SIERRA MADRE GOLD AND SILVER LTD.

Management's Discussion and Analysis of the Financial Position and Results of Operations for the Three and Six Months Ended June 30, 2025

August 20, 2025

To Our Shareholders

Sierra Madre Gold and Silver Ltd. ("Sierra Madre" or the "Company") is a mineral extraction and exploration company incorporated in British Columbia, Canada, listed on the TSX Venture Exchange under the ticker symbol "SM" and under the symbol "SMDRF" on the OTCQX Best Market. The Company owns the Guitarra silver-gold mine and related exploration concessions located in the historic Temascaltepec mining district in the state of México, México, and the Tepic silver-gold property located in the State of Nayarit, México.

This Interim Management's Discussion and Analysis ("MD&A") is dated and effective August 20, 2025, and provides information on the Company's activities for the three and six months ended June 30, 2025, and subsequent activity to the date of this report. Consequently, this MD&A should be read in conjunction with the Company's June 30, 2025, condensed consolidated interim financial statements, prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS"), as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. This MD&A should also be read in conjunction with the audited consolidated financial statements of the Company as at and for the year ended December 31, 2024, prepared in accordance with IFRS, and available for viewing at www.sedarplus.ca.

All amounts herein are expressed in U.S. dollars, unless otherwise stated in Canadian dollars ("CAD") or Mexican pesos ("MXN").

Overall Performance and Outlook

Highlights of the Company's activities during the period under review are presented as follows:

- Full commercial production at Guitarra commenced effective January 1, 2025;
- Adjusted EBITDA *(i)* increased by 37.5% to $1.46 million for the quarter ended June 30, 2025 ("Q2");
- Net revenues for Q2 increased by 10.7% to $5.36 million or $30.87 per silver-equivalent ("AgEq") ounce *(i)* sold as compared to $4.84 million and $29.32 per AgEq ounce in the quarter ended March 31, 2025 ("Q1");
- Gross revenues for Q2, including marked to market adjustments, increased by 15.2% to $6.17 million;
- During Q2, the Company sold 65,683 ounces of silver ("Ag") and 1,096 ounces of gold ("Au") or 173,562 AgEq ounces, based on the ratio of Au and Ag prices realized for each shipment in the period;
- During the six-month period ended June 30, 2025 ("H1"), the Company sold 139,419 ounces of silver and 2,118 ounces of gold or 338,665 AgEq ounces, based on the ratio of Au and Ag prices realized for each shipment in the period;
- Cost of sales was $4.07 million for Q2, or $23.45 per AgEq ounce *(i)* sold (cost of sales was $3.60 million for Q1, or $21.84 per AgEq ounce *(i)* sold);
- Cash costs *(i)* for Q2 increased due to the impact of the strengthening of the Mexican peso versus the US dollar on our MXN denominated mining costs, the impacts of the rainy season in Mexico, and the accompanying power outages, on our production volumes, and the ramp-up of operations at Coloso. For Q2, cash costs *(i)* were $23.56 per AgEq ounce *(i)* sold, as compared to $23.08 in Q1;
- The Company generated net income before taxes of $0.91 million in H1 (loss of $3.17 million in H1 2024);
- The Company generated $1.00 million of cash from operating activities in H1, as compared to a use of funds of $3.17 million in H1 2024;
- On April 29, 2025, the Company announced the start of underground mining at the Coloso mine, within the Guitarra complex. The Coloso estimated resource grades are higher in both silver and gold compared to the Guitarra mine veins. During the ramp up of Coloso mining, various blending percentages for mill feed will be tested to ascertain the best recovery procedures;
- On May 30, 2025, the Company and First Majestic Silver Corp. ("First Majestic") agreed to extend the $5 million senior secured project financing loan for an additional twelve months to mature on May 8, 2027. All other terms of the agreement remain unchanged; and

- On July 24, and July 31, 2025, the Company closed the first and second tranches, respectively, of a C$19.5 million brokered private placement – see *Capital Resources and Commitments*.

(i) The Company reports non-GAAP measures, which include Cash Cost of Production per Tonne, Cash Cost per AgEq ounce sold, All-in Sustaining Cash Cost per AgEq ounce sold, Average Realized Price per AgEq ounce sold, and Adjusted EBITDA. These measures are widely used in the mining industry as a benchmark for performance, but do not have standardized meanings and may differ from methods used by other companies with similar descriptions. See "Non-GAAP and Other Financial Measures" section below for definitions and reconciliations to GAAP measures.

The Company is very pleased with the results of the first six months of commercial production at Guitarra. The team at the mine continues to fine-tune its activities and to ramp-up operations at Coloso. The mill continues to operate at its current nameplate capacity and the Company looks forward to continued improvements in the mining and milling processes as new mining faces are accessed and new equipment is added to the operation. As is anticipated each year, the seasonal rainy period in Mexico (peak months are normally June through September) brought power outages and resulting downtime at the mine. The onset of the heavier portion of the rainy season was in May of 2025, which reduced mine production more than is usual for this period. The Company anticipates increased production from the recent re-start of operations at Coloso as de-watering continues and progress is made towards the higher-grade areas.

With the completion of the recent financing, the Company intends to purchase additional equipment and make improvements to the mine in order to reduce certain mining costs and to increase near-term production grades and volumes from current levels. Plans are also being formulated to complete a plant expansion, as further described in the *Mineral Interests* section below. The Company also intends to commence exploration activities at its East District concessions with the goal of initiating a drill program in due course.

Operational Highlights – Quarter ended June 30

Test mining began at the Guitarra mine on July 1, 2024, and commercial production began on January 1, 2025, therefore, there is no comparative production-related information for certain prior periods.

