with all key land components necessary to carry out its current planned exploration and operational activities at El Pinguico.

From 1906 to 1913, El Pinguico produced 250 tonnes per day from shrinkage mining techniques, liberating high-grade silver and gold ore at cut-off grades over 15 grams per tonne ("g/t") gold equivalent ("Au eq"). Due to local and national civil unrest related to the Mexican Revolution, El Pinguico prematurely closed, abandoning large surface and underground stockpiles of mineralized material.

The Guanajuato Mining District is mainly characterized by epithermal deposits associated with continental tertiary acid volcanism. The El Carmen-El Pinguico vein is considered an extension of the Veta Madre vein system, the main vein in the historic Guanajuato Silver District. The mineralization consists of a mixture of native gold and silver, polybasite, pyrargyrite, tetrahedrite, marcasite, sphalerite, galena, pyrite and chalcopyrite. The property has excellent access routes, communications, basic mining infrastructure and proximity to processing plants.

*El Pinguico Shaft*

The Company can access El Pinguico through 2 access portals on the 4$^{th}$ and 7$^{th}$ adit levels as well as the shaft entrance where a one tonne hoist on a metal headframe and a large winch is installed. A diesel generator powers the winch, which is used to transport crews to and from the various adits as well as assist in removing debris material from the bottom of the shaft.

The Company's crews have cleaned and refurbish the 4$^{th}$, 5$^{th}$ and 6$^{th}$ adit levels and have gained access to the 7$^{th}$ adit level. Initially, access to the 7th adit was blocked from its portal and through the shaft. However, the Company used a mechanized scoop-tram to aid in the removal of the material blocking the access portal from a rock fall at fault and has re-enforced the back, or "roof", of the adit with steel beams at the area of the rockfall as well as cleared the shaft of fallen rocks and debris down to the 7$^{th}$ adit level.

Within Level 7, crews can now advance about 200m north of the Pinguico shaft, or approximately 1/3 of the length of the underground stockpile, before a rockfall of underground stockpile material blocks the path; however, a continuation of the Level 7 adit to the north can be observed through the fallen rock. The Company also plans to inspect adit Level 7 to the south. Similar to the blockage in the north, there is a rockfall blocking immediate access to the south approximately 80m south of the Pinguico shaft, but as in the north, the continuation of the adit to the south can be seen through this rockfall. Clearing this material from this southern extension of the adit may provide a potentially safe and inexpensive haulage way to bring the underground stockpile material as well as in-situ vein material to surface for onward delivery to the El Cubo mill for processing. On May 3, 2021 the Company announced it had received a construction explosives permit for El Pinguico, which will allow the Company to more expeditiously remove material away from adit Level 7, as well as other areas of the historic mine in anticipation of accessing both stockpiled material and fresh in-situ vein material. The Company will study this approach for bringing the underground material out of the mine; however fully refurbishing the El Pinguico shaft is also a potential alternative.

The underground stockpile consists of material that in 2012 the Mexican Geological Survey (SGM) agency determined to be 148,966 tonnes in size. In 2017, the Company conducted a trenching program at the top of the underground stockpile. This program resulted in a weighted average of all of the trench samples of 1.75 gpt Au and 183 gpt Ag, (323 gpt AgEq), which is similar to the grades quoted in 2012 by SGM of 1.66 gpt Au and 143 gpt Ag.

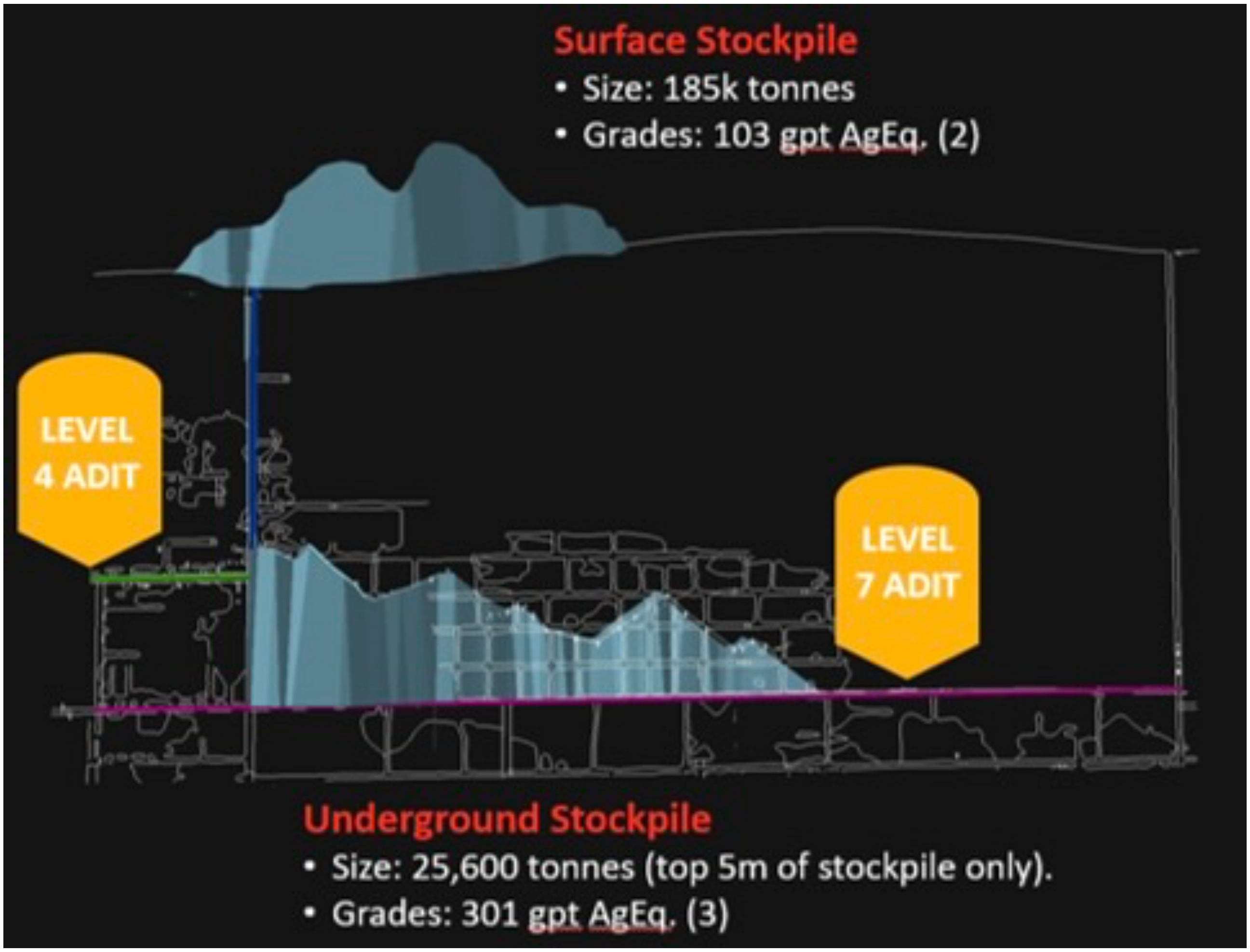



*Illustration of the surface stockpile and the underground stockpile*

*Drilling*

In October 2020, the Company purchased its own portable drill rig, an Explorer – 75E core drill, for use underground at El Pinguico. Among other desirable attributes, this drill is small enough to fit into many of the adits, drifts, and galleries of El Pinguico's old workings, while still being able to target the long strike length of potential new in-situ material of the main El Pinguico and San Jose vein systems. The machine is rated capable for drilling 200 meters of HQ size core, or 430 meters of NQ size core. The Company has also purchased 200m and 430m, respectively, of the corresponding drill casing in order to have the capacity to drill holes of those lengths.

