Discoverysilver

(Formerly Discovery Metals Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2020 and 2019

Dated April 28, 2021

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This Management's Discussion and Analysis ("MD&A") of Discovery Silver Corp. (referred to as the "Company" or "Discovery Silver"), contains information that management believes is relevant for an assessment and understanding of the Company's consolidated financial position, and results of its consolidated operations for the three and twelve months ended December 31, 2020 ("Q4 2020" and "Q4 YTD 2020", respectively). This MD&A, and the discussion of performance, financial condition and future prospects contained herein, should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2020 and accompanying notes (the "consolidated financial statements"), prepared in accordance with International Financial Reporting Standards ("IFRS") and the Company's Annual Information Form ("AIF") for the year ended December 31, 2019. The Company will file its AIF for the year ended December 31, 2020 during the fourth quarter of 2021, in conjunction with the filing of an updated Technical Report on the Cordero Project, in compliance with the standards of National Instrument 43-101 ("NI 43-101"). The information provided herein supplements, but does not form, part of the consolidated financial statements and includes financial and operational information from the Company's subsidiaries. This discussion also covers the three and twelve months ended December 31, 2019 ("Q4 2019" and "Q4 YTD 2019", respectively) and the subsequent period up to the date of this MD&A. The Company's common shares (the "common shares") are listed and traded on the TSX Venture Exchange (the "TSX-V") under the symbol "DSV", and on the OTCQX under the symbol "DSVSF".

All dollar amounts are presented in Canadian dollars ("CAD"), the Company's reporting currency, except where otherwise noted. References to United States dollars are denoted as "USD". Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

The Company's certifying officers, based on their knowledge and having exercised reasonable diligence, are also responsible to ensure that this MD&A and related consolidated financial statements do not contain any untrue statement of material fact and do not omit any required statement of material fact with respect to the periods reported. The consolidated financial statements, together with the other financial information included in this MD&A present fairly in all material respects the financial condition, results of operations and cash flows of the Company, at the date of and for the periods presented in this MD&A. This MD&A contains forward looking information that is subject to risk factors set out in the cautionary note herein.

The Company's Board of Directors' (the "Board") review is accomplished principally through the Company's Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board has approved the consolidated financial statements and this MD&A, as well as ensured that the Company's management ("Management") has discharged its financial responsibilities. Information in this MD&A is prepared as at April 28, 2021.

DESCRIPTION OF BUSINESS

The Company was incorporated on October 10, 1986 under the laws of British Columbia as Ayubowan Capital Ltd. On June 13, 2017, the Company's name was changed to Discovery Metals Corp. On April 14, 2021, the Company's name was changed to Discovery Silver Corp. The Company is listed on the TSX Venture Exchange (the "Exchange" or "TSXV") under the symbol "DSV" and the OTCQX Market® under the symbol "DSVSF". The Company's head office is located at Suite 701 - 55 University Avenue, Toronto, Ontario, M5J 2H7.

Discovery Silver is a mineral exploration company whose main objective is to identify and successfully define and develop mineral deposits, primarily in Mexico.

The Company is focused on exploring and advancing its 100% owned Cordero Project ("Cordero" or the "Project"), a 35,000-hectare property in Chihuahua State, Mexico, that covers an entire district that hosts numerous exploration targets for bulk tonnage diatreme-hosted, vein, porphyry-style, and carbonate replacement deposits. The Company holds rights to high-grade silver-zinc-lead deposits in a land package of approximately 150,000 hectares covering a historic mining district in northern Coahuila State, Mexico. The portfolio of three large-scale, drill-ready projects and several earlier-stage prospects, all with shallow, high-grade mineralization, is situated in a world-class carbonate replacement deposit belt that stretches from southeast Arizona to central Mexico. The land holdings contain numerous historical direct-ship ore workings with several kilometers of underground development, with no modern exploration or drill testing on the properties prior to the work carried out by Discovery.

COVID-19 – DISCOVERY SILVER'S RESPONSE AND CONTINUITY PLANS

On March 19 and March 31, 2020, the Company announced that it had begun implementing business continuity plans and procedures at its Mexican operations and corporate office in Toronto as a result of the global pandemic arising from the COVID-19 virus. Health and safety protocols were implemented, and the Company restricted international travel to site. The Company then began to decelerate exploration activity at Cordero to one drill rig in order to limit the number of employees at site. This was followed by a full temporary suspension of exploration activities due to the increased health and safety risks associated with the growing number of COVID-19 cases in Mexico. The decision to suspend exploration activity was consistent with a published recommendation from the Mexican Federal Government (the "Government") on March 24, 2020, that all non-essential services be temporarily shut down until April 19, 2020, a date that was subsequently updated to May 31, 2020. The Company also took into account the closure of local exploration support businesses in response to COVID-19.

On May 13, 2020, the Government published another decree announcing that mining and several other sectors were to be considered essential services and could begin operations as early as June 1, 2020. Commencement of operations would be subject to government approval of a company's application to resume operations. The applicant must demonstrate that strict health and safety protocols are in place and will be adhered to. The Company applied and was granted permission to restart operations. On June 19, 2020, the Company began operating one drill rig at the Cordero Project ("Cordero") and had ramped back up to four drill rigs by mid-August. This temporary shutdown did not have a significant impact on the Company's operations.

As with much of Mexico this past fall, Chihuahua State saw a significant increase in the community spread of COVID-19. During the month of October, the Company isolated and quarantined several employees and contractors who had tested positive for COVID-19 during routine testing at site. These tests were followed-up with subsequent PCR testing with anyone testing positive being isolated immediately. The Company is continually enhancing its testing protocols, social-distancing measures and travel restrictions and saw a noticeable reduction in positive cases during the final months of 2020 and into 2021.

The Company continues to be proactive regarding COVID-19 and continually monitors employees and contractors and remains committed to being engaged with our local stakeholders during this uncertain period, in particular as new variants of the virus are being identified. The Company will continue to closely monitor the directives of all levels of government in both Mexico and Canada as well as the relevant health authorities.

(Expressed in Canadian dollars, except where otherwise noted)

Prior to the suspension of activities, Discovery Silver had completed 50 holes totaling approximately 18,351 metres of its recently expanded 50,000 – 55,000 metre Phase 1 drill program. Since resuming operations to December 31, 2020, the Company completed a further 66 holes totaling approximately 30,499 metres, for a project total of 48,850 metres in 116 holes.

Q4 2020 HIGHLIGHTS

PROJECTS

During the Q4 2020, the Company issued several news releases announcing results from exploration activities at the Cordero Project, in addition to corporate development initiatives.

PROJECT HIGHLIGHTS

Cordero - Todos Santos Vein

On October 14, 2020, the Company announced follow-up vein drilling at Cordero. Highlights intercepts include:

- **Hole C20-349: 3.4 m averaging 1,150 grams per tonne silver equivalent ("g/t AgEq[1]**") from 145.6 m (412 g/t Ag, 0.42 g/t gold ("Au"), 8.0% lead ("Pb") and 10.0% zinc ("Zn")) within a 5.0 m interval averaging 962 g/t AgEq[1] (331 g/t Ag, 0.35 g/t Au, 6.3% Pb, 9.2% Zn)
- **Hole C20-351: 2.0 m averaging 1,207 g/t AgEq[1]** from 224.8 m (532 g/t Ag, 0.38 g/t Au, 8.8% Pb and 8.1% Zn) within a 49.7 m interval averaging 146 g/t AgEq[1] (38 g/t Ag, 0.09 g/t Au, 0.6% Pb, 1.9% Zn)
- **Hole C20-352: 3.3 m averaging 572 g/t AgEq[1]** from 228.2 m (152 g/t Ag, 0.71 g/t Au, 2.2% Pb and 6.9% Zn) within a 21.0 m interval averaging 188 g/t AgEq[1] (59 g/t Ag, 0.19 g/t Au, 0.9% Pb, 2.0% Zn)
- **Hole C20-354: 1.0 m averaging 1,729 g/t AgEq[1]** from 380.1 m (433 g/t Ag, 0.23 g/t Au, 9.3% Pb and 22.9% Zn) within a 6.9 m interval averaging 466 g/t AgEq[1] (133 g/t Ag, 0.10 g/t Au, 2.9% Pb, 5.4% Zn)

Highlight results from the north-east extension:

Hole ID	From (m)	To (m)	Width[(1)] (m)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)
C20-349	128.4	153.4	25.0	92	0.14	1.6	3.1	289
C20-351	138.0	139.5	1.5	32	0.04	0.4	2.0	137
C20-352	123.3	124.6	1.3	113	0.25	3.4	5.3	475
C20-354	283.8	285.3	1.5	220	0.27	5.0	4.6	609

(1) Widths are drilled widths, not true widths, as a full interpretation of the actual orientation of mineralization is not complete.

