Discoverysilver

(Formerly Discovery Metals Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2021 and 2020

Dated August 25, 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 six months ended June 30, 2021 ("Q2 2021" and "Q2 2021 YTD"). 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 accompanying MD&A for the year ended December 31, 2020, the Company's unaudited condensed interim consolidated financial statements for the three and months ended June 30, 2021 (the "interim financial statements"), prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") and the Company's Annual Information Form ("AIF") for the year ended December 31, 2019. The information provided herein supplements, but does not form part of, the interim financial statements and includes financial and operational information from the Company's subsidiaries. This discussion also covers the three and six months ended June 30, 2020 ("Q2 2020" and "Q2 2020 YTD") 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 interim 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 interim 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 interim 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 August 25, 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 kilometres 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

The Company continues to be proactive in mitigating health and safety risks regarding COVID-19 and continually monitors employees and contractors. The Company remains committed to being engaged with our local stakeholders during this uncertain time and will continue to closely monitor the directives of all levels of government in both Mexico and Canada as well as the relevant health authorities. Despite the increased risk that the Delta variant poses to future exploration at the Project, all of the drilling required to complete the updated resource has now been completed, and the Company remains on-track to deliver the resource estimate by the end of Q3 2021, and an updated Preliminary Economic Assessment ("PEA") in Q4 2021. To-date, health and safety protocols and the efforts of employees and contractors to manage COVID-19 have been effective and the Company continues drilling with four diamond core rigs.

Q2 2021 HIGHLIGHTS

PROJECTS

During Q2 2021, the Company issued several news releases announcing results from exploration activities at the Cordero Project, in addition to corporate development initiatives.

Cordero

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** from 357.1 m (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 remains 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.

On May 26, 2021, the Company announced results from 12 diamond drill holes targeting the Josefina and Todos Santos 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 Josefina and Todos Santos vein trends currently represent approximately 3 km of this strike extent.

Highlight intercepts include:

Josefina Vein Trend

- **4.1 m averaging 1,043 g/t AgEq** from 304.5 m (520 g/t Ag, 0.11 g/t Au, 3.0% Pb and 9.8% Zn) within **41.5 m averaging 237 g/t AgEq** (97 g/t Ag, 0.04 g/t Au, 1.0% Pb and 2.5% Zn) in hole C21-421
- **1.3 m averaging 1,041 g/t AgEq** from 402.8 m (495 g/t Ag, 0.17 g/t Au, 5.6% Pb and 8.0% Zn) in hole C21-421
- **1.2 m averaging 1,736 g/t AgEq** from 164.9 m (997 g/t Ag, 0.25 g/t Au, 8.9% Pb and 9.7% Zn) within **22.4 m averaging 322 g/t AgEq** (156 g/t Ag, 0.10 g/t Au, 1.7% Pb and 2.3% Zn) in hole C21-431

Todos Santos Vein Trend

- **2.2 m averaging 403 g/t AgEq** from 157.5 m (163 g/t Ag, 0.17 g/t Au, 2.8% Pb and 3.1% Zn) in hole C20-404
- **1.0 m averaging 589 g/t AgEq** from 258.1 m (160 g/t Ag, 0.39 g/t Au, 3.8% Pb and 6.4% Zn) in hole C21-409
- **2.1 m averaging 558 g/t AgEq** from 73.3 m (160 g/t Ag, 0.27 g/t Au, 3.3% Pb and 6.3% Zn) in hole C21-418

The vein drilling at Josefina has provided increased confidence that the higher-grade bulk tonnage domain will expand to the east to incorporate sections of the Josefina vein trend. Focus also remains on continuing to expand the drill-confirmed strike extent at Todos Santos. Step out holes 250 m to the southwest and 250 m to the northeast from previous drilling were successful in intercepting high-grade vein mineralization. The Company will continue to systematically test Todos Santos at depth and along strike as part of the ongoing Phase 2 drill program.

Refer to the Press Release dated May 26, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

On June 22, 2021, the Company announced results from 12 diamond drill holes targeting bulk-tonnage mineralization at Cordero. The holes were part of the Phase 1 drill program, that will be incorporated in the new resource estimate and PEA, to be released during the second half of 2021.