A summary of the operational highlights for the Guitarra mine for the quarters ended June 30 and March 31, 2025, is as follows:

	Q2	Q1
Material processed (tonnes milled)	41,235	39,167
AgEq ounces produced *(i)*	168,535	159,223
Ag ounces produced	66,011	70,176
Au ounces produced	1,048	1,001
AgEq ounces sold *(ii)*	173,562	165,093
Ag ounces sold	65,683	75,137
Au ounces sold	1,096	1,022
Cash cost of production per tonne *(iii)*	$ 80.30	$ 75.24
Cash cost per AgEq ounce sold *(iii)*	$ 23.56	$ 23.08
All-in sustaining cash cost per AgEq ounce sold *(iii)*	$ 30.10	$ 28.98
Average realized price per AgEq ounce sold *(iii)*	$ 33.22	$ 31.68
Ag metal recovery (%)	76.62	79.21
Au metal recovery (%)	77.95	78.77

(i) AgEq ounces produced have been determined using a ratio of 97.86 Au:Ag for Q2 and 88.96 for Q1.

(ii) AgEq ounces sold have been determined using the actual Ag and Au prices obtained during the quarter. The determined ratio used was 98.43 Au:Ag for Q2 and 88.20 for Q1.

(iii) The Company reports non-GAAP measures, which include Cash Cost of Production per Tonne, Cash Cost per AgEq ounce sold, All-in Sustaining Cash Cost per AgEq ounce sold, Average Realized Price per AgEq ounce sold, and Adjusted EBITDA. These measures are widely used in the mining industry as a benchmark for performance, but do not have standardized meanings and may differ from methods used by other companies with similar descriptions. See "Non-GAAP and Other Financial Measures" section below for definitions and reconciliations to GAAP measures.

Results of Operations – Quarter ended June 30

The Company had income of $276 thousand for the quarter ended June 30, 2025, as compared to a loss of $1.98 million for the quarter ended June 30, 2024 ("Q2 2024"). A summary of the current and comparative losses is as follows:

	Q2 2025	Q2 2024
Revenues	$ 5,357,415	$ -
Cost of sales	(4,069,201)	-
Gross profit	1,288,214	-
Care and maintenance	-	349,401
Environmental	140,913	-
Financing costs	-	218,737
Foreign exchange (gain) loss	56,879	(207,388)
General and administrative	486,215	594,695
Interest expense	220,813	119,676
Provisional pricing adjustments	(399,582)	-
Share-based compensation	242,758	812,762
Other items	97,248	114,023
	845,244	2,001,906
Income (loss) before taxes	442,970	(2,001,906)
Income tax (expense) recovery	(166,810)	24,706
Income (loss) for the quarter	$ 276,160	$ (1,977,200)

Revenues

During Q2, the Company completed deliveries totalling 779.7 dry metric tonnes ("DMT") of silver/gold concentrates containing an estimated 65,683 ounces of silver and an estimated 1,096 ounces of gold. Silver revenues for Q2 totalled $2.18 million ($33.20 per ounce) and gold revenues totalled $3.59 million ($3,271 per ounce).

The Company receives advance payments from its customer, MRI Trading AG ("MRI"), on the deliveries and during Q2 collected $4.49 million on the provisional invoices issued to MRI and a further $361 thousand on final settlement. Subsequent to June 30, 2025, the Company collected $361 thousand on the provisional invoices issued to MRI during Q2, and a further $338 thousand on final settlement.

Revenue on provisionally priced sales is recognized based on estimates of the fair value of the consideration receivable based on forward market prices and estimated quantities at the date of each delivery. At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. At June 30, 2025, the Company assessed the marked to market adjustment of the provisional invoices outstanding at that date and has recorded a provisional pricing gain of approximately $400 thousand. This gain is not reported within revenues but rather within other income and expenses of the Company.

Revenues for the current quarter as compared to the prior quarter consisted of:

	Q2	Q1
Silver	$ 2,180,409	$ 2,338,666
Gold	3,585,516	2,891,585
	5,765,925	5,230,251
Smelting, treatment and refining costs	(408,510)	(389,009)
	$ 5,357,415	$ 4,841,242

Cost of sales

Cost of sales for the current quarter as compared to the prior quarter consisted of:

	Q2	Q1
Production costs		
Labour costs	$ 1,232,675	$ 1,062,523
Mine and plant maintenance	590,349	309,643
Consumables and materials	708,434	791,842
Contracted services	409,687	448,774
Energy	291,773	259,387
Insurance	72,895	74,936
Depreciation and deletion	475,613	267,277
Production inventory changes	56,420	179,572
	3,837,846	3,393,954
Other costs		
Transportation and other selling costs	82,155	78,699
Mine royalty expense	92,730	83,862
Production taxes	56,470	48,373
Cost of Sales	$ 4,069,201	$ 3,604,888
AgEq ounces sold *(i)*	173,562	165,093
Cost per AgEq ounce sold *(i)*	$ 23.45	$ 21.84

(i) AgEq ounces sold have been determined using the actual Ag and Au prices obtained during the quarter. The determined ratio used was 98.43 Au:Ag for Q2 and 88.20 for Q1.

Q2 cost of sales increased by $464 thousand as compared to Q1 with $208 thousand related to an increase in depreciation and depletion and the balance due to production cost increases. The increase in cost per AgEq ounce sold from Q1 to Q2 was related to lower silver ounces produced in the current quarter, the increase in depreciation and depletion, quarter on quarter, the impact of the strengthening of the MXN peso versus the US dollar on our MXN denominated mining costs, the impact of the rainy season in Mexico, and the ramp-up of operations at Coloso. The increase in depreciation and depletion is driven by a higher percentage of mineralized material mined from resources in the units-of-production depletion and depreciation of our mining interests and equipment.