Refer to the Press Release dated October 14, 2020 available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

(Expressed in Canadian dollars, except where otherwise noted)

Cordero - South Corridor

On November 12, 2020, the Company announced results from seven diamond drill holes targeting bulk-tonnage mineralization in the South Corridor at Cordero. Highlights intercepts include:

- **Hole C20-348: 139.1 m averaging 138 grams per tonne silver equivalent ("g/t AgEq")** from 196.2 m (47 g/t Ag, 0.07 g/t gold ("Au"), 0.6% lead ("Pb") and 1.6% zinc ("Zn")) including 19.0 m averaging 357 g/t AgEq (112 g/t Ag, 0.17 g/t Au, 1.8% Pb, 4.0% Zn)
- **Hole C20-353: 26.6 m averaging 108 g/t AgEq** from 99.5 m (56 g/t Ag, 0.09 g/t Au, 0.4% Pb and 0.7% Zn) and 29.6 m averaging 119 g/t AgEq from 278.1 m (52 g/t Ag, 0.07 g/t Au, 0.8% Pb, 0.8% Zn)
- **Hole C20-359: 62.2 m averaging 86 g/t AgEq** from 149.0 m (38 g/t Ag, 0.07 g/t Au, 0.4% Pb and 0.7% Zn)

The seven holes were drilled along approximately 700 m of strike extent of the South Corridor and were designed to in-fill significant gaps in previous drilling. All holes intercepted broad zones of galena and sphalerite mineralization in disseminations, veinlets and stockworks predominantly hosted in dacite and sedimentary rock.

Drilling is focused on two key concepts: (1) targeting of bulk-tonnage mineralization within and to the east and northeast of both mineralized corridors; and (2) testing of the width, grade and continuity of extensive high-grade vein systems that transect the deposit.

Highlight results from the South Corridor:

Hole ID	From (m)	To (m)	Width(1) (m)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)
C20-348	77.6	148.8	71.2	18	0.06	0.2	0.7	59
C20-353	99.5	126.1	26.6	56	0.09	0.4	0.7	108
C20-355	4.5	63.3	58.9	29	0.06	0.4	0.4	66
C20-356	122.8	161.2	38.4	36	0.04	0.6	0.7	90
C20-359	107.1	141.0	33.9	30	0.07	0.5	0.6	79
C20-363	268.4	325.5	57.1	18	0.01	0.2	1.0	69
C20-364	366.7	424.3	57.6	19	0.03	0.3	0.7	61

(1) Widths are drilled widths, not true widths, as a full interpretation of the actual orientation of mineralization is not complete.

Refer to the Press Release dated November 12, 2020 available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

At the date of this MD&A, the Company has completed 72,200 metres in 174 holes along two northeast trending higher grade mineralized trends and 47 of these drill holes have assays pending. A review of historical drilling has been underway resulting in the re-logging of 198 of the 292 drill holes previously completed on the Project. The outcome of all the new work completed to date has resulted in a better understanding of the mineralizing systems, a new structural and geological model that is in progress, and the confirmation of a concentration of mineralization along northeast trending corridors. Additional results from the drilling are described in the press releases issued during 2020. Refer to the "Recent Developments" section of this MD&A for details on results.

RECENT DEVELOPMENTS

PROJECTS

Cordero

On January 6, 2021, the Company announced results from 10 diamond drill holes targeting the Parcionera and Josefina high-grade vein trends at the Cordero project. Multiple vein trends with a combined strike extent of more than 5 km flank the higher-grade bulk-tonnage domain at Cordero; the Parcionera and Josefina vein trends currently represent approximately 2 km of this strike extent.

Highlight intercepts include:

Parcionera Vein Trend

- **Hole C20-362: 4.4 m averaging 524 grams per tonne silver equivalent ("g/t AgEq")** from 53.9 m (246 g/t Ag, 0.39 g/t gold ("Au"), 6.5% lead ("Pb") and 0.4% zinc ("Zn")) within a 37.1 m interval averaging 113 g/t AgEq (47 g/t Ag, 0.09 g/t Au, 1.1% Pb, 0.4% Zn)
- **Hole C20-360: 0.5 m averaging 1,765 g/t AgEq** from 100.9 m (665 g/t Ag, 0.58 g/t Au, 13.8% Pb and 13.7% Zn)

Josefina Vein Trend

- **Hole C20-361: 3.3 m averaging 612 g/t AgEq** from 64.2 m (196 g/t Ag, 0.17 g/t Au, 5.6% Pb and 4.9% Zn) within a 41.7 m interval averaging 131 g/t AgEq (58 g/t Ag, 0.10 g/t Au, 0.7% Pb and 1.0% Zn)
- **Hole C20-367: 1.6 m averaging 544 g/t AgEq** from 175.6 m (75 g/t Ag, 1.42 g/t Au, 1.6% Pb and 7.1% Zn) within a 53.2 m interval averaging 113 g/t AgEq (20 g/t Ag, 0.11 g/t Au, 0.3% Pb and 1.8% Zn)

Refer to the Press Release dated January 6, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

On February 2, 2021, the Company announced results from 13 diamond drill holes targeting bulk-tonnage mineralization at its Cordero Project. The holes are part of an expanded 65,000 m Phase 1 drill program that will be incorporated into a new resource estimate and revamped PEA during the second half of 2021.

Highlight intercepts include:

- **Hole C20-375: 131.6 m averaging 118 g/t AgEq** from 49.2 m (48 g/t Ag, 0.09 g/t Au, 0.5% Pb and 1.1% Zn) including 37.1 m averaging 223 g/t AgEq (119 g/t Ag, 0.22 g/t Au, 1.0% Pb, 1.2% Zn)
- **Hole C20-378: 85.6 m averaging 175 g/t AgEq** from 406.2 m (53 g/t Ag, 0.05 g/t Au, 1.4% Pb and 1.7% Zn) including 39.9 m averaging 308 g/t AgEq1 (93 g/t Ag, 0.08 g/t Au, 2.4% Pb, 3.0% Zn)
- **Hole C20-373: 126.1 m averaging 103 g/t AgEq** from 281.2 m (40 g/t Ag, 0.10 g/t Au, 0.4% Pb and 1.0% Zn)
- **Hole C20-390: 57.6 m averaging 134 g/t AgEq** from 184.4 m (41 g/t Ag, 0.11 g/t Au, 0.3% Pb and 1.8% Zn)

These drill holes were successful in confirming and expanding the higher-grade bulk-tonnage domain in the South Corridor. Drilling in the northeast extension, an area with limited historical drilling, has consistently intercepted broad zones of galena and sphalerite mineralization in disseminations, veinlets and stockworks predominately hosted in rhyodacite and sedimentary rock. Our drilling has extended the strike extent of the higher-grade bulk-tonnage domain by approximately 300 m along strike across an estimated lateral extent of approximately 400 m. Highlight intercepts from this area are demonstrating the potential for further expansion of the bulk-tonnage domain in this direction.

The Company has now expanded the higher-grade bulk-tonnage domain by more than 250 m northeast, along strike in the South Corridor. This area of the deposit had seen only limited drilling historically. The recent drilling, including highlight intercepts of 132 m at 118 g/t AgEq and 126 m at 103 g/t AgEq, has consistently delivered broad zones of near-surface mineralization. These results are a positive surprise and emphasize the sheer scale of the higher-grade mineralizing system at Cordero and show the opportunities that lie ahead for Cordero in a rising silver price environment.

On March 15, 2021, the Company announced results from 14 diamond drill holes targeting the Josefina and Todos Santos high-grade vein trends at Cordero. Multiple vein trends with a combined strike extent of more than 5 km flank the higher-grade bulk-tonnage domain at Cordero; the Josefina and Todos Santos vein trends currently represent approximately 3 km of this strike extent.

Highlight intercepts include:

Josefina Vein

- **1.3 m averaging 2,166 g/t AgEq** from 95.6 m (1,581 g/t Ag, 0.15 g/t Au, 9.9% Pb and 5.4% Zn) in hole C20-381;
- **1.0 m averaging 1,826 g/t AgEq** from 41.2 m (1,280 g/t Ag, 4.24 g/t Au, 1.6% Pb and 3.4% Zn) within an 8.9 m interval averaging 410 g/t AgEq (267 g/t Ag, 0.91 g/t Au, 0.9% Pb, 0.8% Zn) in hole C20-382; and
- **1.3 m averaging 2,290 g/t AgEq** from 136.7 m (1,607 g/t Ag, 2.06 g/t Au, 5.2% Pb and 8.0% Zn) in hole C20-396.

South Corridor

- **2.9 m averaging 1,605 g/t AgEq** from 44.4 m (992 g/t Ag, 0.73 g/t Au, 12.9% Pb and 2.4% Zn) in hole C20-383.

Todos Santos Vein

- **1.4 m averaging 1,107 g/t AgEq** from 135.4 m (552 g/t Ag, 0.33 g/t Au, 11.0% Pb and 3.4% Zn) within a 4.0 m interval averaging 763 g/t AgEq[1] (377 g/t Ag, 0.28 g/t Au, 7.1% Pb, 2.7% Zn) in hole C20-385
- **1.2 m averaging 875 g/t AgEq** from 186.5 m (241 g/t Ag, 0.52 g/t Au, 4.6% Pb and 10.4% Zn) in hole C20-387
- **2.8 m averaging 670 g/t AgEq** from 166.3 m (207 g/t Ag, 0.15 g/t Au, 3.7% Pb and 7.7% Zn) in hole C20-397

20 holes have now been drilled at the 1.5km Todos Santos vein trend, and all holes have intercepted the principal vein returning an average drilled width of 2.6m grading 635 AgEq.