Highlight intercepts include:

- **65.9 m averaging 258 g/t AgEq** from 309.4 m (69 g/t Ag, 0.11 g/t Au, 0.7% Pb and 3.7% Zn) in hole C21-417
- **143.0 m averaging 120 g/t AgEq** from 517.8 m (39 g/t Ag, 0.13 g/t Au, 0.4% Pb and 1.3% Zn) in hole C21-425
- **59.5 m averaging 153 g/t AgEq** from 443.3 m (54 g/t Ag, 0.08 g/t Au, 0.9% Pb and 1.5% Zn) in hole C21-415
- **86.0 m averaging 108 g/t AgEq** from 392.2 m (33 g/t Ag, 0.17 g/t Au, 0.3% Pb and 1.2% Zn) in hole C21-420
- **82.3 m averaging 136 g/t AgEq** from 267.9 m (44 g/t Ag, 0.06 g/t Au, 0.7% Pb and 1.5% Zn) in hole C21-423
- **59.4 m averaging 171 g/t AgEq** from 419.4 m (48 g/t Ag, 0.06 g/t Au, 1.0% Pb and 2.0% Zn) in hole C21-425
- **48.9 m averaging 159 g/t AgEq** from 232.3 m (85 g/t Ag, 0.08 g/t Au, 0.6% Pb and 1.1% Zn) in hole C21-429

The drill holes from this release confirm continuity of higher-grade bulk-tonnage mineralization at depth in the central part of the South Corridor. Mineralization is hosted within northeast trending domains that have been defined over a strike length of approximately 1.4 km and are open to the northeast.

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

Appointment of Lead Consultant for Cordero PEA

On May 12, 2021, the Company announced the appointment of Ausenco Engineering Canada Inc. ("Ausenco") as the Lead Consultant for the Cordero PEA scheduled for completion in Q4 2021, which will be based on an updated mineral resource estimate scheduled for completion in Q3 2021. Ausenco is an industry leader in cost-effective process design and construction, with input from specialists across all key mining disciplines. The overarching objective is to deliver a technically robust study that outlines one of the largest producing primary silver operations in the industry with manageable upfront development capex and operating costs in the bottom half of the industry cost curve.

Refer to the Press Release dated May 12, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

PEA OUTLINE

Study objective: The overarching objective is to deliver a technically robust study supported by a comprehensive dataset and vetted by top-tier independent consultants with third party peer review. The Company believes that the Study will outline one of the largest producing primary silver operations in the industry with manageable upfront development capex and operating costs in the bottom half of the industry cost curve.

Process plant: The study will incorporate staged expansions of the processing facility which is intended to reduce the upfront capex and payback period. Production trade-off studies are ongoing however based on preliminary results the initial mill throughput rate is expected to be in the 10,000 – 20,000 tonnes per day ("tpd") range and the expanded mill throughput is expected to be in the 20,000 – 40,000 tpd range.

Mine plan: The mine schedule will incorporate an elevated cut-off grade early in the mine life and the effective use of stockpiling to accelerate the payback period and maximize the NPV at the set mill throughput rates. A trade-off study comparing the use of contractor mining versus owner-operated mining is ongoing.

DRILL PROGRAM UPDATE:

Resource drilling: all assays from drilling that will support the updated resource have now been received. This drilling, totaling 91,000 m (223 holes), will supplement the 133,000 m (292 holes) of historic drilling completed on the Project. The resource update is scheduled for completion later this quarter and will be followed by an updated PEA in 4Q 2021.

Phase 2 drilling: The Company has completed 10,000 m (21 holes) as part of its Phase 2 drill program (excluding drill metres used to support the updated resource) which will be ongoing through the remainder of the year. Phase 2 drilling will be focused on three key areas: (1) upgrading inferred resources for inclusion in a prefeasibility study; (2) resource expansion of bulk-tonnage mineralization; and (3) testing of the width, grade and continuity of the extensive high-grade vein systems that transect the deposit. There are currently four drill rigs operating on site.

RECENT DEVELOPMENTS

PROJECTS

Cordero

On July 13, 2021, the Company announced results from 13 diamond drill holes drilled along the Josefina high-grade vein trend at Cordero. The holes were part of the recently completed Phase 1 drill program. The results from this program will be incorporated in the new resource estimate and PEA, to be released during the second half of 2021.

Highlight intercepts include:

- **1.1 m averaging 3,934 g/t AgEq** from 404.8 m (1,570 g/t Ag, 16.25 g/t Au, 7.0% Pb and 19.0% Zn) in hole C21-457
- **1.1 m averaging 3,424 g/t AgEq** from 92.2 m (1,960 g/t Ag, 0.32 g/t Au, 15.4% Pb and 21.6% Zn) within **28.5 m averaging 245 g/t AgEq** (122 g/t Ag, 0.06 g/t Au, 1.1% Pb and 1.9% Zn) in hole C21-435
- **1.2 m averaging 2,789 g/t AgEq** from 62.4 m (1,480 g/t Ag, 0.22 g/t Au, 13.1% Pb and 20.0% Zn) within **58.8 m averaging 157 g/t AgEq** (87 g/t Ag, 0.05 g/t Au, 0.9% Pb and 0.8% Zn) in hole C21-437
- **1.4 m averaging 2,139 g/t AgEq** from 288.5 m (1,385 g/t Ag, 0.49 g/t Au, 7.5% Pb and 10.9% Zn) in hole C21-436
- **4.5 m averaging 1,179 g/t AgEq** from 204.5 m (385 g/t Ag, 1.15 g/t Au, 5.9% Pb and 11.9% Zn) in hole C21-435