We anticipate improved head grades of the mineralized material in the second half of 2025, resulting in increased production and a decrease in mining costs on a per-ounce basis going forward. The improved head grades are anticipated as we continue to complete development work and de-watering to access the anticipated higher-grade stopes in Guitarra and Coloso, as further described in the *Mineral Interests* section below.

Other expenses

Effective the end of Q2 2024, the care and maintenance ("C&M") phase of Guitarra was terminated and we entered into the test mining phase (the "Test Program"). As a result, effective July 1, 2024, we no longer reported further C&M expense.

Water treatment costs, which were reported within C&M up to June 30, 2024, have been reported within environmental since then and totalled $141 thousand in Q2.

The foreign exchange gains (losses) relate to movements in the CAD-USD and MXN-USD exchange rates. In Q2, the Mexican peso strengthened against the US dollar by approximately 8.4% while the Canadian dollar strengthened against the US dollar by approximately 5.2%. The exchange gains recognized due to the strengthening Canadian dollar on the USD denominated net monetary liabilities in the parent company were exceeded by the exchange losses recognized due to the strengthening MXN on the MXN denominated net monetary liabilities in the Mexican subsidiary.

Q2 general and administrative ("G&A") expenses were relatively consistent as compared to Q2 2024. The only significant change was that the Guitarra mine site-level G&A was recorded within consolidated G&A expense to the end of the Q2 2004 and then, upon commencing the Test Program in Q3 2024, as overheads charged to cost of goods sold, producing a decrease in G&A in 2025.

In Q2, the Company recorded interest expense of approximately $188 thousand (2024 - $113 thousand) on the $5 million loan advanced by First Majestic in May 2024. A total of $375 thousand in accrued interest was deferred during 2024 and is payable upon maturity of the loan.

The marked to market gain recorded in Q2 is described in the *Revenues* section above.

In Q2, the Company recognized $243 thousand (2024 - $813 thousand) in share-based compensation (a non-cash item), which is recognized over the vesting periods of the Company's stock option grants.

The Company reported $141 thousand in current income tax expense in the quarter (Q2 2024 - $nil) related to the extraordinary tax of 8.5% of the earnings of the Guitarra mine after certain allowable deductions. There is no current tax payable at the 30% Mexican tax rate for Guitarra, due to the application of previously unrecognized loss carry forwards.

Operational Highlights – Six-month period ended June 30

A summary of the operational highlights for the Guitarra mine for the six months ended June 30, 2025, is as follows:

	H1
Material processed (tonnes milled)	80,402
AgEq ounces produced *(i)*	327,758
Ag ounces produced	136,187
Au ounces produced	2,049
AgEq ounces sold *(ii)*	338,655
Ag ounces sold	139,419
Au ounces sold	2,118
Cash cost of production per tonne *(iii)*	$ 77.84
Cash cost per AgEq ounce sold *(iii)*	$ 23.32
All-in sustaining cash cost per AgEq ounce sold *(iii)*	$ 29.55
Average realized price per AgEq ounce sold *(iii)*	$ 32.47
Ag metal recovery (%)	77.92
Au metal recovery (%)	78.36

(i) AgEq ounces produced have been determined using a ratio of 93.49 Au:Ag.

(ii) AgEq ounces sold have been determined using the actual Ag and Au prices obtained during the period. The determined ratio used was 94.07 Au:Ag.

(iii) The Company reports non-GAAP measures, which include Cash Cost of Production per Tonne, Cash Cost per AgEq ounce sold, All-in Sustaining Cash Cost per AgEq ounce sold, Average Realized Price per AgEq ounce sold, and Adjusted EBITDA. These measures are widely used in the mining industry as a benchmark for performance, but do not have standardized meanings and may differ from methods used by other companies with similar descriptions. See "Non-GAAP and Other Financial Measures" section below for definitions and reconciliations to GAAP measures.

Results of Operations – Six-month periods ended June 30

The Company had income of $612 thousand for the six months ended June 30, 2025, as compared to a loss of $3.18 million for the six months ended June 30, 2024. A summary of the current and comparative losses is as follows:

	H1 2025	H1 2024
Revenues	$ 10,198,657	$ -
Cost of sales	(7,674,089)	-
Gross profit	2,524,568	-
Care and maintenance	-	903,094
Environmental	273,159	-
Financing costs	-	218,737
Foreign exchange gain	(7,186)	(158,467)
General and administrative	888,368	1,093,119
Interest expense	420,658	119,676
Provisional pricing adjustments	(519,227)	-
Share-based compensation	395,999	812,762
Other items	164,871	185,761
	1,616,642	3,174,682
Income (loss) before taxes	907,926	(3,174,682)
Income tax expense	(295,891)	(7,344)
Income (loss) for the period	$ 612,035	$ (3,182,026)

Revenues

During H1, the Company completed deliveries totalling 1,650.8 DMT of silver/gold concentrates containing an estimated 139,419 ounces of silver and an estimated 2,118 ounces of gold. Silver revenues for H1 totalled $4.52 million ($32.41 per ounce) and gold revenues totalled $6.48 million ($3,058 per ounce).

Revenue on provisionally priced sales is recognized based on estimates of the fair value of the consideration receivable based on forward market prices and estimated quantities at the date of each delivery. At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. During H1, the Company assessed the marked to market adjustment of the provisional invoices outstanding at that date and has recorded a provisional pricing gain of approximately $519 thousand. This gain is not reported within revenues but rather within other income and expenses of the Company.