Refer to the Press Release dated March 15, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

On April 20, 2021, the Company announced results from 13 diamond drill holes targeting bulk-tonnage mineralization at the Cordero Project. The holes were part of the Phase 1 drill program, and will be incorporated in a new resource estimate and revamped PEA to be released during the second half of 2021.

Highlight intercepts include:

- **128.2 m averaging 165 g/t AgEq** from 312.4 m *(*65 g/t Ag, 0.05 g/t Au, 1.2% Pb and 1.3% Zn) including **26.1 m averaging 263 g/t AgEq** (109 g/t Ag, 0.06 g/t Au, 2.0% Pb, 1.9% Zn) in hole C20-405
- **110.0 m averaging 110 g/t AgEq** from 137.1 m (37 g/t Ag, 0.04 g/t Au, 0.8% Pb and 1.0% Zn) and **51.8 m averaging 184 g/t AgEq** (65 g/t Ag, 0.05 g/t Au, 1.6% Pb, 1.4% Zn) in hole C21-414
- **27.4 m averaging 279 g/t AgEq** from 382.0 m (78 g/t Ag, 0.08 g/t Au, 1.3% Pb and 3.6% Zn) in hole C20-407

These diamond drill holes build further higher-grade bulk-tonnage continuity in the South Corridor within northeast trending domains. These domains have been defined over a strike length of approximately 1.4 km and are open to the northeast and have been drilled to a depth of 500 m and remain open below this. Higher-grade zones of mineralization are typically flanked by medium and lower-grade mineralization pointing to the scaleability of the mineralized system at Cordero.

Refer to the Press Release dated April 20, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

Puerto Rico

The Company continues to work towards obtaining the necessary permits for exploration at the Puerto Rico Property.

During March 2021, the Company signed a 4th amending agreement (the "Amending Agreement") to the Puerto Rico Option Agreement (the "Agreement") which replaces in their entirety, the Agreement signed in 2017and all subsequent amendments.

The new terms of the Amending Agreement are as follows:

a. The Company can determine the nature, scope, extension and other aspects of exploration work at Puerto Rico. There are no longer any minimum work requirements.

b. The Company can exercise the option to acquire 100% of the project at any time for 6,000,000 common shares of the Company (the "Purchase Option") with a minimum and maximum value per common share of C$1.00 and C$3.00, respectively. Cash can be paid in lieu of common shares.

c. The following additional consideration will be paid on reaching certain milestones ("Milestone Consideration"):

    i. Receipt of exploration permits:
        - USD$300,000 plus Mexican value-added tax ("VAT" or "IVA") in 10 monthly installments of USD$30,000.

- 250,000 common shares on each anniversary of the receipt of the permits, beginning one year after the receipt of the permits, and distributed in four equal instalments.

ii. Filing of Preliminary Economic Assessment:
- 1,500,000 common shares if the Company files a Preliminary Economic Assessment ("PEA") on the project, in compliance with NI 43-101 Standards.

iii. Filing of Pre-Feasibility Study:
- 1,500,000 common shares (in aggregate) if the Company files a Pre-Feasibility Study ("PFS") on the project, in compliance with NI 43-101 Standards.

iv. Commencement of construction:
- 3,000,000 common shares (in aggregate) if the Company begins construction to carry out exploitation.

All common shares to be issued as Milestone Consideration will have the same minimum and maximum value per common share as under the Purchase Option and can also be paid in cash in lieu of common shares.

d. Common shares issued as consideration for the Purchase Option and Milestone Consideration are to be held in escrow and released 1/3rd every six months beginning six months after the date of issuance.

CORPORATE

Stock Option Grant

On January 13, 2021, the Company announced that it had granted to certain officers, directors, employees and/or consultants of the Company an aggregate of 5,500,000 options to acquire common shares of the Company ("Options"). The Options have an exercise price of $1.89 per share, have a five-year term from the date of grant (expiration date of January 12, 2026), and vest according to the following schedules:

- Management and employees: annually in equal thirds beginning on the date of grant;
- Directors: annually in equal halves beginning on the date of grant; and
- Consultants: quarterly in equal eighths beginning three months after the date of grant.

Any common shares issuable upon exercises of Options will, in accordance with applicable securities laws, be subject to a hold period expiring four months and one day from the date of grant. Refer to the Press Release dated January 13, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

Exercise of Warrants

On February 22, 2021, the Company announced that an aggregate of 31,140,000 common share purchase warrants with an exercise price of C$1.00 were exercised prior to their expiry on February 17, 2021. The exercises resulted in gross proceeds of approximately $31 million, of which approximately $17.6 million was received in 2021.

Appointment of Board Member

On March 12, 2021, the Company announced the appointment of Jennifer Wagner to the Company's Board of Directors.

Ms. Wagner is a corporate securities lawyer with 15 years of experience in the mining sector. She is currently Executive Vice-President, Corporate Affairs and Sustainability at Kirkland Lake Gold Ltd. ("Kirkland Lake"). Prior to joining Kirkland Lake in 2015, she acted as legal counsel and corporate secretary to various TSX and TSXV listed mining companies. Ms. Wagner has extensive experience advising companies on a variety of corporate commercial transactions, governance, and compliance matters.

Pursuant to the Company's stock option plan, Ms. Wagner has been granted 300,000 stock options ("Options"). The Options, each exercisable for one common share of the Company at an exercise price of $2.08 per share, vest annually in two equal tranches beginning on the date of the grant of March 11, 2021. The Options will expire five years after the date of grant. Any common shares issuable upon exercises of Options will, in accordance with applicable securities laws, be subject to a hold period expiring four months from the date of grant.

Refer to the Press Release dated February 22, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

2021 OUTLOOK

During 2020, the Company, along with its employees and contractors, faced unprecedented and challenging circumstances because of the COVID-19 pandemic. The Company is very proud of the exceptional explorational and infill drilling results realized during the year on both the bulk-tonnage and high-grade vein intercepts at Cordero. Since acquiring Cordero in mid-2019, the Company has been aggressive, yet disciplined, in how capital has been deployed. The Company's 2021 initiatives focus on both de-risking the Project by delivering a technically robust PEA, and to deliver resource growth, by expanding known mineralized zones, and making new discoveries. The Company is confident that 2021 will be a transformative year whereby achieving these milestones will help establish Cordero as one of the few silver projects globally that offers a combination of margin, size, and scalability.

The focus for 2021 is the Cordero Project where the Company plans to complete 66,000 metres of drilling during the year 2021. This will focus on several areas and objectives, including infill drilling on the bulk-tonnage mineralization aimed at converting resources to reserves and targeting resource expansion through step-out drilling. Additionally, the Company will continue infill drilling on the high-grade veins on the property to test the grades and continuity of the veins, as well as provide a basis for bringing the high-grade mineralized veins into a resource category. The Company also plans to initiate scout drilling on additional property-wide exploration targets on the largely under-explored Cordero land package. The Company's other key project development milestones for 2021 include completion of a social baseline assessment and progressing on environmental baseline studies at the Project. The Company's robust workplan related to metallurgy, processing, geotechnical, and hydrology will go above and beyond what is typically included in a PEA study and will identify areas where pre-feasibility work could be expanded at the same time as the PEA is progressing.

RESOURCE ESTIMATE & PRELIMINARY ECONOMIC ASSESSMENT

The Company's main objective for 2021 is to deliver a technically robust PEA by Q4 2021. The PEA will be focused on the bulk-tonnage domain and will be supported by more than 350 drill holes and 180,000 m of drilling and two programs of detailed metallurgical testwork. Key milestones include:

- **Phase 1 drill program** – based on the drill results to date, the Phase 1 drill program has been expanded to 65,000 m (an increase of 10,000 m). The Company expects to complete the remaining 20,000 m of this expanded Phase 1 program in Q2 2021.
- **Metallurgical testwork** – sampling for the metallurgical testwork is based on both mining phase and lithology. The program will consist of comminution testwork, flotation optimization, preconcentration testwork and high-level environmental testwork. Results are expected to be received during Q2 2021.
- **Resource estimate** – the resource estimate will be focused on the bulk-tonnage domain only and will incorporate all of the historical data and data from the Phase 1 drilling. The resource update is expected to be completed in Q3 2021.
- **PEA** – the 'base case' mine plan in the PEA will be based on a conservative silver price and will incorporate staged expansions of the throughput rate at the planned processing facility. Scheduling will prioritize higher grades early in the mine life to expedite payback. The study will be based on the updated resource model and all metallurgical testwork and is expected to be completed in Q4 2021. To demonstrate the scalability of Cordero, the Company also anticipates including a 'blue sky' alternative as an addendum that looks at the impact of higher silver prices on Project throughput and optimization.