This drill rig was delivered in January 2021. Drill crews initially drilled two test holes to 'break-in' the drill, testing its capabilities while drilling at different speeds and moving from HQ to NQ size drill core. These holes were drilled outside the mine, in the patio of the portal of adit Level 4 and were not intended as traditional exploration holes.

Both of these drill holes though, P21-01 and P21-02, encountered noticeable visible vein material, which the Company now interprets to be southern extensions of the San Jose vein, exposures of which can be seen in crosscuts off of adit Level 4 within the mine approximately 500m to the north. A third hole was completed to test the area for further vein extensions; P21-03 intersected several intervals of significant gold and silver values including 4.05m of 116 gpt AgEq, and an additional higher-grade interval of 0.55m of 674 gpt AgEq.

| Drill Hole | From | To | Interval (m) | Au gpt | Ag gpt | AgEq gpt | Description / Interpretation |
|---|---|---|---|---|---|---|---|
| P21-01 | 79.50 | 80.10 | 0.60m | 0.46 | 81 | 118 | San Jose Splays |
| | 84.73 | 85.23 | 0.50m | 0.15 | 48 | 60 | San Jose Splays |
| | 87.96 | 88.46 | 0.50m | 0.25 | 50 | 70 | San Jose Splays |
| | 93.76 | 95.25 | 1.49m | 0.28 | 34 | 56 | San Jose Splays |
| | | | | | | | |
| P21-02 | 79.65 | 80.20 | 0.55m | 0.11 | 27 | 36 | San Jose Splays |
| | 82.30 | 83.00 | 0.70m | 0.11 | 13 | 22 | San Jose Splays |
| | 116.25 | 117.00 | 0.75m | 0.17 | 15 | 29 | San Jose Vein |
| | | | | | | | |
| P21-03 | 87.9 | 88.40 | 0.50m | 0.38 | 88 | 118 | San Jose Alto |
| | 97.95 | 102.00 | 4.05m | 0.68 | 62 | 116 | San Jose Vein |
| including | 99.15 | 100.15 | 1.00m | 1.50 | 122 | 242 | San Jose Vein |
| | 106.8 | 107.35 | 0.55m | 2.11 | 505 | 674 | San Jose Bajo |

The drill was then moved inside the El Pinguico mine, approximately 500m along adit level 4, then east for about 80m along the San Jose #1 crosscut where the Company has established a drilling station where drilling can proceed westward, and target both the San Jose and El Pinguico vein systems. Drill holes P21- 05 to P21- 08 were drilled to the west at various azimuths and dips. Drill holes P21-05 and P21-06 were significant in that they cut long sections of alteration and crossed both the San Jose and El Pinguico structures, however only moderate widths of moderate silver and gold grades were encountered at the El Pinguico contact. Drill hole P21-07 was interesting as it immediately encountered quartz and carbonate material of an unknown vein. Further down the hole, at the San Jose contact the drill hole encountered broken, unconsolidated material (approximately 35% recovery) and a void causing us to abandon the hole and move on to Hole P21-08. With numerous intervals of good grade material, and a 0.75m intersection of almost 9 gpt gold, this hole bodes well for further exploration deeper and to the north.

| Drill Hole | From | To | Interval (m) | Au gpt | Ag gpt | AgEq gpt | Description / Interpretation |
|---|---|---|---|---|---|---|---|
| P21-05 | 172.90 | 173.40 | 0.50m | 0.42 | 29 | 63 | El Pinguico vein |
| | | | | | | | |
| P21-06 | 151.25 | 153.00 | 1.75m | 0.68 | 35 | 89 | San Jose vein |
| | | | | | | | |
| P21-07 | 2.40 | 2.90 | 0.50m | 0.35 | 83 | 111 | Unknown vein |
| | 4.15 | 4.60 | 0.45m | 0.32 | 66 | 92 | Unknown vein |
| | 83.60 | 84.65 | 1.05m | 0.51 | 12 | 53 | (35% rec.) San Jose vein |
| | | | | | | | |
| P21-08 | 102.25 | 103.90 | 1.65m | 2.45 | 125 | 321 | (60% rec.) San Jose vein |
| | 158.60 | 159.10 | 0.50m | 0.21 | 48 | 65 | El Pinguico Splay |
| | 169.20 | 171.25 | 2.05m | 3.79 | 100 | 403 | Alto Pinguico |
| including | 169.70 | 170.45 | 0.75m | 8.81 | 208 | 913 | Alto Pinguico |
| | 174.60 | 175.60 | 1.00m | 0.93 | 41 | 115 | El Pinguico vein |
| | 176.15 | 177.15 | 1.00m | 1.65 | 45 | 177 | El Pinguico vein |

The Company continued with holes P21-09 and P21-10, both of which cut through intervals of both the San Jose and El Pinguico veins from the San Jose #1 drill station. Especially noteworthy, P21-10 was drilled 'up' (above the horizon) at a +30-degree angle to test for extensions of vein material above El Pinguico's previous mining during the early 1900s. This drill hole returned 0.90m of 5.96 gpt Au and 476 gpt Ag or 953 gpt AgEq, within a broader interval of 8.10m of 1.00 gpt Au and 93 gpt Ag.

The Company is modeling variability within the vein system to determine how best to target areas where width and grade become more favourable. The wider thicknesses - 8.10m in P21-10 and 7.95m in previously released hole P21-08 are potentially very attractive mining widths in a typically narrow vein mining jurisdiction.

| Drill Hole | From | To | Interval (m) | Au gpt | Ag gpt | AgEq gpt | Description / Interpretation |
|---|---|---|---|---|---|---|---|
| P21-09 | 91.2 | 91.85 | 0.65m | 0.49 | 38 | 77 | San Jose vein |
| | 165.05 | 165.70 | 0.65m | 0.65 | 51 | 103 | El Pinguico vein |
| | | | | | | | |
| P21-10 | 57.90 | 59.50 | 1.60m | 0.22 | 10 | 28 | San Jose vein |
| | 107.55 | 115.65 | 8.10m | 1.00 | 93 | 173 | El Pinguico vein |
| including | 113.00 | 113.90 | 0.90m | 5.96 | 476 | 953 | El Pinguico vein |

1. Note: All Silver Equivalent values are calculated on a long-term silver to gold price ratio of 80 to 1 as used in the Company's recently published NI43-101 PEA report written by consultants Behre Dolbear and Company (USA), Inc. No attempt has been made by the Company to establish the true width of veins reported in this MD&A as the Company has determined that it would be premature to do so.