Revenues for H1, consisted of:

	H1
Silver	$ 4,519,075
Gold	6,477,101
	10,996,176
Smelting, treatment and refining costs	(797,519)
	$ 10,198,657

Cost of sales for H1, consisted of:

	H1
Production costs	
Labour costs	$ 2,295,198
Mine and plant maintenance	899,992
Consumables and materials	1,500,276
Contracted services	858,461
Energy	551,160
Insurance	147,831
Depreciation and deletion	742,890
Production inventory changes	235,992
	7,231,800
Other costs	
Transportation and other selling costs	160,854
Mine royalty expense	176,592
Production taxes	104,843
Cost of Sales	$ 7,674,089
AgEq ounces sold *(i)*	338,655
Cost per AgEq ounce sold *(i)*	$ 22.66

(iv) AgEq ounces sold have been determined using the actual Ag and Au prices obtained during the period. The determined ratio used was 90.87 Au:Ag.

H1 cost of sales was $22.66 per AgEq ounce sold and is summarized in the above table with further detail provided in the quarterly cost of sales descriptions provided above.

We anticipate improved head grades of the mineralized material in the second half of 2025, resulting in increased production and a decrease in mining costs on a per-ounce basis going forward. The improved head grades are anticipated as we continue to complete development work and de-watering to access the anticipated higher-grade stopes in Guitarra and Coloso, as further described in the *Mineral Interests* section below.

Other expenses

Effective the end of Q2 2024, the C&M phase of Guitarra was terminated and we entered into the Test Program. As a result, effective July 1, 2024, we no longer reported further C&M expense.

Water treatment costs, which were reported within C&M up to June 30, 2024, have been reported within environmental since then and totalled $273 thousand in H1.

The foreign exchange gains (losses) relate to movements in the CAD-USD and MXN-USD exchange rates. In H1, the Mexican peso strengthened against the US dollar by approximately 10% while the Canadian dollar strengthened against the US dollar by approximately 5.1%. The exchange gains recognized due to the strengthening Canadian dollar on the USD denominated net monetary liabilities in the parent company slightly exceeded the exchange losses recognized due to the strengthening MXN on the MXN denominated net monetary liabilities in the Mexican subsidiary.

H1 G&A expenses were relatively consistent as compared to H1 2024. The only significant change was that the Guitarra mine site-level G&A was recorded within consolidated G&A expense to the end of the Q2 2004 and then, upon commencing the Test Program in Q3 2024, as overheads charged to cost of goods sold, producing a decrease in G&A in 2025.

In H1, the Company recorded interest expense of approximately $375 thousand (2024 - $113 thousand) on the $5 million loan advanced by First Majestic in May 2024. A total of $375 thousand in accrued interest was deferred during 2024 and is payable upon maturity of the loan.

The marked to market gain recorded in H1 is described in the H1 *Revenues* section above.

In H1, the Company recognized $396 thousand (2024 - $813 thousand) in share-based compensation (a non-cash item), which is recognized over the vesting periods of the Company's stock option grants.

The Company reported $264 thousand in current income tax expense in the period (H1 2024 - $nil) related to the extraordinary tax of 8.5% of the earnings of La Guitarra after certain allowable deductions. There is no current tax payable at the 30% Mexican tax rate for Guitarra, due to the application of previously unrecognized loss carry forwards.

Cash Flows

The main components of the Company's cash flows, for the six-month periods ended June 30, include the following:

	H1 2025	H1 2024
Income (loss) for the period	$ 638,054	$ (3,182,026)
Items not involving cash	1,117,695	794,971
Changes in non-cash working capital items	(757,232)	(782,742)
Cash provided by (used in) operating activities	998,517	(3,169,797)
Purchase of plant and equipment	(763,964)	(1,143,104)
Mine development costs	(112,880)	(1,313,802)
Exploration and evaluation expenditures	(362,493)	(384,907)
Cash used in investing activities	(1,239,337)	(2,841,813)
Shares issued on exercise of stock options	466,496	709,594
Proceeds from loans, net	-	5,000,000
Cash provided by financing activities	466,496	5,709,594
Increase (decrease) in cash position	$ 225,676	$ (302,016)

Cash provided by operating activities was $999 thousand for H1 and compares to cash used in operating activities of $3.17 million for H1 2024. This change is due primarily to the sale of concentrates, which began in the third quarter of 2024. Partially offsetting this improvement in cash flows was an increase of approximately $757 thousand in non-cash working capital items, which related to a significant increase in trade accounts receivable, and an increase in value-added tax ("VAT") receivable and trade payables in Mexico. The Company continues to work with its advisors and the Mexican tax authorities to access these VAT refunds as the continued delays in obtaining the VAT refunds

has been placing a strain on the Company's cash flows. During H1, the Mexican tax authorities began to approve our VAT refund filings and as a result we received approximately $309 thousand in refunds during H1.

Cash used in investing activities decreased by $1.60 million compared to H1 2024, due primarily to significant additions and major overhauls being made in the first six months of 2024 in preparation for commencing the Test Program. The current period includes cash of $764 thousand (H1 2024 - $1.14 million) used in acquiring mining and mobile equipment and refurbishing certain underground equipment, $113 thousand (H1 2024 – $1.31 million) used in mine development, and $362 thousand (H1 2024 – $385 thousand) used for exploration and evaluation ("E&E") activities, which includes capitalized concession fees.

Cash provided by financing activities for the current period consisted of $466 thousand received upon the exercise of stock options. During H1 2024, the Company closed a non-brokered private placement for net proceeds of approximately $710 thousand.