2021 DRILL PLANS

The Company plans on completing 66,000 m of drilling in 2021 based on four drill rigs operating throughout the year. This program and the number of drill rigs may be expanded when the Company is confident that the health and safety risks related to COVID-19 can be managed effectively.

Further details on the allocation of 2021 drill metres are provided in the table below. Based on the excellent results from drilling in the South Corridor, the Phase 1 drill program has been expanded by 10,000 m to 65,000 m. The Company's Phase 1 drill program will be completed in Q2 2021 and will be immediately followed by the Phase 2 drill program. The total amount and allocation of drill metres in the Phase 2 drill program is still to be determined and will be based on a detailed review of all drill results to date.

(Expressed in Canadian dollars, except where otherwise noted)

	2019	2020	2021	Total	Details
Phase 1 Drilling *(metres)*	6,000	39,000	20,000	65,000	**Bulk-tonnage mineralization** – resource definition (for 2021 resource update & PEA) **High-grade veins** – initial testing of grades & continuity
Phase 2 Drilling *(metres)*	-	-	46,000	To be determined	**Bulk-tonnage mineralization** – upgrade resource (for PFS) & resource expansion **High-grade veins** – resource definition **Property-wide targets** – initial scout drilling
Total	6,000	39,000	66,000		

PRE-FEASIBILITY STUDY

- **Phase 2 drill program** – a key focus of the Phase 2 drill program will be on upgrading any inferred mineral resources within the PEA mine plan to allow the inclusion of these ounces in the PFS mine plan. This infill drilling is expected to commence in Q3 2021 following a review of all Phase 1 data.
- **Gap analysis** – as part of the PEA, the Company will be completing a gap analysis for metallurgy, processing, geotech and hydrology to identify the data gaps required to advance the project to a PFS level. This analysis will allow, where appropriate, to commence PFS level work for these items in H2 2021 in order to accelerate the delivery of a PFS for Cordero.

CORPORATE RESPONSIBILITY

- **Health & safety** – managing health and safety during the COVID-19 pandemic will remain a key priority during 2021, in particular with the spread of the new virus variants combined with an increase in staff and consultants at site. Risk mitigation measures include recent investment in on-site infrastructure to accommodate social-distancing requirements, enhanced testing and travel restrictions.
- **Environment** – The Company expects to complete an environmental baseline study at Cordero during the first half of 2022, with work having already begun during Q1 2021.
- **Community relations** – The Company expects to complete a social baseline study of the local municipalities associated with Cordero during the second half of 2021. The objective of the study is to identify and evaluate the potential social impact of the project.

PROPERTY-WIDE EXPLORATION

- Target generation – we have strengthened our exploration team in Mexico to rapidly advance a detailed field mapping and sampling program on our property-wide targets in 2021.

(Expressed in Canadian dollars, except where otherwise noted)

- Reconnaissance drilling – initial drill testing of property-wide targets is expected to commence in Q4 2021 following the completion of field work on high priority targets.

The Company's planned work program at Cordero in 2021 is budgeted at $26 million. Expenditures for the year reflect an accelerated approach to de-risking the Project while still allocating growth capital to resource expansion and property-wide exploration. The Company's cash balance is significantly greater than the anticipated 2021 budget spend that will allow for expansion of the work program, if feasible within COVID-19 constraints, as well as to rapidly advance the Project to a construction decision beyond 2021.

KEY ECONOMIC TRENDS

The prices of silver, lead, zinc and gold impact the economic viability of the Company's mineral and exploration projects. During 2019 and 2020, uncertainty surrounding tariff and trade agreements, the results of the US elections, various signals of a US economic slowdown, and rising geopolitical risk renewed interest in precious metals. The impact of measures to combat the spread of COVID-19 on global economy resulted in significant volatility in the financial markets, including the gold and silver market in March 2020. Gold prices increased on an anticipated global economic recession and government financial stimulus announced to aid the economic recovery. During March 2020, silver prices capitulated on expectations of a global recession with the expectation of reduced industrial demand, then subsequently significantly rebounded as investment demand increased due to the monetary aspects of silver. The on-going risks and uncertainties from the COVID-19 pandemic has led to further government stimulus and ultimately further investment demand for gold and silver.

The future gold and silver price is expected to continue to be impacted by the uncertainty surrounding the US dollar's direction in 2021, deriving from US treasury yield and interest rate fluctuations, inflation levels, the level of new cases of the COVID-19 virus around the globe, and the liquidity provided to the markets by Central Banks.

During the year ended December 31, 2020, the average price of silver was $20.53 per ounce, with silver trading between $12.01 and $28.89 per ounce based on the London Fix silver price. This compares to an average of $16.20 per ounce for the year ended December 31, 2019, with a low of $14.37 and a high of $19.31 per ounce.

SUMMARIZED FINANCIAL RESULTS

Summary of Consolidated Annual Financial Results

		Years Ended December 31, 2020		2019
Net loss:				
(a) Total	$	**(17,755,694)**	$	(9,656,554)
(b) basic and diluted loss per share	$	**(0.07)**	$	(0.08)
Net loss and total comprehensive loss	$	**(18,064,675)**	$	(9,595,837)
Cash and cash equivalents	$	**67,547,897**	$	23,950,737
Short-term investments	$	**15,000,000**		-
Total assets	$	**111,564,881**	$	53,518,599
Total current liabilities	$	**982,260**	$	716,596
Working capital	$	**82,435,046**	$	23,860,648
Total weighted average shares outstanding		**255,839,116**		114,752,935

Year Ended December 31, 2020 Compared To The Year Ended December 31, 2019

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $18,064,675 during the year ended December 31, 2020, compared to a net and total comprehensive loss of $9,595,837 for the same period in 2019. The net and total comprehensive loss for the year ended December 31, 2020 includes a non-cash currency translation adjustment ("CTA") loss of $308,981 as a result of the translation of Discovery Silver's Mexican subsidiaries MXP currency financial statements to the Company's reporting currency of CAD on consolidation (December 31, 2019 – CTA gain of $60,717). This CTA loss is the result of the depreciation of the MXP to CAD during the year which primarily impacted the mineral property balances.

The overall increase in net loss during 2020 when compared to 2019 is primarily the result of increased exploration expenditures due to the Phase 1 Drill Program at Cordero (began September 2019), additional costs incurred related to the implementation of strict COVID-19 protocols at site, and increased general office and other expenses and professional fees, mainly related to the non-brokered private placements which occurred during the year. Additionally, the Company recorded a non-cash impairment loss on Mexican value-added-tax ("IVA") receivables of $2,339,772 during 2020 compared to just $1,409,637 during 2019. These increased cash and non-cash expenditures were partially offset by other income of $574,597 related primarily to the gain on sale of investments of $182,556, and the receipt of $392,041 in cash of IVA refunds. In addition to, interest income of $521,448, a gain on the disposal of non-core exploration assets of $295,000 and an increase in the fair value of investments of $40,000 realized during 2020.

Share-based compensation expense

The Company incurred non-cash share-based compensation expenses of $1,295,508 during the year ended December 31, 2020, compared to $1,823,318 during the same period in 2019. This decrease during 2020 is a direct result of the exercise of all 4,909,300 replacement options issued on completion of the acquisition of Levon Resources on August 2, 2019. This decrease was partially offset by an increase in share-based compensation expense related to 5,435,000 options granted during 2020 compared to 5,300,000 options were granted during 2019. Share-based compensation expense reflects the natural vesting of stock options granted which results in a higher expense in the earlier stage of a stock option's life.

Exploration and project evaluation expense

The Company incurred exploration and project evaluation costs of $12,063,064 during the year ended December 31, 2020 compared to $4,106,202 during the same period in 2019. This increase is the direct result of work being performed on the Company's Cordero property. A total of $11,713,944 was spent on Cordero during the year ended December 31, 2020, comprised primarily of $7,782,422 in drilling costs related to follow-up vein drilling on the Todos Santos and Parcionera veins, as well as infill drilling at the South Corridor. Additionally, $511,837 was spent on mining duties, $1,144,066 in mapping, assays and sampling, and $1,296,512 on salaries and benefits with the remainder having been spent on general project expenses. Work during the year ended December 31, 2019 primarily related to expenditures at the Cordero project including drilling of $1,342,844, geophysics of $823,056, surface access rights of $65,111 and salaries and benefits of approximately $361,585. 2019 costs include exploration and evaluation expenses for Cordero include costs incurred from the period of acquisition on August 2, 2019 to December 31, 2019. Exploration expenses incurred on the Coahuila projects include $137,528 in mining duties, $412,726 in salaries and benefits, $24,294 in surface access, $74,444 in site access with the remainder having been spent across all properties and general project expenses.