New modelling of drill holes P21-08 and P21-13 (drilled on the same section; and at 45 degrees and 60 degrees respectively), suggest that the San Jose vein and El Pinguico veins get closer and may merge at depth.

Results from assay offices in Mexico have been slow to arrive over the past several months. Once assay data has been received, compiled and fully interpreted for holes P21-11 through P21-21, the Company will report these additional results.

**El Cubo / El Pinguico Preliminary Economic Assessment**

During the month of February 2021, a Preliminary Economic Assessment ("PEA") on the Combined Project was completed by Behre Dolbear & Company (USA), Inc., an independent mineral industry advisory.

The Mineral Resource estimate used as the basis for this PEA was derived from the previous NI 43-101 Technical Report and computer models developed by Endeavour Silver in 2016 for the El Cubo property and the NI 43-101 Technical Report for the El Pinguico property by GSilver in 2017.

The remaining Mineral Resources in 2021, at El Cubo, are shown in the table below and total approximately 1.96 million tonnes.


*Fernando Mendoza, (foreground), Junior Geologist inspecting drill core with Israel Munoz, (background), Corporate Controller.*

| Estimate of the Remaining El Cubo Mineral Resources as of January 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|
| Classification | Tonnes | Silver | | Gold | | Silver Eq |
| | | g/t | Oz | g/t | Oz | g/t |
| Measured | None | - | - | - | - | - |
| Indicated | 508,055 | 194 | 3,169,000 | 2.44 | 39,860 | 389 |
| | | | | | | |
| Inferred | 1,453,000 | 214 | 10,004,000 | 2.78 | 129,900 | 435 |

**Notes:**
1. Silver Equivalent calculated using 1 ounce of gold is equal to 80 ounces of silver, on the basis of the average 5-year historic silver and gold prices.
2. Numbers have been rounded

The El Pinguico Mineral Resources in 2021 are show in the table below and total approximately 210,000 tonnes. Mineral Reserves have not been identified for El Pinguico.

| El Pinguico Mineral Resources as of January 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|
| Classification | Tonnes | Silver | | Gold | | Silver Eq |
| | | g/t | Oz | g/t | Oz | g/t |
| Measured | None | - | - | - | - | - |
| | | | | | | |
| Indicated | | | | | | |
| Surface Stockpile | 185,000 | 67 | 398,500 | 0.45 | 2,680 | 103 |
| Undergrounds Stockpile | 25,600 | 166 | 136,600 | 1.67 | 1,375 | 300 |
| | | | | | | |
| Total | 210,600 | 79 | 535,100 | 0.60 | 4,055 | 127 |

**Notes:**
1. Silver Equivalent calculated using 1 ounce of gold is equal to 80 ounces of silver, on the basis of the average 5-year historic silver and gold prices.
2. Numbers have been rounded
3. Mineral Resources ae not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimate will be converted into Mineral Reserves.

The El Cubo and El Pinguico Mines are similar mineralogically and typical of the Guanajuato Mining District. Mineralization is open-ended due to a lack of exploration drilling and development. Vein mineralization is normally 1 to 2 m wide, with mineralized breccia zones of up to 10 m wide. Typical of this style of mineralization, economic concentrations of silver and gold occur in ore shoots distributed vertically and laterally between barren or weakly mineralized portions of the veins. Bonanza grades may occur at the site of vein intersections, such as the nearly perpendicular San Nicolas-Villalpando vein intersection.

El Cubo and El Pinguico mineralization is typical of the classic high-grade silver-gold, banded epithermal vein deposits with low sulfidation mineralization. Silver occurs in dark sulfide and sulfosalt-rich bands within the veins, with little mineralization but significant alteration minerals in the surrounding wall rocks. Native silver occurs primarily in the near surface oxidized zones. Particulars of the PEA are as follows:

- Base Case metal prices used in the PEA are US$1,527 per gold ("Au") ounce ("oz") and US$19.49 per silver ("Ag") oz. These prices are based on long-term consensus average prices. A silver equivalent ("AgEq") price ratio of 1:80 (Au:Ag) applies throughout to Mineral Resources and production.

- Mineral Resource Estimate Total Indicated Mineral Resources for the Combined Project are 718,655 tonnes grading 160 gpt Ag and 1.90 gpt Au, or 306 gpt AgEq, which equates to 7.2 M oz AgEq using a conversion ratio of 1 oz of Au is equivalent to 80 oz of Ag.

- Total Inferred Mineral Resources for the Combined Project are 1,453,000 tonnes grading 214 gpt Ag and 2.78 gpt Au, or 435 gpt AgEq, which equates to 20.4 M oz AgEq using a conversion ratio of 1 oz of Au is equivalent to 80 oz of Ag.

- 7 Year Economics – Behre prepared a discounted cash flow model for the Combined Project to determine the Net Present Value (NPV), Internal Rate of Return (IRR), Initial Capital and Sustaining Capital, and payback period. Cash flow estimates were prepared on an after-tax basis and in accordance with NI 43-101 Standards of Disclosure for PEA studies. The PEA considers a plan to ramp up to a 750 tonne-per-day ("tpd") operation, with an initial mine life of 7.0 years. On an after-tax basis, the Combined Project generates a Base Case NPV (5%) of US$32.9 million and an IRR of 105%, excluding El Cubo acquisition costs. Using commodity prices of US$22.41/oz Ag and US$1756/oz Au, which are +15% above the Base Case, the after-tax NPV(5%) is US$79.0 million and the IRR is 344%. Behre calculates a Base Case payback period of 1.87 years.

- Operating Costs – Dividing Behre's Total Operating Costs of US$124.4 million by the life of mine ("LOM") AgEq oz of 13.2 M to be recovered from the Combined Project, gives GSilver an operating cost per AgEq ounce of US$9.42 over seven years of production, positioning the Company's operation to be attractive in nearly all commodity price scenarios.

- Opportunities to Grow and Optimize – Given that planning for the Combined Project has been advanced through the PEA stage within only a five (5) month period, numerous opportunities remain for growth and optimization. The most significant immediate opportunities are the potential to expand the Company's Mineral Resources - both at El Cubo and El Pinguico through exploration drilling and development, which is now ongoing at El Pinguico. Other noteworthy opportunities include optimization of the surface stockpile metallurgy and recoveries, which the Company remains confident can be improved during the mill's recommissioning process.