Quarterly Financial Data

Selected financial information set out below is based on and derives from the unaudited condensed consolidated interim financial statements of the Company for each of the quarters listed, which have been prepared in accordance with IFRS, as applicable to quarterly reporting:

	Jun. 30, 2025 (Q2) ($)	Mar. 31, 2025 (Q1) ($)	Dec. 31, 2024 (Q4) ($)	Sep. 30, 2024 (Q3) ($)	Jun. 30, 2024 (Q2) ($)	Mar. 31, 2024 (Q1) ($)	Dec 31, 2023 (Q4) ($)	Sep. 30, 2023 (Q3) ($)
Revenues	5,357,415	4,841,242	3,938,323	2,535,617	-	-	-	-
Gross profit	1,288,214	1,230,723	1,111,948	248,031	-	-	-	-
Care and maintenance expenses	-	-	-	-	349,401	553,693	657,197	794,937
Foreign exchange loss (gain)	56,879	(64,065)	(175,608)	52,302	(207,388)	48,921	168,091	242,452
Interest expense	220,813	199,845	191,469	55,250	28,350	-	-	-
Impairment	-	-	-	-	-	-	2,906,681	-
Income (loss) for the quarter	276,160	335,875	(37,936)	(947,092)	(1,885,874)	(1,204,826)	(4,695,897)	(1,840,393)
Total assets	37,714,506	36,182,560	34,891,015	34,479,382	33,931,187	30,226,383	30,478,627	39,672,959
Total non-current liabilities	8,817,414	8,710,461	8,431,885	8,249,918	7,929,490	2,935,772	2,949,152	8,093,548
Income (loss) per share – basic and diluted	0.00	0.00	(0.00)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)
Weighted average number of shares								
- basic	154,225,345	153,942,993	153,942,993	152,869,623	152,692,993	149,827,944	146,504,261	143,998,401
- diluted	155,576,337	154,295,653	153,942,993	152,869,623	152,692,993	149,827,944	146,504,261	143,998,401

Until June 2024, C&M costs were generally in the $700 thousand to $800 thousand range per quarter, including the semi-annual Mexican mining concession fees. The amount of the concession fees has increased from year to year, as each payment is based on the per-hectare rate and the foreign exchange rate in effect at the date of payment. The per-hectare rate is inflated once per year based on the published Mexican inflation rates. The base concession fees decreased by approximately $342 thousand per annum, commencing July 2023, as a result of an extensive review conducted by the Company on the Guitarra concessions, which resulted in a reduction from 39,714 hectares to 25,320 hectares. The concession fees are presently approximately $599 thousand per annum based on the per-hectare rate and foreign exchange rate in effect at July 2025.

Commencing July 1, 2023, the Company recommenced capitalizing the Guitarra concession fees to mine development and east district E&E. The general increase in 2023 reflects the impact of additional general C&M as the Company began to investigate the possibility of a re-start. Commencing in the third quarter of 2024, the C&M phase of the mine ended and we entered into the Test Program. As a result, effective July 1, 2024, we no longer reported C&M expense as these costs are captured within cost of sales and environmental expense, and we began expensing the concession fees directly related to the mining areas of Guitarra. The Company began receiving revenue from the sale of concentrate in the third quarter of 2024.

Foreign exchange gains and losses are driven by fluctuations from quarter to quarter in the USD-MXN exchange rate and in the net monetary assets or liabilities, which are denominated in MXN in the U.S. dollar functional Mexican subsidiary. Foreign exchange gains and losses are also driven by the USD denominated net liabilities in our Canadian dollar functional parent company.

The Company elected not to make the $250 thousand option payment due on the La Tigra property on June 21, 2023, notified the owner of the property, and requested negotiations to amend the option agreement. The Company was unsuccessful in re-negotiating the terms of the option agreement and accordingly the accumulated costs of $2.9 million were written-off in the fourth quarter of 2023 (see "*Contingency*").

The decrease in total assets in Q4 2023, reflects the replacement of the restricted cash with a bonded letter of credit (provided by First Majestic) and the impairment of the La Tigra property.

The decrease in non-current liabilities in Q4 2023 reflects the cancellation of the provision relating to the replacement of the restricted cash with a bonded letter of credit (provided by First Majestic).

Long-term liabilities increased in Q2 2024 due to First Majestic providing a $5 million senior secured project financing loan.

Financial Position and Liquidity

To December 31, 2024, the Company did not have profitable operations as the Guitarra mine was on care and maintenance from August 3, 2018, to June 30, 2024, when the Test Program commenced, and the Tepic property remained in the exploration and evaluation stage. Therefore, the Company has been subject to many risks common to comparable companies including a lack of revenues, under-capitalization, cash shortages, and limitations with respect to personnel, financial, and other resources. Without operating revenues, the Company was subject to liquidity risk and dependent upon meeting its future capital requirements through the issuance of capital stock, debt, or a combination thereof.

Beginning in July 2024, the Company began selling silver-gold concentrates and realizing regular revenues from the shipments of concentrates produced from its Test Program. Effective January 1, 2025, the Guitarra mine declared commercial production and while the Company is currently receiving regular ongoing revenues, the establishment of commercial production is at an early stage, and continuing revenues are subject to the many risks inherent in a mining operation (see "*Risk Factors"*). While the Company expects that revenues from operations will continue to cover its mining and operating costs, profitable operations are not assured, and the Company may continue to be subject to liquidity risk and dependent upon meeting its future capital requirements through the issuance of capital stock, debt, or a combination thereof.

The Company's cash position increased from $452 thousand as at December 31, 2024 to $710 thousand as at June 30, 2025 as a result of the $999 thousand of cash provided by operating activities and $466 thousand provided by financing activities exceeding the $1.24 million used in investing activities as detailed above.