General office and other expenses

During the year ended December 31, 2020, the Company incurred general office and other expenses of $2,869,317 compared to $1,902,331 during the same period in 2019. This increase is comprised primarily of salaries and benefits arising an increase in accrued bonuses for management, the addition of two new members of the management team added during 2020 and three additional members to the Board of Directors in the second half of 2019, partially offset by the resignation of one director in May 2020. An increase in shareholder communication, investor relations and business development costs are directly associated with an expansion of the corporate development and investor relations program during 2020. An increase in filing and transfer agent fees is the direct result of the regulatory filings related to the non-brokered private placements that closed during Q2 and Q3 2020.

Professional fees

During the year ended December 31, 2020, the Company incurred professional fees of $637,010 compared to $355,047 during the same period in 2019. This increase is primarily the result of legal fees for various corporate matters including the filing of an annual information form and the development of equity incentive plans presented to shareholders at the Company's June 26, 2020 Annual General Meeting, and the non-brokered private placements, which were not incurred in the prior year. Additionally, the Company incurred costs related to management compensation studies, employee search firms, metallurgical studies and mine planning during 2020 which were not incurred during 2019.

Provision for 100% of IVA receivable

At December, 2020, the Company had an aggregate Mexican value added tax recoverable balance of $4,986,128 including $1,349,033 remaining from the IVA acquired in the Levon transaction (December 31, 2019: $3,197,997 including $1,743,011 acquired in the Levon transaction). The Company does not have a history of collection of Mexican IVA recoverable amounts due to the recent commencement of operations in Mexico. In addition, there is a high degree of uncertainty regarding the timing of repayment of IVA amounts by the Mexican government. As a result, on acquisition of Levon, no value was allocated to the IVA receivable balance.

On February 21, 2020, the Company received a partial IVA refund in the amount of 4,402,046MXP or $296,830. The Company also received interest on this balance in the amount of 998,384MXP or $67,321. On August 5, 2020, the Company received another partial IVA refund in the amount of 1,609,384MXP or $95,211, as well as interest on this balance in the amount of 503,737MXP or $29,801. These partial refunds and interest received are recognized in 'other income' and 'interest income', respectively, in the consolidated Statement of Loss and Total Comprehensive Loss for the year ended December 31, 2020.

At December 31, 2020, the Company has established a provision in full for the IVA receivable balance of $2,633,976 (December 31, 2019: $1,409,637). The Company expects to continue to recognize a provision for 100% of the IVA recoverable balance until such time as there are sufficient indicators of recoverability.

(Expressed in Canadian dollars, except where otherwise noted)

Interest income

The Company earned interest income of $521,448 during the year ended December 31, 2020 compared to $123,611 during the same period in 2019. The increase over prior year primarily relates to the accrual of interest receivable on the Company's short-term investments in redeemable GICs as a result of excess cash on hand arising from the two non-brokered private placements that closed during 2020.

Foreign exchange (gain) loss

The company realized a foreign exchange gain of $22,388 during the year ended December 31, 2020 compared to a loss of $159,419 during the same period in 2019. The change is the result of an appreciation of the MXP against the CAD and a depreciation of the USD against the CAD during the period. The Company remains unhedged with respect to foreign currency.

Summary of Consolidated Quarterly Financial Results

		Q4 2020		Q3 2020		Q2 2020		Q1 2020
Net loss								
(a) Total	**$**	**(6,125,457)**	$	(5,127,665)	$	(1,747,677)	$	(4,826,135)
(b) basic and diluted per share	**$**	**(0.02)**	$	(0.02)	$	(0.01)	$	(0.02)
Net loss and total comprehensive loss	**$**	**(5,455,362)**	$	(4,914,927)	$	(1,936,075)	$	(5,827,330)
Cash and cash equivalents	**$**	**67,547,897**	$	69,210,491	$	26,913,163	$	20,018,474
Total assets	**$**	**111,564,881**	$	112,664,894	$	70,357,450	$	47,966,857
Total current liabilities	**$**	**982,260**	$	1,825,541	$	520,234	$	767,213
Working capital	**$**	**82,435,046**	$	83,077,744	$	42,167,158	$	19,455,449
Total weighted average shares outstanding		**302,368,222**		282,624,020		226,123,223		211,423,805

		Q4 2019		Q3 2019		Q2 2019		Q1 2019
Net loss								
(a) Total	$	(4,178,391)	$	(3,876,582)	$	(807,897)	$	(793,684)
(b) basic and diluted per share	$	(0.02)	$	(0.03)	$	(0.01)	$	(0.01)
Net loss and total comprehensive loss	$	(3,959,211)	$	(4,017,681)	$	(914,483)	$	(704,463)
Cash and cash equivalents	$	23,950,737	$	9,974,045	$	3,139,279	$	3,952,973
Total assets	$	53,518,599	$	39,074,676	$	5,802,632	$	6,601,720
Total current liabilities	$	716,596	$	514,414	$	220,488	$	142,402
Working capital	$	23,860,648	$	9,722,187	$	3,982,497	$	4,814,548
Total weighted average shares outstanding		193,526,170		134,258,418		65,043,998		65,043,998

Q4 2020 Compared To Q4 2019

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $5,386,345 during Q4 2020, compared to a net and total comprehensive loss of $3,959,211 for Q4 2019. The net and total comprehensive loss for Q4 2020 includes a non-cash currency translation adjustment ("CTA") gain of $667,872 as a result of the translation of Discovery Silver's Mexican subsidiaries MXP currency financial statements to the Company's reporting currency of CAD on consolidation (Q4 2019 – CTA gain of $219,181). This CTA gain is the result of the appreciation of the MXP to CAD during the last three months of the year which primarily impact the mineral property balances.

The overall increase in net loss during Q4 2020 when compared to Q4 2019 is primarily the result of increased exploration expenditures due to the Phase 1 Drill Program at Cordero (which began in September 2019 and was ramping up to four drill rigs during Q4 2019, while all four drill rigs were operational during Q4 2020, and more meters were drilled on the project. Additional costs were also incurred during Q4 2020 related to the implementation of strict COVID-19 protocols at site, and increased general office and other expenses and professional fees primarily related to the private placement closing late in Q3 2020.

Share-based compensation expense

The Company incurred non-cash share-based compensation expenses of $305,925 during Q4 2020, compared to $104,813 during Q4 2019. This increase is the direct result of the options issued during 2020 having a higher fair-value on grant date due to the increase in share price during 2020 compared to 2019.

Exploration and project evaluation expense

The Company incurred exploration and project evaluation costs of $3,620,240 during Q4 2020 compared to $2,551,339 Q4 2019. This increase is the direct result of work being performed on the Company's Cordero property. A total of $3,581,341 was spent on Cordero during Q4 2020 comprised primarily of $2,715,905 in drilling costs related to follow-up vein drilling on the Todos Santos and Parcionera veins, as well as infill drilling at the South Corridor. Additionally, $6,232 was spent on mining duties, $270,037 in mapping, assays and sampling, and $189,387 on salaries and benefits with the remainder having been spent on general project expenses. Work during Q4 2019 primarily related to expenditures at the Cordero project including drilling of $1,025,341, geophysics of $694,066, and salaries and benefits of approximately $295,771.

General office and other expenses

During Q4 2020, the Company incurred general office and other expenses of $1,170,965 compared to $843,470 during Q4 2019. This increase is comprised primarily of the accrual of 2020 short-term incentives payable to management and employees, and an increase shareholder communication, investor relations and business development costs are directly associated with an expansion of the corporate development and investor relations program during the period.

Professional fees

During Q4 2020, the Company incurred professional fees of $252,678 compared to $148,603 during Q4 2019. This increase is primarily the result costs incurred related to management compensation studies and employee search firms during Q4 2020 which were not incurred during Q4 2019.

Provision for 100% of IVA receivable

At December, 2020, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of $4,986,128 including $1,349,033 remaining from the IVA acquired in the Levon transaction (December 31, 2019: $3,197,997 including $1,743,011 acquired in the Levon transaction). The Company does not have a history of collection of Mexican IVA recoverable amounts due to the recent commencement of operations in Mexico. In addition, there is a high degree of uncertainty regarding the timing of repayment of IVA amounts by the Mexican government. As a result, on acquisition of Levon, no value was allocated to the IVA receivable balance.

On February 21, 2020, the Company received a partial IVA refund in the amount of 4,402,046MXP or $296,830. The Company also received interest on this balance in the amount of 998,384MXP or $67,321. On August 5, 2020, the Company received another partial IVA refund in the amount of 1,609,384MXP or $95,211, as well as interest on this balance in the amount of 503,737MXP or $29,801. These partial refunds and interest received are recognized in 'other income' and 'interest income', respectively, in the consolidated Statement of Loss and Total Comprehensive Loss for the year ended December 31, 2020.

At December 31, 2020, the Company has established a provision in full for the IVA receivable balance of $2,633,976 (December 31, 2019: $1,409,637). The Company expects to continue to recognize a provision for 100% of the IVA recoverable balance until such time as there are sufficient indicators of recoverability.

Interest income

The Company earned interest income of $200,785 during Q4 2020 compared to $60,164 during Q4 2019. The increase over the prior year's quarter primarily relates to the accrual of interest receivable on the Company's short-term investments in redeemable GICs as a result of excess cash on hand arising from the two non-brokered private placements that closed during 2020.