- **1.3 m averaging 1,374 g/t AgEq** from 86.0 m (420 g/t Ag, 0.32 g/t Au, 8.8% Pb and 14.9% Zn) in hole C21-459

The Josefina vein trend consists of two principal southwest-trending subparallel veins with an interpreted combined strike extent of more than 2.5 km. High-grade veins were intercepted within broader zones of mineralization in the majority of holes pointing to the bulk-tonnage potential in this part of the deposit. The increased density of drilling from the Phase 1 drill program will allow for the veins and bulk-tonnage mineralization to be modelled separately for the resource update to ensure a more accurate estimate of the overall grade and tonnage along the Josefina trend. The veins along the Josefina trend dip steeply to the northwest and mineralization typically consists of semi-massive galena, sphalerite and pyrite. Drilling has confirmed the depth continuity of veins at Josefina to at least 400 m below surface.

Refer to the Press Release dated July 13, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

On August 5, 2021, the Company announced results from 21 diamond drill holes targeting bulk-tonnage mineralization in the North Corridor at Cordero. The results from this program will be incorporated in the new resource estimate and PEA, to be released during the second half of 2021.

Highlight intercepts include:

- **132.6 m averaging 260 g/t AgEq** from 204.7 m (78 g/t Ag, 0.11 g/t Au, 1.7% Pb and 2.8% Zn) in hole C21-479 including:
  - **46.3 m averaging 448 g/t AgEq** (110 g/t Ag, 0.10 g/t Au, 2.4% Pb and 5.9% Zn) including;
  - **21.5 m averaging 748 g/t AgEq** (194 g/t Ag, 0.12 g/t Au, 4.2% Pb and 9.6% Zn)
- **77.1 m averaging 190 g/t AgEq** from 361.1 m (55 g/t Ag, 0.12 g/t Au, 1.4% Pb and 1.8% Zn) in hole C21-479 including:
  - **19.6 m averaging 422 g/t AgEq** (137 g/t Ag, 0.25 g/t Au, 3.7% Pb and 3.2% Zn)
- **86.2 m averaging 192 g/t AgEq**[1] from 312.5 m (51 g/t Ag, 0.09 g/t Au, 1.2% Pb and 2.2% Zn) in hole C21-476 including:
  - **36.5 m averaging 372 g/t AgEq** (97 g/t Ag, 0.16 g/t Au, 2.3% Pb and 4.3% Zn)
- **81.4 m averaging 184 g/t AgEq** from 297.3 m (43 g/t Ag, 0.05 g/t Au, 0.9% Pb and 2.5% Zn) in hole C21-496 including:
  - **44.6 m averaging 251 g/t AgEq** (60 g/t Ag, 0.07 g/t Au, 1.3% Pb and 3.4% Zn)

These drill results continue to reinforce the broad widths and excellent grades that characterize large areas of the Cordero deposit. Drilling in the NE Extension was successful in extending the strike length of high-grade mineralization by approximately 100 m.

Refer to the Press Release dated August 5, 2021, available on SEDAR at www.sedar.com and on the Company's website at www.discoverysilver.com.

On August 25, 2021, the Company announced results from the final drill holes that will be used to support the new resource estimate on its Cordero Project, scheduled for completion toward the end of this quarter and will be followed by an updated PEA in Q4 2021.

Highlight intercepts include:

- **217.3 m averaging 194 g/t AgEq** from 39.3 m (75 g/t Ag, 0.45 g/t Au, 1.1% Pb and 1.0% Zn) in hole C21-481 including:
  - **81.9 m averaging 254 g/t AgEq** (99 g/t Ag, 0.54 g/t Au, 1.5% Pb and 1.4% Zn)
- **25.5 m averaging 404 g/t AgEq** from 147.2 m (236 g/t Ag, 0.55 g/t Au, 1.2% Pb and 1.9% Zn) in hole C21-482 including:
  - **1.5 m averaging 3,763 g/t AgEq** (2,552 g/t Ag, 2.33 g/t Au, 13.3% Pb & 13.3% Zn)
- **56.8 m averaging 139 g/t AgEq** from 358.7 m (40 g/t Ag, 0.05 g/t Au, 0.7% Pb and 1.7% Zn) in hole C21-442
  - **52.5 m averaging 128 g/t AgEq** from 214.8 m (42 g/t Ag, 0.08 g/t Au, 0.7% Pb and 1.3% Zn) and **54.9 m averaging 133 g/t AgEq** from 392.8 m (39 g/t Ag, 0.06 g/t Au, 0.9% Pb and 1.3% Zn) in hole C21-493