The Company's working capital position (current assets less current liabilities) increased from $2.02 million as at December 31, 2024 to $3.26 million as at June 30, 2025. Although the Company's current liabilities increased by approximately $1.16 million, this was more than offset by the $794 thousand net increase in VAT receivable ($1.10 million increase less $309 thousand collected), and the $929 thousand increase in trade receivables from MRI on the concentrate sales.

With the closing of the C$19.5 million equity financing completed in July 2025, the proceeds of concentrate sales to date, the expected ongoing revenues from concentrate sales in 2025, and the expectation of additional VAT refunds, the Company has concluded that its current working capital, together with its anticipated cash flows from commercial production at Guitarra, are sufficient to cover its present obligations and planned expenditures for at least twelve months commencing June 30, 2025.

Financial Instruments

The Company's financial instruments include cash, trade receivables, accounts payable, and payroll and payroll withholding taxes payable, which are measured at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company's loan payable is measured at amortized cost. The loan is at a fixed rate of interest and therefore not subject to fluctuations in market rates of interest.

Cash of $710,481 (December 31, 2024 - $452,081) is held through current operating and savings bank accounts with major Canadian financial institutions with high investment grade ratings and through major banks in Mexico, which also have high investment grade ratings.

Capital Resources and Commitments

The Company has ongoing cash requirements to meet its operating costs, overhead, and capital expenditures. The capital requirements of the Company have typically been met by equity and debt financings. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

On May 8, 2024, the Company received $5 million under a senior secured project financing loan from First Majestic, bearing interest at 15% per annum and due in full in 24 months. Interest for the first six months is not payable until the maturity of the loan. Monthly interest payments on the loan commenced after the first six months. There are no early payment penalties. In May 2025, the loan was extended by an additional twelve months with all other terms of the agreement remaining unchanged. First Majestic is the former parent of La Guitarra and a significant shareholder of the Company.

In July 2025, the Company completed a brokered private placement by issuing 27,858,000 units at a price of CAD$0.70 per unit for gross proceeds of CAD$19,500,600. Each unit consisted of one common share of the Company and one-half of one share purchase warrant with each whole warrant entitling the holder to acquire one additional common share at a price of CAD$0.85 per share for a period of twelve months from the date of closing. The Company paid CAD$1,233,183 in commissions and a CAD$26,500 corporate finance fee to the agents. In addition, the Company issued 1,799,700 agents' compensation options allowing the agents to purchase up to 1,799,700 common shares of the Company at a price of CAD$0.70 for a period of twelve months from the date of closing.

As detailed above in *Financial Instruments*, management estimates that it has sufficient working capital for at least twelve months commencing June 30, 2025.

Outstanding Share Data

A summary of the Company's outstanding equity instruments follows:

	August 20, 2025	June 30, 2025	December 31, 2024
Shares issued and outstanding	183,292,326	155,219,326	153,942,993
Outstanding stock options	14,672,000	12,160,333	12,610,000
Outstanding agents' compensation options	1,799,700	-	444,949
Outstanding share purchase warrants	13,929,000	-	-
Diluted shares outstanding	213,693,026	167,379,659	166,997,942

During the current six-month period, 1,276,333 stock options were exercised, 40,000 options were forfeited prior to vesting, 83,334 options expired, 444,949 agents' compensation options expired, and the Company granted 950,000 additional stock options.

Subsequent to June 30, 2025, the Company completed a non-brokered private placement by issuing 27,858,000 common shares, 13,929,000 share purchase warrants, and 1,799,700 agents' compensation options. In addition, the Company granted 2,750,000 stock options; 215,000 options were exercised and 23,333 options expired.

Note 9 to the Company's June 30, 2025, condensed consolidated interim financial statements provides additional details regarding share capital and stock option activity for the period.

Related Party Transactions and Key Management Compensation

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes directors and officers. The compensation paid or payable to key management and parties related to them for the six-month periods ended June 30 is as follows:

		2025		2024
Accounting	$	63,852	$	55,209
Administration		45,000		45,000
Director fees		32,636		33,861
Geological		15,963		16,563
Management fees		242,639		207,584
	$	400,090	$	358,217

In addition, the Company recorded share-based compensation of $108 thousand (2024 - $363 thousand), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model.

The Company has a project financing loan with First Majestic. The principal balance of the loan as at June 30, 2025 was $5 million and deferred accrued interest totalled $375 thousand. During the period, the Company paid or accrued $375 thousand (2024 - $113 thousand) of interest on this loan. First Majestic is the former parent of La Guitarra and a significant shareholder of the Company.

Contingency

In June 2021, a Mexican subsidiary of the Company entered into an agreement pursuant to which it obtained the right to explore and the option to acquire an interest in the La Tigra project located in Nayarit, Mexico. During 2023, the Company's subsidiary notified the owner of the property and requested negotiations to amend the option agreement. The Company was unsuccessful in re-negotiating the terms of the option agreement and accordingly the accumulated costs of $2,906,681 were written-off in the year ended December 31, 2023.

During the current period, the Company's subsidiary received notification that the optionor of the La Tigra property is suing the subsidiary for outstanding payments totalling $625,000, which the optionor alleges were not made in accordance with the agreement. The Company disagrees with the optionors interpretation of the events leading up to this allegation and intends to defend its position vigorously.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements at June 30, 2025, or as at the date of this report.

Proposed Transactions

The Company had no proposed transactions at June 30, 2025, or as at the date of this report.

Changes in Accounting Policies

The material accounting policies of the Company are disclosed in Note 2 to the Company's December 31, 2024 audited consolidated financial statements. The Company has not adopted any new accounting policies or amendments since December 31, 2024.