Foreign exchange (gain) loss

The company incurred a foreign exchange gain of $25,854 during Q4 2020 compared to a loss of $148,502 during Q4 2019. This gain is the result of the appreciation of the MXP to CAD during the last three months of the year.

CASH FLOW

Year Ended December 31, 2020 Compared To The Year Ended December 31, 2019

The Company had net cash used in operating activities of $15,893,164 for the year ended December 31, 2020 compared to net cash used in operating activities of $7,246,905 for the same period in 2019. This increase is the direct result of the Phase 1 Drill Program at Cordero and related exploration activities at the Project during 2020 being substantially higher than the previous year.

The Company had net cash used in investing activities of $15,063,389 for the year ended December 31, 2020 compared to net cash used in investing activities of $528,442 for the same period in 2019. This mainly relates to the investment of $15,000,000 in a two-year fixed GIC, bearing interest at 1.55% with no redemption restrictions, and capital expenditures of $291,780 for the purchase of IT infrastructure, vehicles, and equipment in Mexico, partially offset by the proceeds received from the sale of investments of $228,391.

The Company had net cash provided by financing activities of $74,551,594 during the year ended December 31, 2020 compared to cash provided by financing activities of $27,080,620 during the same period in 2019. The net cash inflow during the year ended December 31, 2020 is primarily the result of net proceeds of $57,066,444 from the non-brokered private placements that closed in Q2 and Q3 2020; cash received of $2,516,063 on the exercise of stock options and cash received of $15,014,059 from the exercise of warrants. The cash inflow during the year ended December 31, 2019 relates primarily to $27,014,820 received from the non-brokered private placements that occurred during 2019.

CAPITAL MANAGEMENT AND LIQUIDITY

The Company defines capital as its shareholder's equity (comprised of issued share capital, contributed surplus and deficit). The Company's objectives when managing capital are to support the Company's main activities of identifying, defining and developing mineral deposits, thus creating shareholder value, as well ensuring that the Company will be able to meet its financial obligations as they become due.

The Company manages its capital structure to maximize its financial flexibility to enable the Company to respond to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. At December 31, 2020, aside from the long-term portion of the lease liability (refer to note 13 of the consolidated financial statements), the Company does not have any long-term debt outstanding and is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the year ended December 31, 2020.

At December 31, 2020, the Company had working capital (calculated as current assets less current liabilities) of $82,435,046 (December 31, 2019 – $23,860,648), shareholders' equity of $110,541,531 (December 31, 2019 – $52,714,132) and an accumulated deficit of $56,041,564 (December 31, 2019 – $38,285,870). The Company is sufficiently capitalized to complete planned initial exploration programs on its properties, including the recently expanded Phase 1 Drill Program at Cordero. If required, future funding may be obtained by means of issuing share capital, debt financing or a combination of both and will be assessed by Management at that time. The current excess funds are invested in highly liquid, interest-bearing marketable securities with no restrictions on redemption.

SHARE CAPITAL

As a result of the non-brokered private placement which closed in two tranches on May 29 and June 28, 2020, an aggregate total of 45,545,454 common shares were issued for gross proceeds of $25.0 million. On August 7, 2020, a total of 25,927,000 common shares were issued for gross proceeds of $35.0 million. Refer to "Q4 Highlights" section of this MD&A.

(Expressed in Canadian dollars, except where otherwise noted)

A summary of the common shares issued and outstanding at December 31, 2020 and impact of changes to share capital is as follows:

	Note	Common Shares		Amount
At December 31, 2019		211,205,321	$	76,174,408
Shares issued for Private Placement[(1)]		**45,454,545**		**25,000,000**
Finders' fees on Private Placement[(1)]		**-**		**(1,185,001)**
Warrants issued on Private Placement[(1)]	**13e**	**-**		**(8,976,252)**
Shares issued for Private Placement[(2)]		**25,927,000**		**35,001,450**
Finders' fees on Private Placement[(2)]		**-**		**(1,750,005)**
Warrants issued on Private Placement[(2)]	**13e**	**-**		**(17,688,252)**
Shares issued on exercise of options	**13c**	**6,621,992**		**3,648,623**
Shares issued on exercise of warrants	**13e**	**15,803,696**		**15,014,059**
At December 31, 2020		**305,012,554**	**$**	**125,570,547**

(1) The Private Placement closed in two tranches on May 29 and June 8, 2020.
(2) The Private Placement closed in a single tranche on August 7, 2020.

OUTSTANDING SHARE DATA

At April 28, 2021 the Company had the following equity securities and convertible securities outstanding:

	Authorized	Number and Type Outstanding
Voting or Equity Securities Issued and Outstanding	Unlimited Common Shares	324,669,212 Common Shares
Securities convertible or exercisable into voting or equity securities-stock options	Stock Options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 19,006,683 Common Shares
Securities convertible or exercisable into voting or equity securities-warrants[(1)(2)(3)]	Warrants to acquire 71,881,773 Common Shares	Warrants to acquire 33,773,236 Common Shares

(1) All 1,414,168 replacement warrants issued on acquisition of Levon Resources Ltd. on August 2, 2019 expired unexercised on February 13, 2020.
(2) 22,727,267 share purchase warrants were issued in the $25 million non-brokered private placement at an exercise price of $0.77 and an expiry date of May 29 or June 8, 2022 and 804,545 share purchase warrants were issued to certain finders at an exercise price of $0.55 and an expiry date of May 29 or June 8, 2022.
(3) 12,963,000 share purchase warrants were issued on August 7, 2020 in the $35 million non-brokered private placement at an exercise price of $1.75 and an expiry date of August 7, 2022.
(4) Subsequent to December 31, 2020, 17,616,498 common share purchase warrants with an exercise price of $1.00 were exercised prior to their expiry on February 17, 2021.

RELATED PARTY TRANSACTIONS

<u>Key management personnel</u>

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

(Expressed in Canadian dollars, except where otherwise noted)

A company partially owned by one of the directors of the Company provides access to administrative and exploration personnel and has made certain payments on behalf of the Company on an as-needed basis. There is no fee charged to the Company, as all expenses are allocated at cost. Reimbursed expenses for the year ended December 31, 2020 totaled $13,283 (year ended December 31, 2019 – $22,304). The Company had $nil in expenses payable to this company as at December 31, 2020 (December 31, 2019 – $8,216). These expenses are not included in the table below.

Under similar arrangements, during the year ended December 31, 2020 the Company reimbursed expenses of $nil (year ended December 31, 2019 – $31,457) to other companies which have a Director in common. There was $nil in expenses payable at December 31, 2020 (December 31, 2019 – $nil). These expenses are not included in the table below.

Related party transactions for the years ended December 31, 2020 and 2019 are as follows:

		Years Ended December 31,	
Transaction Type	**Nature of Relationship**	**2020**	2019
Share-based payments	Directors and officers	**$ 837,020**	$ 964,379
Salaries and benefits	Officers	**1,048,024**	670,345
Consulting fees	Director	**25,000**	98,467
Directors fees	Directors	**301,736**	213,333
		$ 2,211,780	$ 1,946,524

A summary of amounts due to related parties:

Transaction Type	**Nature of Relationship**	**December 31, 2020**	December 31, 2019
Salaries and benefits payable	Directors, officers and employees	**$ 598,000**	$ 266,125
		$ 598,000	$ 266,125

Exploration and Option agreements

A director of the Company is also party to the mineral exploration and option agreements and amendments thereto, entered into between the Company and the Vendors.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments consist of cash, accounts receivable and deposits, and accounts payable and accrued liabilities.

Accounts receivable and deposits are classified as receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These financial instruments approximate their fair value due to their short-term nature.

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(Expressed in Canadian dollars, except where otherwise noted)

Financial instruments are classified into one of three levels in the fair value hierarchy according to the degree to which the inputs used in the fair value measurement are observable.

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

At December 31, 2020 the Company had no financial instruments classified as Level 2 or 3.

Financial Risk Factors

The Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and price risk. The aim of the Company's overall risk management strategy is to reduce the potential adverse effect that these risks may have on the Company's financial position and results. The Company's Board of Directors has overall responsibility and oversight of management's risk management practices. Risk management is carried out by the Board through the Nominating and Corporate Governance Committee with the policies being recommended for approval by the Board of Directors at least annually or when changes are required.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2020, the Company had a cash and cash equivalents balance of $67,547,897 (December 31, 2019 – $23,950,737) to settle current liabilities of $982,260 (December 31, 2019 – $716,596). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

At December 31, 2020, the Company has no sources of revenue to fund its operating expenditures. Since inception the Company has relied solely on private placements to fund its operations. Since the change of business transaction in August 2017, such private placements include gross proceeds of $103,624,720 received through multiple non-brokered private placements – of which $60,001,450 was during the year ended December 31, 2020.

These financings place the Company with a cash and cash equivalents and short-term investments balance of approximately $93.8 million at the date of the MD&A. The current excess funds are invested in highly liquid, interest-bearing marketable securities with no restrictions on redemption, in accordance with the Company's capital management policies.