Please refer to News release dated February 16, 2021 and the Company's 43-101 filed April 5, 2021 for more details.

**Mexican Silver Belt Claims**

The Company has 7,800 hectares of additional mining claims within the Guanajuato and Queretaro regions as follows:

a) Patito I and II concessions - located approximately 1.5 km southwest, and 3.0 km due south of El Pinguico.
b) The Analy I & Analy II concessions - located 100 km east of the city of Guanajuato, Mexico
c) El Ruso, Ysabela and Camila concessions – located near the northern boundary between the States of Guanajuato and Queretaro in central Mexico
d) Over 7,000 hectares of mining claims south and east of the city of Guanajuato acquired from Endeavour as part of the El Cubo Complex transaction.

A 2.5% NSR exists on the seven concessions (a, b, and c above) of which, one half (1.25%) may be repurchased for $500,000.

OMPSA acquired the Patito I and Patito II concessions to expand its land position adjacent to El Pinguico. The remaining five concessions are owned by Gsilver's other Mexican subsidiary, CanMex Silver S.A. de C.V.

*Patito I and Patito II*

Providing additional mineral rights to El Pinguico, these claims are in close proximity to and along strike from the Veta Madre system. Several vein structures are present, possibly representing a parallel vein system to the Veta Madre or El Pinguico veins. Host rocks are sub-aerial acid volcanics. Numerous Au-Ag rock chip anomalies have been identified by historical sampling. The mineralization is associated with brecciation and mesothermal/epithermal quartz veining/stockwork and silicification controlled by narrow structures 0.3 m to 1.5 m wide at surface with potential for expansion at depth.

*Analy I and Analy II*

These claims represent a total land area of 723 hectares, located within 50 km of Guanajuato, in the middle of the prolific Silver Belt. The claims are located in an old Ag-Pb-Zn mining area that has never been explored using modern methods, providing potential for new discoveries.

*El Ruso*

The El Ruso claim area is located adjacent to an old mercury ("Hg") prospecting pit and several other small historical Hg and Au-Ag mines are present in the area, including the El Nacimiento skarn deposit. No historical production/grade records are available. Historical and current fieldwork have returned high- grade Au and Ag assays.

*Ysabela and Camila*

These are granted claims in an old Ag-Pb-Zn-Au mining area in the Sierra Madre Oriental. The Camila claim boundary is located on the abandoned Santa Ana Ag-Pb-Zn mine, a manto or skarn deposit that operated intermittently from the late 1800s to 1995. Several other abandoned Ag-Pb-Zn mines are located on the claim boundary, including the Guadalupe Mine, an Ag-Pb-Zn mine that operated intermittently from the late 1800s to about 1985, with maximum production prior to closure of 1,000 tonnes per day. A 200 m deep shaft is connected to a lower 530 m long haulage and ventilation tunnel. An inactive mill site occurs within the claim. The area has never been explored using modern exploration methods and has never been drilled, offering significant mineralization potential. The area is easily accessible by road and the terrain is amenable to rapid screening by conventional reconnaissance exploration techniques.

**Exploration Outlook**

*El Cubo*

The Company's exploration efforts at El Cubo continues to be focused on two fronts: a) drilling expansion of the main NW striking Dolores and Villalpando vein systems and b) exploration of numerous NE striking, perpendicular, transversal veins. These transverse veins are well known in the region, are usually narrow but are often high grade and with proportionately higher gold grades. Management feels these veins offer an overlooked exploration opportunity, and has begun mapping, sampling, and drilling numerous such targets both underground and from surface.

*El Pinguico*

Further modelling of the El Pinguico vein system, as well as fault structures on the property that have down-dropped stratigraphic sections of the project to the south, have allowed the Company to reinterpret the potential location of the intersection of the El Pingiico vein system with the Veta Madre. Company geologists now feel that drilling the interpreted target from the southern portion of the property may allow drilling to intersect the target at a much shallower distance than drilling at other locations on the property. Plans to permit drill stations in this area and to source an appropriate drill are well advanced.

*Israel Munoz (left), Corporate Controller and Luis Felipe Ramirez (right), Gerente de Administración y Finanzas, standing on top of the above ground stockpile at El Pinguico.*

## RESULTS OF OPERATIONS

As at September 30, 2021, the Company has not yet generated any sales or revenues, nor has it had any extraordinary items or discontinued operations.

| Selected Operational Information | For the three months ended September 30 2021 $ | 2020 $ | For the nine months ended September 30 2021 $ | 2020 $ |
|---|---|---|---|---|
| Operating expenses | 3,057,134 | 784,096 | 7,802,883 | 1,292,628 |
| Net loss | (3,708,558) | (815,665) | (8,886,108) | (1,310,727) |
| Net loss per share – basic and diluted | (0.02) | (0.01) | (0.05) | (0.02) |
| Weighted average shares – basic and diluted | 201,458,554 | 94,367,037 | 174,654,773 | 72,347,454 |

| Selected Statements of Financial Position Information | September 30 2021 $ | December 31 2020 $ |
|---|---|---|
| Cash | 7,716,144 | 5,321,927 |
| Other current assets | 5,572,817 | 380,743 |
| Non-current assets | 44,048,980 | 4,539,553 |
| Non-current liabilities | 8,635,583 | 19,519 |
| Shareholders' equity | 33,696,562 | 9,967,362 |

| Operating Expenses | For the three months ended September 30 **2021** **$** | **2020** **$** | For the nine months ended September 30 **2021** **$** | **2020** **$** |
|---|---|---|---|---|
| Advertising and promotion | 131,106 | 128,735 | 375,457 | 163,341 |
| Depreciation and amortization | 46,977 | 8,278 | 235,639 | 11,505 |
| General and administrative | 747,709 | 78,815 | 1,212,067 | 125,455 |
| General exploration | 64,892 | 326,405 | 1,145,379 | 370,327 |
| Management and consulting fees | 170,500 | 82,992 | 424,120 | 222,047 |
| Professional fees | 282,387 | 39,740 | 639,224 | 156,740 |
| Regulatory | 31,967 | 9,340 | 88,795 | 33,873 |
| Salaries, bonus and benefits | 737,321 | - | 879,826 | - |
| Share-based compensation | 802,588 | 98,064 | 2,748,745 | 182,716 |
| Travel | 41,687 | 11,727 | 53,631 | 26,624 |
| | **3,057,134** | **784,096** | **7,802,883** | **1,292,628** |

Total operating expenses increased by $2,273,038 and 6,510,255 for the three and nine months ended September 30, 2021, respectively, compared to the same periods in 2020, primarily due to the ramp up of operations after the acquisition of the El Cubo mine, leading to an overall increase in expenses, capital expenditures and executives and employees throughout the Company. The main fluctuations in operating expenses are as follows:

Advertising and promotion

Advertising and promotion increased by $2,371 and $212,116 for the three and nine-month period ended September 30, 2021, compared to the same period in 2020, as the Company ramps up its investor relations and marketing activities in conjunction with its acquisition and subsequent re-start of operations of the El Cubo Complex.