Critical Accounting Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates. The Company's most significant accounting judgements relate to: going concern, impairment indicators for its mining interests, exploration and evaluation assets, and plant and equipment, the determination of when an asset is ready for its intended use, determining decommissioning liabilities, the determination of its functional currency, share-based compensation assumptions, and deferred tax asset recognition.

The condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management assesses the Company's ability to continue as a going concern at each reporting date

using all available information. This assessment, by its nature, relies on assumptions and estimates of future cash flows and other events, whose subsequent changes could materially affect the validity of these estimates and assumptions.

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's plant and equipment and mining interests are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its plant and equipment and mining interests. Internal sources of information management consider include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

Management has determined that acquisition, exploratory drilling, evaluation, development and related costs incurred which were capitalized have potential future economic benefits and are potentially economically recoverable, subject to impairment analysis. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Mineral reserve and resource estimates affect the determination of recoverable value used in impairment assessments and the amortization rates for non-current assets using the units of production method. The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101 ("NI 43-101") Technical Report standards. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control.

Such estimation is a subjective process and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgements used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position, results of operation and cash flows.

The Company's decommissioning liability represents management's best estimate of the present value of the future cash outflows required to settle the liability. Management assesses these provisions on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, inflation, and the impact of changes in discount rates, interest rates and foreign exchange rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

Once an asset reaches the level of operation intended by management (referred to as "Commercial Production"), depletion and depreciation of the related asset commences, and the capitalization of interest terminates. Significant judgement is required to determine when certain assets of the Company reach this level. Management considers several factors including the completion of a reasonable period of commissioning, and whether consistent operating results are being achieved at a predetermined level of design capacity. The Company began Test Program at the mine in late June 2024, and based upon the test-mining results in the period to December 31, 2024, concluded that the mine and the mill had consistently achieved the established criteria. Accordingly, the Company concluded that Commercial Production had been achieved effective January 1, 2025.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of the Company, and all of its subsidiaries, except La Guitarra, is the Canadian dollar. The functional currency of La Guitarra is the U.S. dollar. While transactions conducted in Mexico are typically denominated in either the Mexican peso or the U.S. dollar, the Company is generating significant revenues from concentrate sales, which are denominated in U.S. dollars.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of options and warrants, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares and the expected life and forfeiture rate of the security. Changes in these subjective input assumptions can materially affect the fair value estimate.

The Company has not recognized its deferred tax assets as management does not currently consider it more likely than not that these assets will be recovered.

Risk Management

The Company is exposed to various financial risks as detailed below:

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's primary credit risk is associated with its cash balances, which are held through major Canadian and Mexican financial institutions with high investment grade ratings, and its trade receivables. Concentrate contracts are a common business practice in the mining industry. The terms of the concentrate contracts may require the Company to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing the Company to credit risk of the buyers of its concentrate. Should this counterparty not honour the purchase arrangement, or should it become insolvent, the Company may incur losses for products already shipped and be forced to sell its concentrate on the spot market or it may not have a market for its concentrate and therefore its future operating results may be materially adversely impacted. At June 30, 2025, the Company had a receivable balance associated with the buyer of its concentrate of $1,215,536 (December 31, 2024 - $286,469). All of the Company's concentrate is sold to a well-known concentrate buyer. The carrying value of the Company's cash and trade receivables totalling $1,926,017 represents the Company's maximum exposure to credit risk at June 30, 2025 (December 31, 2024 - $748,087).

Management continually monitors and assesses the credit risk resulting from its concentrate sales and its trading counterparty. Except as noted above, the Company believes it is not exposed to significant credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in exchange rates.

The Company presents its financial statements in U.S. dollars; however, the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to local currencies. Since the Company's sales are denominated in U.S. dollars and a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the U.S. dollar and positively impacted by the inverse.

At June 30, 2025, the Company carried cash and accounts payable balances denominated in Mexican pesos and U.S. dollars in the Canadian dollar functional entities, which are subject to currency risk due to fluctuations in the exchange rates with the Canadian dollar. Due to the volatility of the exchange rates between the Canadian dollar, the peso, and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's net monetary liabilities denominated in U.S. dollars in the Canadian dollar functional entity at June 30, 2025, a 5% increase in the number of Canadian dollars required to buy a U.S. dollar would result in a loss of approximately $250,000 and a 5% decrease would have the inverse effect.

At June 30, 2025, the Company carried cash, value added taxes receivable, accounts payable and payroll provision balances denominated in Mexican pesos in the U.S. dollar functional entity, which are subject to currency risk due to fluctuations in the exchange rates with the U.S. dollar. Due to the volatility of the exchange rates between the Mexican peso and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's net monetary liabilities denominated in Mexican pesos in the U.S. dollar functional entity at June 30, 2025, a 10% decrease in the number of Mexican pesos required to buy a U.S. dollar would result in a loss of approximately $233 thousand and a 10% increase would have the converse effect.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash, and its committed loan facilities. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and commitments on an undiscounted basis as at June 30, 2025:

	< 1 year	1-2 years	2-5 years	< 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	2,359,387	-	-	-	2,359,387
Loan payable	-	5,375,000	-	-	5,375,000
Lease liabilities	7,705	-	-	-	7,705
Commitments	596,099	-	-	-	596,099
	2,963,191	5,375,000	-	-	8,338,191

The Company's capital requirements have typically been met through equity and debt financings. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company's working capital (current assets less current liabilities) at June 30, 2025 was $3.26 million. The Company estimates that with the closing of the CAD$19.5 million financing after period end, the current cash reserves, and planned operating results will provide sufficient working capital for its present obligations and planned activities for at least twelve months commencing June 30, 2025.

Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. The Company holds cash and cash equivalents, which earn nominal rates of interest. The Company does not consider its interest rate risk in respect of these instruments to be material. The Company's loan payable is at a fixed rate of interest and therefore not subject to the risk of fluctuations in market rates of interest.