Management believes these financings will fund the Company's initial exploration work on the properties in both Coahuila and Chihuahua, Mexico as well as the existing administrative needs. The Company may require additional financing to accomplish long-term strategic objectives. Future funding may be obtained by means of issuing share capital, or debt financing. At December 31, 2020, the Company is currently exposed to a low level of liquidity risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company's cash and cash equivalents, accounts receivable and prepaids and deposits are exposed to credit risk. The Company has assessed the credit risk on its cash and cash equivalents as low as its funds are held in highly rated Canadian financial institutions. Management deems the credit risk associated with other receivables and deposits to be at an acceptable level.

The Company's maximum exposure to credit risk related to certain financial instruments as identified below, approximates the carrying value of these assets on the Company's consolidated statements of financial position.

		December 31, 2020		December 31, 2019
Cash and cash equivalents	**$**	**67,547,897**	$	23,950,737
Short-term investments		**15,000,000**		-
Other receivables		**300,545**		13,925
Deposits		**65,683**		482,594
	$	**82,914,125**	**$**	24,447,256

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices. Management has determined market risk to be at an acceptable level.

Interest rate risk

The Company has significant cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in high-yield savings accounts or other highly liquid interest-bearing short-term investment vehicles. The Company regularly monitors its cash management policy. Management has determined interest rate risk to be low.

Foreign currency risk

The Company's functional currency is the Canadian dollar. At December 31, 2020, cash balances were held primarily in Canadian dollars. Foreign currency risk is the risk that the value of the Company's financial instruments denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. Changes in the exchange rate between foreign currencies and the Canadian Dollar could have a significant impact on the Company's financial position, results of operations, and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and Mexican Pesos ("MXP").

At December 31, 2020 and December 31, 2019, the Company had the following foreign currency denominated trade payables:

(Expressed in Canadian dollars, except where otherwise noted)

		December 31, 2020		December 31, 2019
United States dollar	**$**	**149,806**	$	54,133
Mexican Peso		**109,853**		157,598
	$	**259,659**	$	211,731

There have been significant fluctuations in currency valuations during the year ended December 31, 2020 and the period up to the date of this MD&A as a result of the COVID-19 pandemic. The Company determined it was exposed to a higher level of risk associated with balances held in foreign currencies when compared to the risk assessed at December 31, 2019.

It is estimated that various fluctuations in the USD and MXP against the Canadian dollar would affect net loss at December 31, 2020 is as follows:

% currency fluctuation		**December 31, 2020**
10%	**$**	**25,467**
20%	**$**	**50,933**
30%	**$**	**76,400**

As a result of the foreign currency risk sensitivity analysis, Management has determined that the Company's exposure to foreign currency risk is low.

Price risk

The Company is exposed to price risk with respect to commodity prices and prices of equity securities. Commodity price risk is defined as the potential adverse impact on net income or loss and economic value due to commodity price movements and volatilities. Equity security price risk is defined as the potential adverse impact on the Company's net income or loss due to movements in individual prices of equity securities or price movements in the stock market generally. Commodity price risk is defined as the potential adverse impact on net income or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to base and precious metals, and movement in the price of individual equity securities movements and the stock market generally, to determine the appropriate course of action to be taken by the Company.

There have been significant fluctuations in commodity prices and prices of equity securities during the year ended December 31, 2020 and the period up to the date of this MD&A as a result of the COVID-19 pandemic. Due to this volatility, the Company determined it was exposed to a higher level of overall price risk when compared to the risk assessed at December 31, 2019.

The global economic impact will be felt for an extended period after the threat from COVID-19 subsides as businesses return to steady-state operations. However, governments around the world have approved large monetary and fiscal stimulus packages in order to offset the anticipated economic decline. This should result in inflation over the medium-term that, coupled with historically low interest rates will have a positive impact on the precious metals market.

The Company will continue to closely monitor commodity prices, particularly as they relate to silver and base metals (lead and zinc), and movement in the price of individual equity securities and the stock market generally, to determine the appropriate course of action to be taken by the Company.

OTHER RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of these risks occur, including the financial risks described above, the Company's business, financial condition and operating results could be adversely affected.

For a detailed discussion of risks refer to the Company's AIF for the year ended December 31, 2019 available on the Company's website at www.discoverysilver.com or on SEDAR at www.sedar.com.

This MD&A also contains forward-looking information that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks faced by the Company as described in the documents incorporated by reference herein. Refer to the "Cautionary Statement Regarding Forward-Looking Information".

Nature of Mineral Exploration and Mining

At the present time the Company does not hold any interest in a producing mining property. The Company's viability and potential success is based on its ability to develop, exploit and generate revenue from mineral deposits. The exploration and development of mineral deposits involve significant financial risk over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a mine may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration programs on exploration properties in which the Company has an interest will result in a profitable commercial mining operation.

The operations of the Company are subject to all of the hazards and risks normally incident to exploration and development of mineral properties, any of which could result in damage to life and property, the environment and possible legal liability for any and all damage. The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the operations in which the Company has interests. Hazards, such as unusual or unexpected geological structures, rock bursts, pressure, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance or in excess of insurance coverage or associated with compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and, potentially, its financial position.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Permits and Licenses

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required in carrying out the activities which it is currently conducting under applicable laws and regulations and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. There can be no assurance that the Company will be able to obtain all necessary licenses and permits required to carry out exploration, development and mining operations at its projects.

Due to COVID-19, government offices are working on reduced schedules that could result in delays in processing applications and issuing any licenses and permits. The Company currently has all necessary drill permits to complete planned work in 2021, however any future applications could be adversely impacted by COVID-19.

Competition

The mineral exploration and mining business is competitive in all its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties, the acquisition of mining equipment and related supplies and the attraction and retention of qualified personnel. The ability of the Company to acquire properties, purchase required equipment, and hire qualified personnel in the future will depend not only on its ability to develop its present properties, but also on its ability to identify, arrange, negotiate, select or acquire suitable properties or prospects for mineral exploration, source suitable equipment and hire qualified people. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring such properties or prospects, sourcing equipment or hiring people.

Environmental and Climate Change Regulation

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments.

Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of future operations. Such impacts may have an adverse effect on the capital and operating cost of the Company's operations or those of its future customers that may materially affect future operations.

Estimates of Mineral Resources May Not Be Realized

The mineral resource estimates that may be published from time to time by the Company with respect to its properties are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geological, metallurgical or engineering work, and work interruptions, among other things.

Short-term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in resources, grades, stripping ratios or recovery rates may affect the economic viability of projects. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

Dependence on Key Personnel

The Company is dependent on the services of its senior management and a small number of skilled and experienced employees and consultants. The loss of any such individuals could have a material adverse effect on the Company's operations.

This risk of is further increased by the recent COVID-19 pandemic which has impacted health and safety measures and therefore accessibility to key personnel who are no longer working under normal conditions as a result of social-distancing measures and the temporary closure of non-essential services implemented by both Canadian and Mexican governments. This risk is partially mitigated by the availability of additional communication tools implemented by the Company. Although the Company has no identified cases of COVID-19 at site or at its corporate office, should any key personnel contract the virus, the loss, temporary or otherwise, could have a material adverse effect on the Company's operation. The Company does screen personnel for COVID-19 prior to allowing access to the Project. There has been some slow-down of activities due to the lack of support personnel, but no adverse effects have occurred related to the Project.

Limited Financial Resources

The existing financial resources of the Company are sufficient to complete the Phase 1 Drilling program at Cordero in addition to exploration work on its other properties, however they are not sufficient to bring any of its projects into commercial production. The Company will need to obtain additional financing from external sources in order to fund the development of its properties and/or to engage in other strategic business opportunities. There is no assurance that the Company will be able to obtain such financing on favourable terms, or at all.

This risk of financial resources is further amplified by the recent COVID-19 pandemic which has had significant impact on global economies and financial markets. Should depressed market conditions continue in the medium to long-term, it may be more difficult for the Company to obtain required financing to complete its long-term objectives. Failure to obtain financing could result in delay or indefinite postponement of further exploration and development of the Company's properties.

Political Environment

The Company's mineral exploration activities are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local and indigenous people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a material adverse impact on the operations and financial position of the Company. In addition, as governments continue to struggle with deficits and concerns over the effects of depressed economies, the mining and metals sector has been targeted to raise revenue. Governments are continually assessing the fiscal terms of the economic rent for a mining company to exploit resources in their countries. The occurrence of mining regime changes adds uncertainties that cannot be accurately predicted and any future adverse changes in government policies or legislation in the jurisdictions in which the Company operates that affect foreign ownership, mineral exploration, development or mining activities, may affect the Company's viability and profitability.

As a result of COVID-19, the global political environment is a continually changing landscape as countries implement measures to contain the spread of the virus. This has resulted in border closures and temporary suspension of non-essential services, among other measures. Should there be a continued increase in the number of identified cases and deaths, border closures and suspension of activities could be extended thereby having a material adverse impact on the Company's operations.