The final drill holes for the updated resource estimate were from multiple zones in both the North and South Corridors. Drilling in the South Corridor along the Josefina vein trend continues to intercept high-grade veins within broader zones of disseminated mineralization. Infill drilling within the central part of the South Corridor was also successful in confirming continuity of mineralization within the higher-grade bulk-tonnage domain. This new drilling, which will be complemented by the Company's reinterpretation of the geological and structural controls of the deposit, provides a strong platform on which the upcoming mineral resource estimate and PEA will be based.

2021 OUTLOOK

The Company's Phase 1 drill program at its flagship Cordero project was successfully completed during April of this year, which included 75,000 metres of infill drilling on the bulk-tonnage mineralization aimed at resource definition for incorporation in the Q3 mineral resource update and the Q4 PEA. Additionally, the Phase 1 drilling provided encouraging results related to the initial testing of the continuity and grades of some of the high-grade vein systems on the Cordero property. The PEA will consider staged expansions to reduce upfront capex and an elevated cut-off grade strategy and effective use of stockpiling to accelerate the payback period. The study will be vetted by industry leading consultants and supported by a comprehensive dataset including three rounds of metallurgical testwork.

The mineral resource update will also include an updated geological model of the deposit that includes the re-logging of 110,000 metres of historical drill holes, in addition to approximately 90,000 metres drilled during Phase 1 and Phase 2 of Cordero's extensive drilling campaign. The updated resource model will utilize estimation domains based on structure and lithology that previous resource estimates did not incorporate. Additionally, comprehensive metallurgical testwork programs continue and are based on both lithology and mining phases which are expected to enhance and expand on previous metallurgical work performed on the project previously. Pit optimization studies are ongoing to assist with infill and step-out drill targeting, mine scheduling, mill throughput rates, as well as cut-off grade and stockpiling strategies aimed at optimizing the capital efficiency and net present value of the project. Dedicated geotechnical drilling for the open pit is expected to commence shortly, in order to assess pit wall stability, and evaluate potential tailings and waste storage locations which will be used to generate pit slope assumptions for the PEA.

The Company is already planning for next year with the ongoing Phase 2 drill program focused on reserve definition for an expected pre-feasibility study on the project to be released during 2022. Alongside this, infill drilling we will remain focused on potential resource expansion of bulk-tonnage mineralization as well as ongoing testing of the grade and continuity of the high-grade veins that transect the deposit. Our property wide mapping and sampling program also continues to progress well with targets expected to be finalized through the remainder of the year ahead of initial drill testing early next year.

The Company is also close to completing its' inaugural Environmental, Social and Corporate Governance ("ESG") report, which is expected to be published in Q4 2021. The report will provide a framework of our ESG pillars and principles and is reflective of our commitment to operate in a safe and responsible manner and have a positive impact on local communities as we diligently advance Cordero toward a construction decision over the coming years.

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.

Support work for the PEA study is progressing well. A comprehensive metallurgical testwork program is now complete with results expected to be received later this quarter. Process design work as well as development of capex and operating cost inputs for processing and mining continues to be advanced. Knight Piésold and Co. (USA) are close to completing their assessment of pit wall stability based on two dedicated geotechnical drill holes in the North Corridor and a review of drill core in the South Corridor. Knight Piésold have also completed preliminary work on the overall site layout including the potential location of the tailings storage facility.

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 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 Q1 2020. Gold prices increased on an anticipated global economic recession and government financial stimulus announced to aid the economic recovery. During Q1 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 Q2 YTD 2021, the average price of silver was $26.47 per ounce, with silver trading between $24.00 and $29.59 per ounce based on the London Fix silver price. This compares to an average of $16.65 per ounce for Q2 YTD 2021 with a low of $12.01 and a high of $18.78 per ounce.

The Company's operations are affected by Canadian Dollar exchange rates. Discovery's largest exposures are to the Canadian Dollar/US Dollar exchange rate and the Canadian Dollar/Mexican Peso exchange rate which impacts the operating and administrative costs in Mexico incurred in Canadian Dollars, US Dollars and Mexican Peso. As at June 30, 2021, the Canadian Dollar /US Dollar exchange rate was 16.06 (December 31, 2020: 15.60) and the Canadian Dollar/US Dollar exchange rate was 1.24 (December 31, 2020: 1.28).