Depreciation and amortization

Depreciation and amortization increased by $38,699 and $224,134 for the three and nine month period ended September 30, 2021, compared to the same period in 2020, due to the acquisition of the El Cubo mill and mine, refurbishment and capital investment in the mill and the corresponding ramp up of operations.

General and administrative

General and administration expenses increased to $747,709 and $1,212,067 for the three and nine months ended September 30, 2021, compared to $78,815 and $125,455 for the same period in 2020, primarily due to spending on office supplies, information technology support and software across all operations, as the Company ramps up operations.

General exploration costs

General exploration costs decreased in the three months ended September 30, 2021 to $64,892 from $288,544 in the same 2020 period as the Company focussed its efforts on the refurbishment of the El Cubo mine and mill. For the nine months ended September 30, 2021 costs increased substantially to $1,145,379, compared to $370,327 in the 2020 comparative period as the Company expanded its drilling program for El Pinguico in the first half of 2021.

Management and consulting services

Management and consulting services increased by $87,508 and $202,073 for the three and nine months ended September 30, 2021, compared to the same period in 2020, as the Company strengthens its executive team as the Company continues to execute on its expansion plans.

Professional fees

Professional fees increased by $242,647 and $482,484 for the three and nine months ended September 30, 2021 compared to the same period in 2020 due to engagement of a third party consultant for the preparation of the Company's PEA on the Combined Project, increased legal and tax fees related to the El Cubo acquisition, equity financing, the OCIM loan, and an overall increases in operations.

Regulatory

Regulatory expenses increased by $22,627 and $54,922 for the three and nine months ended September 30, 2021 compared to the same period in 2020, due to the Company's acquisition of the El Cubo mine and the associated equity financing, the OCIM loan, and overall increases in operations.

Salaries, bonus and benefits

During the three and nine months ended September 30, 2021, the Company significantly expanded its operations, adding members to the executive team and employees in the Vancouver, Canada office, at the Guanajuato, Mexico office and the El Cubo site, increasing salaries, bonus and benefits to $737,321 and $879,826 for the three and nine months ended September 30, 2021, compared to $Nil and $Nil, respectively, in the same 2020 periods.

Share-based compensation

Share-based compensation increased by $704,524 and $2,566,029 for the three and nine months ended September 30, 2021, compared to the same period in 2020, due to options granted to employees, consultant and directors as the Company expanded its operations and personnel.

Travel

Travel expenses increased by $29,960 and $27,007 for the three and nine months ended September 30, 2021 compared to the same 2020 period due to the increased operational activity as the Company ramped up operation and as COVID-19 travel restrictions were lifted by many countries.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's ability to generate sufficient amounts of cash, both in the short term and the long term, to maintain existing capacity and to fund ongoing development and exploration, is dependent upon the further discovery of economically recoverable reserves and resources and the ability of the Company to obtain the financing necessary to generate and sustain profitable operations.

The Company will evaluate, from time to time, sales of its common shares to improve the Company's liquidity and working capital position. To the extent that cash generated by operations during 2021 is less than anticipated or in the event the Company determines it will undertake other projects that are currently not part of its plans, or if the Company undertakes an acquisition, additional capital may be required. Sources of capital include accessing the private and public capital markets for debt and equity over the next 12 months. Adverse movement in metal prices and unforeseen impacts to the Company's operation may increase the need to raise new external sources of capital, and the inability to access sources of capital could adversely impact the Company's liquidity and require the Company to curtail capital and exploration program and other discretionary expenditures.

| Cash Flow | Three months ended September 30 2021 $ | 2020 $ | Nine months ended September 30 2021 $ | 2020 $ |
|---|---|---|---|---|
| Cash used in operating activities | (2,046,989) | (766,960) | (7,650,006) | (1,232,203) |
| Cash used in investing activities | (5,009,492) | (9,607) | (16,506,672) | (14,942) |
| Cash generated by financing activities | 9,317,469 | 3,889,944 | 26,646,040 | 5,605,894 |
| Effect of exchange rate changes on cash | - | (4,093) | (95,145) | (3,384) |
| Change in cash | 2,260,988 | 3,109,284 | 2,394,217 | 4,358,749 |
| Cash, beginning of period | 5,455,156 | 1,790,360 | 5,321,927 | 544,279 |
| Cash, end of period | 7,716,144 | 4,899,644 | 7,716,144 | 4,899,644 |

As at September 30, 2021, the Company had cash of $7,716,144 and negative working capital of ($1,716,835) compared with cash of $5,321,927 and positive working capital of $5,447,328 at December 31, 2020.

*Operating activities*

Cash used in operating activities was $2,046,989 during the three months ended September 30, 2021 (September 30, 2020 - $766,960). The significant non-cash adjustments to the net loss of $3,708,558 in the three months ended September 30, 2021 (September 30, 2020 – $815,665) was accretion of $57,091 (September 30, 2020 - $Nil), depreciation and amortization of $42,304 (September 30, 2020 – $8,278), gain on derivatives of $318,755, share-based compensation of $802,588 (September 30, 2020 – $98,064), and an increase in non-cash working capital of $1,085,687 (September 30, 2020 – decrease of $46,228). The change in non-cash working capital was primarily due to an increase in accounts payable and accrued liabilities, and prepaid expenses and deposits offset by an decrease in amounts receivable.

During the nine months ended September 30, 2021, cash used in operating activities was $7,650,006 (September 30, 2020 - $1,232,203). The significant non-cash adjustments to the net loss of $8,886,108 in the nine months ended September 30, 2021 (September 30, 2020 –$1,310,727) was accretion of $64,629 (September 30, 2020 - $Nil), depreciation and amortization of $235,639 (September 30, 2020 – $11,505), loss on derivatives of $318,755, share-based compensation of $2,748,745 (September 30, 2020 –$182,716), and a decrease in non-cash working capital of $1,818,853 (September 30, 2020 - 98,274). The change in non-cash working capital was primarily due to a decrease in amounts receivable and prepaid expenses and deposits offset by an increase in accounts payable and accrued liabilities.

*Investing activities*

Investing activities used cash of $5,009,491 and $16,506,672 in the three and nine months period ended September 30, 2021 compared with the use of cash of $9,607 and $14,942 in same three and nine month period ending September 30, 2020. The significant use of cash during the three and nine month period ending September 30, 2021 was the acquisition of the El Cubo Mine Complex and the corresponding property, plant and equipment expenditures to refurbish the El Cubo Mine Complex to bring it back into production.