Health and Safety

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions.

The Company's business could be adversely impacted by the effects of the recent COVID-19 outbreak or other epidemics. In December 2019, a novel strain of the coronavirus emerged in China and the virus has now spread globally, including Canada and Mexico. The extent to which COVID-19 impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken by each country's respective government to contain or treat the coronavirus outbreak. In particular, the continued spread of the coronavirus globally could materially and adversely impact the Company's operating activities including but not limited to: employee health; workforce productivity; increased insurance premiums; limitations on travel; the availability of industry experts and personnel; restrictions to its drill program and/or the timing to process drill and other metallurgical testing; and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations.

There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks.

In addition, a significant outbreak of coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious metals and the Company's future prospects.

Impact of COVID-19 and other health epidemics on Health and Safety

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions.

In particular, the continued spread of the coronavirus globally could materially and adversely impact the Company's operating activities including but not limited to: employee health; workforce productivity; increased insurance premiums; limitations on travel; the availability of industry experts and personnel; restrictions to its drill program and/or the timing to process drill and other metallurgical testing; and other factors that will depend on future developments beyond the Company's control, which may have a material and adverse effect on the its business, financial condition and results of operations.

There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs / insurance premiums as a result of these health risks.

In addition, a significant outbreak of coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the demand for precious metals and the Company's future prospects.

Liquidity Risk

The Company has in the past and may in the future seek to acquire additional funding by the sale of common shares, the sale of assets or through the assumption of additional debt. Movements in the price of the common shares have been volatile in the past and may be volatile in the future. Furthermore, since approximately 24.8% of the Common Shares are held by a large shareholder, the liquidity of the Company's securities may be negatively impacted.

Community Relations

The Company's relationships with the communities in which it operates and other stakeholders are critical to ensure the future success of its the construction and development of its projects. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Publicity adverse to the Company, its operations or extractive industries generally, could have an adverse effect on the Company and may impact relationships with the communities in which the Company operates and other stakeholders. While the Company is committed to operating in a socially responsible manner, there can be no assurance that its efforts in this respect will mitigate this potential risk. Further, damage to the Company's reputation can be the result of the perceived or actual occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to the Company and its activities, whether true or not. While the Company strives to uphold and maintain a positive image and reputation, the Company does not ultimately have control over how it is perceived by others. Reputation loss may lead to increased challenges in developing, maintaining community relations and advancing its projects and decreased investor confidence, all of which may have a material adverse impact on the financial performance and growth of the Company.

Information Technology

The Company is reliant on the continuous and uninterrupted operations of its information technology ("IT") systems. User access and security of all IT systems are critical elements to the operations of the Company. The Company's operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any IT failure pertaining to availability, access or system security could result in disruption for personnel and could adversely affect the reputation, operations or financial performance of the Company.

The Company's IT systems could be compromised by unauthorized parties attempting to extract business sensitive, confidential or personal information, corrupting information or disrupting business processes or by inadvertent or intentional actions by the Company's employees or vendors. A cyber security incident resulting in a security breach or failure to identify a security threat, could disrupt business and could result in the loss of business sensitive, confidential or personal information or other assets, as well as litigation, regulatory enforcement, violation of privacy and security laws and regulations and remediation costs.

Although to date the Company has not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that it will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

There have been no material changes to the Company's commitments and contractual obligations during the year ended December 31, 2020 and to the date of this MD&A.

SIGNIFICANT ACCOUNTING POLICIES

For a full description of the Company's significant accounting policies, please see note 3 of the consolidated financial statements for the year ended December 31, 2020.

CHANGES IN ACCOUNTING POLICIES

Adoption of New Accounting Standards

The following new standards, and amendments to standards and interpretations, are effective for the first time for the annual periods beginning on or after January 1, 2020 and have been applied in preparing these consolidated financial statements:

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)

IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure* have been revised to incorporate amendments issued by the IASB in response to the ongoing reform of interest rate benchmarks around the world. The replacement of existing benchmarks with new risk-free rates over the next few years can have significant effects on hedge accounting. The amendments aim to provide relief for hedging relationships. The amendments provide temporary exceptions from applying certain hedge accounting requirements in IFRS 9 and IAS 39 to all hedging relationships directly affected by interest rate benchmark reform. Without these amendments, the uncertainty surrounding the replacement of benchmark rates could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments. The amendments to IFRS 7 also provide specific disclosure requirements regarding uncertainty arising from interest rate benchmark reform.

The adoption of this amendment did not have a material impact on the Company's financial statements.

Definition of Material

The IASB has issued *Definition of Material*, amending IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to make it easier for entities to judge whether information is material for inclusion in the financial statements. The amendments:

- include in the definition of material guidance that was previously only featured elsewhere in IFRS;
- improve the explanations that accompany the definition; and
- ensure the definition of material is consistent across all IFRS standards.

The adoption of this amendment did not have a material impact on the Company's financial statements.

Future Accounting Standards and Interpretations

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

The IASB has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period;"

- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment on the Company's financial statements has not yet been determined.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting judgments and estimates include but are not limited to the Company's determination of: functional currency; the economic recoverability and probability of future economic benefits of exploration; evaluation and development costs; determination of useful lives; impairment charges; recoverability of sales tax receivable; income taxes; and share-based payments. The estimates of non-cash share-based payments expense involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Actual results could differ from those estimates.

Critical accounting judgments

The significant areas of judgment considered by management in preparing the consolidated financial statements include, but are not limited to:

Functional currency

The functional currency for each of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that for each of the Canadian entities, the functional currency is CAD and for the Mexican subsidiaries the functional currency is MXP. Foreign exchange differences arising from the translation from functional to presentation currency are recognized each period in other comprehensive income and may or may not be subsequently reclassified to profit or loss depending on future events.

Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

The Company makes determinations whether development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgical information, economic assessments and existing permits for land access and drilling. The estimates contained within these criteria could change over tie which could affect the economic recoverability of capitalized costs.

Critical accounting estimates

The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is as follows:

Determination of useful lives

Equipment is depreciated using the straight-line method based on the specific asset's useful life. Should the actual useful life vary from the initial estimation, future depreciation charges may change. Should the componentization of these like assets change, depreciation charges may vary materially.

Impairment charges

The Company assesses its CGUs at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, an estimate of the recoverable amount is made, which is the higher of the fair value less costs to sell and value in use. The determination of the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and future operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The estimates are subject to risk and uncertainty and therefor there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the individual assets or CGUs.

Management periodically reviews the carrying values of its exploration and evaluation assets with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of resources, forecast future metal prices, forecast future costs of exploring, and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are recoverable.

Sales tax recoverability

The Company incurs significant expenditures for the purchase of goods and services on which sales tax is paid ("GST/HST" in Canada and "IVA" in Mexico). The net amount paid is recoverable but is subject to review and assessment by the relevant tax authorities (Canada Revenue Agency ("CRA") in Canada and the Servicio de Administración Tributaria ("SAT") in Mexico). The Company files GST/HST returns on a quarterly basis with the CRA and regularly files the required IVA returns and all supporting documentation with SAT. IVA refund requests are from time to time improperly denied based on the alleged lack of compliance of certain formal requirements and information returns by the Company's third-party suppliers.

The Company is in regular contact with SAT in respect of its IVA filings and believes the full amount of its IVA receivables will ultimately be received; however, the timing of recovery of these amounts and the nature and extent of any adjustments to the Company's IVA receivables remains uncertain. As a result of the Company's limited operating history, management cannot reasonably estimate collectability of IVA balances in Mexico as it is possible that the refund requests may be delayed, reduced, or denied by the taxation authorities.

Management assesses collectability and classification of the asset at each reporting period and currently includes a 100% provision for this balance.

At December 31, 2020, a provision of $2,633,976 for IVA recoverable was made (December 31, 2019: $1,409,637).

Share-based payments

The fair value of the estimated number of stock options that will eventually vest is recognized as share-based compensation expense over the vesting period of the stock options with the corresponding increase in equity.

Determining the fair value of options and warrants requires the exercise of judgment related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Option and warrant pricing models require the input of highly subjective assumptions including the expected price volatility and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options or warrants at the date of grant. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

OFF-BALANCE SHEET ARRANGEMENTS

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

QUALIFIED PERSON

The technical information in this MD&A was reviewed and approved by Gernot Wober, P. Geo., Vice President Exploration of the Company, who is recognized as a Qualified Person ("QP") under the guidelines of NI 43-101.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results could differ materially from any estimates, forecasts, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

These forward-looking statements may include but are not limited to statements concerning:

- The Company's success at completing future financings;
- The Company's strategies and objectives;
- The Company's receipt of permits;
- The availability of qualified employees for business operations;
- General business and economic conditions;
- General political climate;
- The Company's ability to meet its financial obligations as they become due; and
- The Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity.

Readers are cautioned that the preceding list of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied, by these forward-looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on the Company's website at www.discoverysilver.com or on SEDAR at www.sedar.com.