REVIEW OF CONSOLIDATED FINANCIAL RESULTS

Summary of Quarterly Results

		Q2 2021		Q1 2021		Q4 2020		Q3 2020
Net loss								
(a) Total	**$**	**(8,709,519)**	$	(10,965,302)	$	(6,125,457)	$	(5,127,665)
(b) basic and diluted per share	**$**	**(0.03)**	$	(0.03)	$	(0.02)	$	(0.02)
Net loss and total comprehensive loss	**$**	**(8,736,684)**	$	(11,058,575)	$	(5,455,362)	$	(4,914,927)
Cash and cash equivalents	**$**	**72,955,295**	$	79,742,626	$	67,547,897	$	69,210,491
Total assets	**$**	**116,923,661**	$	123,667,380	$	111,564,881	$	112,664,894
Total current liabilities	**$**	**1,825,301**	$	1,604,846	$	982,260	$	1,825,541
Working capital	**$**	**86,871,096**	$	94,000,414	$	82,435,046	$	83,077,744
Total weighted average shares outstanding		**324,892,666**		317,429,574		302,368,222		282,624,020

(Expressed in Canadian dollars, except where otherwise noted)

		Q2 2020		Q1 2020		Q4 2019		Q3 2019
Net loss								
(a) Total	$	(1,747,677)	$	(4,826,135)	$	(4,178,391)	$	(3,876,582)
(b) basic and diluted per share	$	(0.01)	$	(0.02)	$	(0.02)	$	(0.03)
Net loss and total comprehensive loss	$	(1,936,075)	$	(5,827,330)	$	(3,959,211)	$	(4,017,681)
Cash and cash equivalents	$	26,913,163	$	20,018,474	$	23,950,737	$	9,974,045
Total assets	$	70,357,450	$	47,966,857	$	53,518,599	$	39,074,676
Total current liabilities	$	520,234	$	767,213	$	716,596	$	514,414
Working capital	$	42,167,158	$	19,455,449	$	23,860,648	$	9,722,187
Total weighted average shares outstanding		226,123,223		211,423,805		193,526,170		134,258,418

Q2 2021 Compared To Q2 2020

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $8,736,684 during Q2 2021, compared to a net and total comprehensive loss of $1,936,075 for Q2 2020. The net and total comprehensive loss for Q2 2021 includes a non-cash currency translation adjustment ("CTA") loss of $27,165 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 (Q2 2020 – CTA loss of $188,398). This CTA loss is the result of the depreciation of the MXP to CAD during Q2 2021 which primarily impact the mineral property balances.

The overall increase in net loss during Q2 2021 when compared to Q2 2020 is primarily the result of increased exploration expenditures related to 23,668 metres drilled during Q2 2021 compared to just 6,667 metres drilled during Q2 2020. Fewer metres were drilled in Q2 2020 due to the suspension of exploration activities as a result of the COVID-19 pandemic. Additional costs were also incurred during Q2 2021 related to increased general and administrative expenses, share-based compensation expense, and the impairment of IVA receivables compared to Q2 2020.

Share-based compensation expense

The Company incurred a non-cash share-based compensation expense of $1,048,190 during Q2 2021, compared to $599,478 during Q2 2020. The increase was due to the issuance of stock options to directors, officers, employees during 2021 having a significantly higher fair value than the stock options granted during 2020 due to the appreciation in the Company's share price over the last year. Based on the vesting schedules, share-based compensation expense will naturally decrease over the last two quarters of 2021.

Exploration and project evaluation expense

The Company incurred exploration and project evaluation costs of $6,194,981 during Q2 2021 compared to $731,237 in Q2 2020, as a total of 23,668 metres were drilled during Q2 2021 vs just 6,667 metres drilled during Q2 2020. The Company's exploration activities were suspended for the majority of Q2 2020 as a result of the COVID-19 pandemic. During Q2 2021, the Company has continued deliver on its 2021 drilling program objectives, completing Phase 1 drilling for inclusion in the upcoming PEA to be released during Q4 2021 and

Phase 2 drilling relating to upgrading inferred resources for inclusion in a subsequent prefeasibility study; resource expansion of bulk-tonnage mineralization; and testing of the width, grade and continuity of the extensive high-grade vein systems that transect the Cordero deposit. A total of $6,172,167 was spent on Cordero during Q2 2021 comprised primarily of $4,005,095 in drilling costs aimed at increasing confidence that the higher-grade bulk tonnage expands to incorporate sections of the Josefina vein drilling; step out drilling on the Todos Santos vein to extend strike extent of the Footwall vein; and resource expansion of bulk-tonnage mineralization and upgrading inferred resources to the measured and indicated category for inclusion in a PFS. Additionally, $113,643 was spent on metallurgical testing, pit optimization studies, and various other project evaluation expenditures related to the PEA. $510,336 was spent on mapping, assays and sampling, $416,845 on permitting, $29,771 on surface access, and $578,173 on salaries and benefits, with the remainder having been spent on general project expenses. Work during Q2 2020 primarily related to expenditures at the Cordero project including mapping, sampling and assay costs of $465,378, mining duties of $40,065, and salaries and benefits of approximately $46,485.