*Financing activities*

Financing activities for the nine months ended September 30, 2021 increased cash by $26,646,040, compared to increasing cash by $5,605,894 in the same period in 2020. This increase was due to the following:

i. On March 11, 2021, the Company completed a non-brokered private placement and issued 56,500,000 units at $0.30 per unit for gross proceeds of $16,950,000. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at $0.45 per share for a period of three years. In connection with the private placement, the Company paid $341,839 in cash, issued $518,139 common shares at $0.30 per share and 1,648,669 finder's warrants with a fair value of $670,141 as finders fees.

ii. The Company issued 11,777,528 common shares on exercise of 11,777,528 warrants for net proceeds of $2,731,728 and issued 1,233,334 common shares on the exercise of 1,233,334 options for net proceeds of $190,626.

iii. On May 31, 2021, the Company entered into a definitive agreement for an 18-month gold and silver loan with European based OCIM Group ("OCIM") for $9,370,610 (USD$7,500,000). Upon execution, the Company had 90 days in which to drawdown the loan. Upon drawdown, the loan includes an initial nine-month payment-free grace period and is then repayable over the following 12 months commencing February 28, 2022 with the Company delivering 228,916 silver and 2,141 gold ounces on a monthly basis. The number of silver and gold ounces was fixed at 15% discount to the spot price on July 26, 2021, the date the Company served notice of drawdown of funds.

iv. Between April and September 2021, the Company entered into nine, 3-year vehicle loan agreements. The Company paid aggregate down payments of $77,524 (MXP 1,256,138 including VAT) with aggregate principal totalling $271,467 (MXP 4,428,740). The loans are secured by the respective vehicles, bear interest at 16.83% and are repayable in monthly installments of between $706 and $1,032 (MXP 11,576 and MXP 16,913).

During the year ended December 31, 2020, the Company issued common shares as follows:

i. On March 18, 2020, the Company issued 403,640 common shares with a fair value of $20,182 to settle accounts payable of $10,182 owed to a vendor and $10,000 owed to a company controlled by the Chief Executive Officer of the Company.

ii. On August 5, 2020, and August 11, 2020, the Company completed non-brokered private placements and issued 25,641,902 units at $0.155 per unit for gross proceeds of $3,974,494. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrants entitles the holder to purchase one additional common share at $0.25 per share for a period of two years. In connection with the private placement, the Company paid $137,123 in cash, issued 214,665 common shares at $0.155 per share and 821,011 finders' warrants with a fair value of $119,542 as finders' fees.

iii. On November 30, 2020, the Company issued 3,750,000 units with a fair value of $1,703,085 pursuant to an option to acquire royalties (note 8). Each unit consists of one common share and on non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at $0.175 per share for a period of five years.

iv. During the year ended December 31, 2020, the Company adopted a warrant acceleration bonus program ("Acceleration Program") for its outstanding common share purchase warrants granted in connection with the Company's 2019 non-brokered private placement financing. Under the program, warrant holders would receive one bonus common share for every 10 warrants exercised if exercised on or before September 26, 2020 (the "Bonus Shares"). Pursuant to the Acceleration Program, the Company issued 21,363,055 common shares, including 1,266,055 Bonus Shares, on exercise of 20,097,000 warrants at $0.10 per share for gross proceeds of $2,009,700.

*Trends in liquidity and capital resources*

The Company expects to generate positive cash flows from its mining operations in 2022 before capital investments, exploration and evaluation and development costs, debt repayment obligations, at current metal prices, and current exchange rates for the Mexican Peso and the USD. This also assumes no significant operational disruptions related to government measures to reduce the spread of COVID-19. The Company may raise additional debt or equity over the next 12 months to improve working capital, fund planned capital investments and exploration programs for its operating mine, acquisitions, and meet scheduled debt repayment obligations.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recent quarters:

| Quarter ended | Revenue<br>$ | Net loss<br>$ | Basic and fully diluted earnings (loss) per share<br>$ |
|---|---|---|---|
| September 30, 2021 | | (3,708,558) | (0.02) |
| June 30, 2021 | - | (2,278,901) | (0.02) |
| March 31, 2021 | - | (2,898,649) | (0.02) |
| December 31, 2020 | - | (889,634) | (0.01) |
| September 30, 2020 | - | (815,665) | (0.01) |
| June 30, 2020 | - | (297,884) | (0.00) |
| March 31, 2020 | - | (197,178) | (0.00) |
| December 31, 2019 | - | (65,213) | (0.00) |

## SHARE CAPITAL

The Company share capital consists of the following:

i. unlimited common shares without par value
ii. unlimited preferred shares without par value

The following common shares, warrants and stock options were outstanding as follows:

| | September 30 2020 | As at the date of this MD&A |
|---|---|---|
| Common shares | 201,110,472 | 205,690,955 |
| Warrants | 52,241,441 | 47,773,458 |
| Stock options | 13,329,166 | 13,348,333 |
| Fully diluted | 266,681,079 | 266,812,746 |

The details of outstanding stock options outstanding are as follows:

| Expiry date | Exercise price per share | Options outstanding (September 30, 2020) | Options outstanding (As at the date of this MD&A) |
|---|---|---|---|
| August 18, 2022 | 0.40 | 262,500 | 262,500 |
| March 30, 2023 | 0.08 | 2,225,000 | 2,225,000 |
| May 31, 2023 | 0.10 | 50,000 | 50,000 |
| June 27, 2023 | 0.20 | 550,000 | 550,000 |
| October 12, 2023 | 0.30 | 2,091,666 | 2,048,333 |
| January 4, 2024 | 0.30 | 150,000 | 150,000 |
| February 6, 2024 | 0.30 | 150,000 | 150,000 |
| February 17, 2024 | 0.30 | 150,000 | 37,500 |
| March 24, 2026 | 0.51 | 6,450,000 | 6,450,000 |
| April 26, 2026 | 0.60 | 250,000 | 250,000 |
| May 14, 2026 | 0.60 | 400,000 | 400,000 |
| July 15, 2023 | 0.45 | 200,000 | 200,000 |
| September 8, 2026 | 0.40 | 400,000 | 400,000 |
| October 12, 2026 | 0.41 | - | 150,000 |
| November 5, 2021 | 0.53 | - | 25,000 |
| Total | | 13,329,166 | 13,348,333 |

The details of outstanding warrants outstanding are as follows:

| Expiry date | Exercise price per share | Warrants outstanding (September 30, 2020) | Warrants outstanding (As at the date of this MD&A) |
|---|---|---|---|
| November 9, 2021 | 0.50 | 2,955,000 | 1,261,000 |
| November 27, 2021 | 0.10 | 1,600,000 | 200,000 |
| January 18, 2022 | 0.50 | 4,827,800 | 4,752,800 |
| August 11, 2022 | 0.25 | 7,963,714 | 7,951,669 |
| March 11, 2024 | 0.45 | 29,857,989 | 29,857,989 |
| November 30, 2025 | 0.18 | 3,750,000 | 3,750,000 |
| Total | | 52,241,441 | 47,773,458 |

## OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

The following expenses were paid to key management personnel of the Company:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2021 $ | September 30, 2020 $ | September 30, 2021 $ | September 30, 2020 $ |
| Salaries, bonus and benefits | 45,000 | - | 110,000 | - |
| Consulting fees | 90,000 | 52,890 | 281,600 | 124,490 |
| Share-based compensation | 314,746 | 10,714 | 1,543,670 | 35,671 |
| Total | 449,746 | 63,604 | 1,935,270 | 160,161 |

For the three and nine months ended September 30, 2021, the Company incurred management and consulting fees to companies controlled by the CEO and a director of the Company.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2021 | September 30, 2020 | September 30, 2021 | September 30, 2020 |
| | $ | $ | $ | $ |
| Blueberry Capital Corp. | 52,500 | 37,500 | 142,500 | 103,500 |
| Universal Solutions Inc. | 37,500 | 15,000 | 100,000 | 20,000 |
| Total | 90,000 | 52,500 | 242,500 | 123,500 |

As at September 30, 2021, there was $nil owing (September 30, 2020 – $nil) to Blueberry Capital Corp. a company controlled by the CEO of the Company and Universal Solution Inc a company controlled by a Director of the Company.

## CONTINGENCY AND CONTRACTUAL OBLIGATIONS

As at September 30, 2021, the Company had commitments of $118,043, for equipment purchases and other services which are expected to be expended within one year.

## MANAGEMENT OF CAPITAL

The Company's capital consists of share capital, equity reserves and deficit. The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support mine refurbishment, exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. The Board of Directors has not established quantitative capital structure criteria management, but reviews, on a regular basis, the capital structure of the Company to ensure its appropriateness to the stage of development of the business.

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other precious and base metal deposits.

- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal; and

- To obtain the necessary financing to complete mine refurbishment and exploration and development of its properties, when it is required.

The properties in which the Company currently holds interests in are in the production, pre-production and exploration stages and the Company is dependent on external financing to fund its activities in order to carry out planned activities and pay for administrative costs. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In addition, the Company may issue new equity, incur additional debt, option its exploration and evaluation assets for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. When applicable, the Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends.

There were no changes in the Company's approach to capital management during the nine months ended September 30,2021 compared to the year ended December 31, 2020. The Company is not subject to externally imposed capital requirement

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value measurement and valuation techniques

Financial instruments included in the consolidated statements of financial position are measured either at fair value or amortized cost. Estimated fair values for financial instruments are designed to approximate amounts for which the instruments could be exchanged in an arm's-length transaction between knowledgeable and willing parties.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The carrying value of cash and cash equivalents is measured at fair value using level 1 inputs as the basis for measurement in the fair value hierarchy. The carrying value of amounts receivable, deposit, and accounts payable, promissory note and accrued liabilities, all of which are carried at amortized cost, approximate their fair value given their short term nature.

The Company's derivative assets are comprised of commodity contracts which are valued using observable market prices.

During the three and nine months ended September 30, 2021, and 2020, there were no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy

## RISKS AND UNCERTAINTIES

The Company is exposed to many risks in conducting its business, including but not limited to: metal price risk as the Company derives its revenue from the sale of silver and gold; trading and credit risk in the normal course of dealing with other companies; foreign exchange risk as the Company reports its financial statements in Canadian dollars whereas the Company operates in Mexico that utilize the Mexican Peso and USD; risks relating to cyber security; the inherent risk of uncertainties in estimating mineral reserves and mineral resources; political, economic and social risks related to conducting business in jurisdictions such as Canada, and Mexico; environmental risks; risks related to its relations with employees and local communities where the Company operates, and risks relating to the spread of COVID-19, which has to date resulted in profound health and economic impacts globally and which presents future risks and uncertainties that are largely unknown at this time. Certain of these risks are described below, and are more fully described in GSilver's Continuous Disclosure filings (available on SEDAR at www.sedar.com) and in the Risks and Uncertainties section of the Company's June 30, 2021 MD&A. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent to GSilver's business.

Financial risk management

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign exchange risk, credit risk, interest rate risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, advance receivable and deposit. The Company deposits its cash and cash equivalents with high credit quality major Canadian and Mexican financial institutions as determined by ratings agencies. The advance receivable is due upon an event which has not yet occurred, and the deposit will be applied as part of the purchase price towards as subsequent transaction. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the maximum exposure to credit risk.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows and maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As of September 30, 2021, the Company had cash and cash equivalents of $7,716,144 to settle current liabilities of $15,005,796.

*Interest rate risk*

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is mainly held in bank accounts at a Canadian chartered bank. The interest rate risks on cash and cash equivalents are not considered significant.

The company interest rate risk principally arises from the interest rate impact on interest charged on its loan payable, promissory note payable and lease liability. The Company's loan payable, promissory note and lease liability are subject to fixed interest rates thus any changes in external interest rates would not result in a significant impact on the Company's net loss.

*Currency risk*

Currency risk is the risk that foreign exchange rates will fluctuate significantly from expectations. The Company reports its financial statements in Canadian dollars; however, it operates in Mexico which utilized both the Mexican Peso and the US Dollar ("USD")(collectively "Local Currencies"). Consequently, the financial results of the Company's operations as reported in Canadian dollars are subject to changes in the value of the Canadian dollar relative to the Local Currencies. Since a significant portion of the Company's operating costs and capital spending are in Local Currencies, the Company is negatively impacted by strengthening local currencies relative to the Canadian dollar and positively impacted by the inverse.

As at September 30, 2021, a 10% change of the Canadian dollar relative to the Mexican Peso would have a net financial impact of approximately $731,059 (December 31, 2020 - $27,000) and a 10% change in the Canadian dollar relative to the USD would have a net financial impact of approximately $218,468 (December 31, 2020 - $69,000). The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk.

*Commodity price risk*

Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production, short-term changes in supply and demand due to speculative hedging activities and certain other factors. The ability of the Company to develop its mineral properties and exploration and evaluation assets is highly correlated to the market price of gold and silver. If metal prices decline for a prolonged period below the anticipated cost of production of the Company's mine, it may not be economically feasible to continue production.

*COVID-19 Pandemic*

There is uncertainty about the spread of the COVID-19 pandemic and its impact on the Company's operations or ability to access properties including El Cubo and El Pinguico, procure equipment, contractors and other personnel on a timely basis or at all, and economic activity in general. Furthermore, the Company cannot accurately predict the impact COVID-19 will have on third parties' ability to meet their obligations with the Company, including the timely delivery of machinery, goods and supplies and certain governmental permits and other third party approvals. Any sustained shut-down or significant curtailment to the Company's operations will have a material adverse impact on the Company's production, revenues and financial condition and may materially impact the Company's ability to meet its production targets and goals or satisfy its obligations and liabilities including debt obligations. The spread of COVID-19 has also impacted the Company's employees and contractors not only from a health concern but also in terms of limitations on movement, availability of food and other goods, and personal well-being.