General office and other expenses

During Q2 2021, the Company incurred general office and other expenses of $795,887 compared to $538,437 during Q2 2020. The increase quarter over quarter was related to the addition of new members of the management team being added during Q4 2020 and Q1 2021, as well as higher general office and other costs as a result of the increased exploration and expansion activities required to support the exploration objectives.

Professional fees

During Q2 2021, the Company incurred professional fees of $117,303 compared to $153,519 during Q2 2020 which related to legal, accounting, and other consulting fees. Higher legal fees were incurred during Q2 2020 compared to Q2 2021 as a result of the non-brokered private placement which closed in two tranches during May and June of 2020.

Provision for 100% of IVA receivable

At June 30, 2021, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of $5,701,763 including $1,256,960 remaining from the IVA acquired in the Levon transaction (December 31, 2020: $4,986,128 including $1,349,033 acquired in the Levon transaction). Although the Company has received refunds for certain claims, there is no consistent history of collection of IVA recoverable amounts and there remains a high degree of uncertainty regarding the timing of repayment of IVA amounts by the Mexican government. As a result, the Company provides for 100% of the IVA recoverable balance and at the time of acquisition of Levon, allocated no value to their IVA receivable balance.

At June 30, 2021, the Company has established a provision in full for the IVA receivable balance of $4,297,040 (December 31, 2020: $2,633,976). 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 $259,121 during Q2 2021 compared to $34,633 during Q2 2020. The increase over the prior year's quarter primarily relates to the receipt of interest on the Company's short-term investments in redeemable GICs as a result of excess cash on hand from the two non-brokered private placements that closed during 2020.

Foreign exchange gain

The company incurred a foreign exchange gain of $166,749 during Q2 2021 compared to a gain of $43,478 during Q2 2020.

Q2 YTD 2021 Compared To Q2 YTD 2020

Net loss and total comprehensive loss

The Company had a net and total comprehensive loss of $19,735,259 during Q2 YTD 2021, compared to a net and total comprehensive loss of $7,763,404 for Q2 YTD 2020. The net and total comprehensive loss for Q2 YTD 2021 includes a non-cash currency translation adjustment ("CTA") loss of $120,439 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 (Q2 YTD 2020 – CTA loss of $1,189,591). This CTA loss is the result of the depreciation of the MXP to CAD which primarily impact the mineral property balances.

The overall increase in net loss during Q2 YTD 2021 when compared to Q2 YTD 2020 is primarily the result of increased exploration expenditures related to 44,669 metres being drilled during Q2 YTD 2021 compared to just 24,167 metres drilled during Q2 YTD 2020 due to the suspension of exploration activities as a result of the COVID-19 pandemic during the majority of Q2 2020. Additional costs were also incurred during Q2 YTD 2021 related to increased general and administrative expenses, non-cash share-based compensation expense, and the impairment of IVA receivables compared to Q2 YTD 2020.

Share-based compensation expense

The Company incurred a non-cash share-based compensation expense of $4,543,110 during Q2 YTD 2021, compared to $757,054 during Q2 YTD 2020. This increase is a direct result of the issuance of 6,050,000 stock options during Q2 YTD 2020 compared to 5,435,000 stock options being issued during Q2 YTD 2020. The stock options issued during Q2 2021 had a much higher fair value and weighted average exercise price than the options granted during Q2 2020. Additionally, the a higher number of options granted during Q2 YTD 2021 vested immediately, compared to the options granted during Q2 YTD 2020, which accelerated the share-based compensation incurred earlier in the life of the option, but will decrease over the next two quarters. 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 $12,083,508 during Q2 YTD 2021 compared to $4,746,447 during Q2 YTD 2020. This increase is primarily the result of increased exploration expenditures related to 44,669 metres being drilled during Q2 YTD 2021 compared to 24,167 metres drilled during Q2 YTD 2020. Fewer metres were drilled during Q2 2020 YTD due to the suspension of exploration activities as a result of the COVID-19 pandemic during the majority of Q2 2020. A total of $11,938,278 was spent on Cordero during Q2 YTD 2021 comprised primarily of $7,654,778 in drilling costs related to follow-up vein drilling on the Todos Santos and Parcionera veins; infill drilling at the South Corridor; upgrading inferred resources for inclusion in a prefeasibility study; resource expansion of bulk-tonnage mineralization; and testing of the width, grade and continuity of the extensive high-grade vein systems that transect the Cordero deposit. Additionally, $213,299 was spent on mining duties, $782,558 in mapping, assays and sampling, $1,433,158 on salaries and benefits, $314,763 was spent on metallurgical testing, pit optimization studies, and various other project evaluation expenditures related to the anticipated PEA to be released during Q4 2021; with the remainder having been spent on general project expenses. Work during Q2 YTD 2020 primarily related to expenditures at the Cordero project including drilling costs of $2,580,621; $534,362 of mapping, sampling and assay costs; $816,766 of salaries and benefits; $273,602 of mining duties; with the remainder having been spent on general project expenses.

General office and other expenses

During Q2 YTD 2021, the Company incurred general office and other expenses of $1,632,953 compared to $1,056,851 during Q2 YTD 2020. The increase in costs incurred during Q2 YTD 2021 vs Q2 YTD 2020 was due to the addition of new members of the management team and board of directors, higher investor relations costs, and higher filing and transfer agent fees incurred due to the increase in the Company's market capitalization over the last year.

Professional fees

During Q2 YTD 2021, the Company incurred professional fees of $208,170 compared to $240,760 during Q2 YTD 2020. Higher legal fees were incurred during Q2 2020 YTD compared to Q2 2021 YTD as a result of the non-brokered private placements which closed in two tranches in May and June of 2020.

Provision for 100% of IVA receivable

At June 30, 2021, the Company had an aggregate Mexican value added tax ("IVA") recoverable balance of $5,701,763 including $1,256,960 remaining from the IVA acquired in the Levon transaction (December 31, 2020: $4,986,128 including $1,349,033 acquired in the Levon transaction). Although the Company has received refunds for certain claims, there is no consistent history of collection of IVA recoverable amounts and there is a high degree of uncertainty regarding the timing of repayment of IVA amounts by the Mexican government. As a result, the Company provides for 100% of the IVA recoverable balance and at the time of acquisition of Levon, allocated no value to their IVA receivable balance.

At June 30, 2021, the Company has established a provision in full for the IVA receivable balance of $4,297,040 (December 31, 2020: $2,633,976). 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 $458,784 during Q2 YTD 2021 compared to $198,062 during Q2 YTD 2020. The increase over prior year primarily relates to the receipt of interest receivable on the Company's short-term investments in 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 $90,952 during Q2 YTD 2021 compared to a loss of $59,429 during Q2 YTD 2020.

CASH FLOW

Q2 YTD 2021 Compared To Q2 YTD 2020

The Company had net cash used in operating activities of $14,030,640 for Q2 YTD 2021 compared to net cash used in operating activities of $6,245,755 for the same period in 2020. This increase is the direct result of the Phase 1 and Phase 2 Drill Programs at Cordero and related exploration activities at the Project during Q2 YTD 2021 being substantially higher than Q2 YTD 2020 due to the COVID-19 related temporary suspension of operations in the comparative period, as well as the timing of payments for contract drilling related exploration expenditures.

The Company had net cash used in investing activities of $294,981 for Q2 YTD 2021 compared to net cash used in investing activities of $14,858,273 for the same period in 2020. This relates to capital expenditures incurred during Q2 YTD 2021 for the purchase of IT infrastructure, vehicles, and equipment in Mexico while during Q2 YTD 2020, the Company purchased $15,000,000 of short-term investments, and spent $86,664 on capital expenditures, which was partially offset by $228,391 received from the sale of investments.

The Company had net cash provided by financing activities of $19,708,820 during Q2 YTD 2021 compared to cash provided by financing activities of $24,042,459 during the same period in 2020. The net cash inflow during Q2 YTD 2021 is primarily the result of cash received of $19,185,246 from the exercise of warrants, while the Q2 YTD 2020 cash inflow mainly relates to the cash received from the non-brokered private placement which occurred during Q2 2020.

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. As at June 30, 2021, aside from the long-term portion of the lease liability (refer to note 12 of the interim 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 three and six months ended June 30, 2021.