Although COVID-19 has already had a significant, direct impact on the Company's operations, business and workforce, the extent to which COVID-19 will continue to impact the Company's operations will depend on future developments which are highly uncertain and cannot be predicted with confidence. These future developments include, but are not limited to, the duration of the outbreak, new information that may emerge concerning the severity of COVID-19, and the actions taken by governments of affected countries to contain COVID-19 or treat it including travel restrictions and quarantines and the lengths thereof. The impact of governmental restrictions and health and safety protocols could improve or worsen relative to the Company's assumptions, depending on how each jurisdiction manages potential outbreaks of COVID-19, the development and adequate supply of vaccines, and the roll-out of vaccination programs in each jurisdiction. The Company expects that its operations will continue to be impacted by COVID-19 related restrictions, protocols, and travel restrictions for the balance of 2021 and into 2022, which will likely increase costs and could adversely restrict or impact production levels and/or the Company's ability to conduct exploration and development programs. In particular, the Company may continue to be impacted by delays, in receiving permits and regulatory responses which could adversely impact its operations and exploration and development plans. The Company may also experience disruptions to its operations as a result of COVID-19 including employee health and workforce shortages and the unavailability of contractors, subcontractors or industry experts, interruption of supplies and the provision of services from third parties upon which the Company relies, regulatory restrictions that governments impose or that the Company voluntarily imposes to address the COVID-19 outbreak and to ensure the safety of employees and others. The Company may experience disruptions in transportation services as a result of COVID-19 that could adversely impact the Company's ability to deliver silver and gold concentrate to refineries. COVID-19 may also negatively impact global and regional economies including demand for the Company's production. COVID-19 could also negatively impact stock markets, including the trading price of the Company's shares, adversely impact the Company's ability to raise capital, cause continued interest rate volatility and movements that could make obtaining financing or refinancing the Company's debt obligations more challenging or more expensive (if such financing is available at all), and result in any operations affected by COVID-19 becoming subject to quarantine or shut down. Any of these developments, and others, could have a material adverse effect on the Company's business, results of operations and financial condition. To the extent the Company's operations are impacted or expected to be impacted, the Company may undertake measures to preserve cash resources including suspension of discretionary spending and other legal means to reduce and minimize contractual spending. However, any extended suspension of operations may ultimately impact on the Company's ability to repay its debt obligations and other creditors, with the result that the Company's financial position may be seriously jeopardized.

There are no assurances that exploration, development and production activities at El Cubo or El Pinguico will not have to cease at some point during 2022 or beyond as a result of government orders directed at controlling COVID-19. In addition, disruptions in the Company's supply chain, including from the Company's suppliers and service providers, as a result of industry closures relating to COVID-19 may result in the declaration by the Company's suppliers of force majeure in contracts or purchase orders, which may result in the Company's inability to complete projects in a timely manner.

*Climate Change*

Extreme weather events (such as prolonged drought, increased frequency and intensity of storms, flooding and wildfires) have the potential to disrupt the Company's operations and the transportation routes that the Company uses. The Company's ability to conduct mining operations also depends upon access to the volumes of water that are necessary to operate its mines and processing facilities. Changes in weather patterns and extreme weather events including flooding or wildfires, either due to normal variances in weather or due to global climate change, could adversely impact, disrupt or increase the costs of the Company's mining operations including the volume of water or other supply lines necessary to operate its facilities, or damage to facilities, plant and operating equipment, any of which would adversely impact the Company's cash flow and profitability.

Also, various governments around the world have introduced or are moving to introduce climate change legislation and treaties at the international, national, state/provincial and local levels regulating, among other things, emission levels (such as carbon taxes) and energy efficiency is becoming more stringent. If current regulatory trends continue, this may result in increased costs at some or all of the Company's operations.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are based on historical experience, and other factors considered to be reasonable and are reviewed on an ongoing basis. Actual results may differ from these estimates.

Refer to note 3 of the 2020 annual audited consolidated financial statements for a detailed discussion of the areas in which critical accounting estimates are made and where actual results may differ from the estimates under different assumptions and conditions and may materially affect financial results of its statement of financial position reported in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized when the estimates are revised and in any future periods affected.

## CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

The accounting policies applied in the preparation of the Company's unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2020, except as follows:

*Mineral properties, plant and equipment*

Mineral properties, plant and equipment are initially valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. When provisions for closure and decommissioning are recognized, the corresponding cost is capitalized as part of the cost of the related assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in mineral property, plant and equipment and depreciated accordingly.

Buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated.

Each asset's or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

Mineral properties, plant and equipment are depreciated using either the straight-line or units-of-production method over the shorter of the estimated useful life of the asset or the expected life of mine. Where an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Assets under construction are recorded at cost and re-allocated to machinery and equipment when it becomes available for use.

The net carrying amounts of mineral property, land, buildings, plant and equipment are reviewed for impairment at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable to the extent that these values exceed their recoverable amounts, that excess is recorded as an impairment provision in the period in which this is determined.

Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other maintenance costs are expensed as incurred.

Where an item of mineral property, plant and equipment is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is included as profit or loss on disposal in the statement of loss and comprehensive loss. Any items of mineral property, plant or equipment that cease to have future economic benefits are derecognized with any gain or loss included in the financial year in which the item is derecognized.

*Leases*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset ("RoU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset ("RoU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The RoU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease liability. The RoU asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The RoU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the RoU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in the consolidated statement of income in the period in which they are incurred.

The ROU assets are presented within "Plant and equipment" and the lease liabilities are presented in "Lease liabilities" on the balance sheet.

<u>Future changes in accounting standards</u>

*Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)*

On May 14, 2020, the IASB published a narrow scope amendment to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible.

The Company is assessing the effect of the narrow scope amendment on its consolidated financial statements and the possibility of early adoption.

*Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendments are applied on or after the first annual reporting period beginning on or after January 1, 2023, with early application permitted. This amendment is not expected to have a material impact on the Company's financial statements.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

The amendment clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Early application is permitted.

This amendment is not expected to have a material impact on the Company.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this MD&A, including the unaudited condensed consolidated interim financial statements, is the responsibility of management. In the preparation of these consolidated financial statements, estimates are sometimes necessary to make a determination of future value or certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying unaudited condensed consolidated interim financial statements. Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements; and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. There have been no significant changes in the Company's disclosure controls and procedures during the three months ended September 30, 2021.

## LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any system of controls and procedures over financial reporting and disclosure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

*(GSilver Team members and their families at the Grand Re-opening of El Cubo)*