(Expressed in Canadian dollars, except where otherwise noted)

As at June 30, 2021, the Company had working capital (defined as current assets less current liabilities) of $86,871,096 (December 31, 2020 – $82,435,046), shareholders' equity of $115,081,362 (December 31, 2020 – $110,541,531) and an accumulated deficit of $75,656,384 (December 31, 2020 – $56,041,564). The Company is sufficiently capitalized to complete planned initial exploration programs on its properties, including the Phase 2 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

A summary of the common shares issued and outstanding at June 30, 2021 and impact of changes to share capital is as follows:

	Note	Common Shares	Amount
At December 31, 2020		305,012,554	$ 125,570,547
Shares issued on exercise of options	**13c**	**1,011,458**	**842,655**
Shares issued on exercise of warrants	**13e**	**19,121,713**	**19,185,246**
At June 30, 2021		**325,145,725**	**$ 145,598,448**

OUTSTANDING SHARE DATA

At August 25, 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	325,145,725 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 18,598,350 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.

RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as well as those personnel with responsibility for the oversight for the Company's activities. 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)

Related party transactions for the three and six months ended June 30, 2021 and 2020 are as follows:

		Three Months Ended June 30,	
Transaction Type	**Nature of Relationship**	**2021**	2020
Non-cash share-based payments	Directors and officers	**$ 869,840**	$ 447,039
Salaries and benefits	Officers	**217,500**	175,670
Director's fees	Directors	**91,250**	76,736
		$ 1,178,590	$ 699,445

		Six Months Ended June 30,	
Transaction Type	**Nature of Relationship**	**2021**	2020
Non-cash share-based payments	Directors and officers	**$ 3,782,456**	$ 524,426
Salaries and benefits	Officers	**435,000**	351,340
Consulting fees	Director	**-**	25,000
Director's fees	Directors	**182,500**	126,736
		$ 4,399,956	$ 1,027,502

A summary of amounts due to related parties:

Transaction Type	**Nature of Relationship**	**June 30, 2021**	December 31, 2020
Salaries and benefits payable	Directors, officers, and employees	**$ -**	$ 598,000
		$ -	$ 598,000

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.

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 June 30, 2021 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.

a) 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 June 30, 2021, the Company had a cash and cash equivalents balance of $72,955,295 (December 31, 2020 – $67,547,897) to settle current liabilities of $1,825,303 (December 31, 2020 – $982,260). The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

At June 30, 2021, 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 (note 13b).

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 June 30, 2021, the Company is currently exposed to a low level of liquidity risk.

b) 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, short-term investments, accounts receivable and prepaids and deposits are exposed to credit risk. The Company has assessed the credit risk on its cash and cash equivalents and short-term investments 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 condensed interim consolidated statements of financial position.

		June 30, 2021		December 31, 2020
Cash and cash equivalents	**$**	**72,955,295**	$	67,547,897
Short-term investments		**15,000,000**		15,000,000
Other receivables		**80,970**		300,545
Deposits		**58,750**		65,683
	$	**88,095,015**	**$**	82,914,125

c) Market Risks

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.

i. 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 investments. The Company regularly monitors its cash management policy. Management has determined interest rate risk to be low.

ii. Foreign currency risk

The Company's functional currency is the Canadian dollar. At June 30, 2021, 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, however exchange rates are continually monitored for any significant changes. A portion of the Company's exploration expenses are paid in USD and in order to reduce its currency risk related to the CAD, the Company has converted a portion of its CAD cash balances into USD.

The Company is mainly exposed to foreign currency risk on financial instruments (consisting of trade payables) denominated in USD and MXP. At June 30, 2021 and December 31, 2020, the Company had the following foreign currency denominated trade payables:

		June 30, 2021		December 31, 2020
United States dollar	**$**	**145,875**	$	149,806
Mexican Peso		**1,236,366**		109,853
	$	**1,382,241**	$	259,659

It is estimated that a 10% fluctuation in the United States Dollar and Mexican Pesos against the Canadian dollar would affect net loss at June 30, 2021 by approximately $137,647 (December 31, 2020: $25,467)

At June 30, 2021, management has determined the Company's exposure to foreign currency risk to be at an acceptable level.

iii. Price risk

The Company is exposed to price risk with respect to commodity prices and prices of equity securities. 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.

At June 30, 2021, Management has determined the Company's exposure to price risk to be at an acceptable level.

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, primarily in Mexico. 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 MD&A for the year ended December 31, 2020 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".

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.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

There have been no material changes to the Company's commitments and contractual obligations during Q2 2021 and to the date of this MD&A.

SIGNIFICANT ACCOUNTING POLICIES

The Company's interim financial statements were prepared using the same accounting policies and methods of application as those disclosed in note 3 of the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

There were no changes to accounting policies during Q2 2021.

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.

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 timeline for the execution and completion of drill programs;
- The timeline and anticipated results to be included in a Resource update
- The timeline and anticipated results to be included in a Preliminary Economic Analysis
- 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.