Price risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company's revenue derives from the sale of silver and gold concentrate. The Company's sales are directly dependent on metal prices that have shown significant volatility and are beyond the Company's control. Consistent with the Company's mission to provide equity investors with exposure to changes in precious metal prices, the Company's current policy is to not hedge the price of silver and gold.

MINERAL INTERESTS

La Guitarra

The Guitarra silver-gold mine is located in the historic Temascaltepec mining district in the municipalities of Temascaltepec, San Simón de Guerrero and Valle de Bravo, Estado de México, México.

On March 29, 2023, the Company completed the acquisition of La Guitarra from First Majestic.

Starting in January of 2023, a district-wide 1:2,000 geologic mapping program was begun starting in the eastern portion of the Temascaltepec mining district and transitioning to the West district including the Guitarra mine area. This mapping program identified over 53 kilometres of variably mineralized quartz veins, breccias, and stockwork zones along with numerous historic workings. Data derived from this work also allowed the Property size to be reduced from 39,714 hectares to 25,320 hectares for a significant savings in project holding costs.

Concurrent with the mapping program, an audit of the La Guitarra drill hole database commenced. The database contains over 236,500 meters of drilling and channel samples in 1,408 holes. The database was checked to historic hard copy and electronic files and appended where necessary. This work together with geologic modeling was used by TechSer Mining Consultants Ltd. ("TechSer") of Vancouver B.C. to prepare an updated, independent Mineral Resource Estimate prepared in accordance with NI 43-101 Standards of Disclosure for Mineral Projects and completed by David Thomas, P.Geo. and QP Geology, and Cristian Garcia, P.Eng. and QP Mining.

The following summarizes the estimated project-wide resources:

Class	Tonnes	AgEq (g/t)	Ag (g/t)	Au (g/t)	AgEq Ozs	Ag Ozs	Au Ozs
Indicated	3,842,000	220	146	0.96	27,207,000	18,073,000	118,000
Inferred	4,105,000	153	113	0.52	20,199,000	14,937,000	68,000

Notes for Mineral Resource Estimate:

1. *Canadian Institute of Mining Metallurgy and Petroleum* ("CIM") definition standards were followed for the resource estimate.
2. The 2023 resource models used nominal cutoff grades which are based on mining and milling costs of US$50 for cut and fill mining, US$38 per tonne for long-hole.
3. A net payable recovery of 70% (historical plant recovery plus an allowance for smelter deductions, refining costs, and concentrate transportation).
4. Silver price of US$22 and a gold price of $1700 and a Gold Silver Ratio of 77.27:1.
5. Assays were capped at 825 g/t for silver and 6.55 g/t for gold.
6. Variable cut-off by deposit:
    a. Nazareno and Coloso - Block Model 135 AgEq cut-off grade (COG) and a 1 m Minimum True Thickness;
    b. Guitarra – Polygonals Estimates 135 g/t AgEq COG and a 1 m Minimum Horizontal Width;
    c. Los Angeles - Block Model Long Hole Mining 90 g/t AgEq COG;
    d. Mina De Agua - East District Polygonal Estimate 135 g/t AgEq COG or 90 g/t AgEq COG and > 2 m Horizontal Width;
    e. The tailings used a 30 g/t AgEq COG.
7. Mineral Resources that are not mineral reserves do not have economic viability.
8. Numbers may not add due to rounding.
9. *The estimate of mineral resources may be materially affected by: metal prices and exchange rate assumptions; changes in local interpretations of mineralization geometry and continuity; changes to grade capping, density and domain assignments; changes to geotechnical, mining and metallurgical recovery assumptions; ability to maintain environmental and other regulatory permits and ability to maintain the social license to operate.*
10. The 2023 Mineral Resource Estimate for the La Guitarra Project summarized here is from the technical report titled "NI 43-101 La Guitarra Technical Report, La Guitarra Mineral Resource Estimate, Guitarra Silver-Gold Project, Temascaltepec, Estado de Mexico" with an effective date of October 24, 2023, which was prepared for Sierra Madre Gold and Silver by Dave Thomas, P. Geo., and Cristian Garcia, P.Eng. of TechSer Mining Consultants Ltd. in accordance with NI 43-101 and is available under Sierra Madre's SEDAR+ profile at www.sedarplus.ca"www.sedarplus.ca. David Thomas and Cristian Garcia are independent qualified person ("QP's") as defined by National Instrument 43-101.

Following an assessment of the processing plant and available equipment, the Company made the decision to restart production earlier than originally planned. The fact that First Majestic had kept all environmental operating permits current and in good standing significantly contributed to this decision.

Beginning in September of 2023, the Company undertook a complete overhaul of the processing plant and existing mining equipment. A maintenance crew of mechanics and plant operators were hired, many of whom had previously worked at Guitarra. Their familiarity with the processing plant and mining equipment greatly aided the program. Plant and mining equipment was serviced, rebuilt and where necessary replaced. New equipment was purchased where necessary.

On June 25, 2024, the Company commenced the restart Test Program at Guitarra, which had two main components; the underground mine and the plant. In order for the asset to be functioning in the manner intended by management, both components needed to be functional in an integrated manner.

On January 9, 2025, the Company declared full commercial production had been achieved effective January 1, 2025. In Q1 2025, 41,166 DMT were delivered to the plant with average recoveries of 79% for silver and 78% for gold. In Q2 2025, 41,235 tonnes were processed with average recoveries of 77% for silver, 78% for gold. Recoveries were lower than historical averages due primarily to the processing of old mineralized back fill and dumps. During the last two years of First Majestic operations, when similar material was being processed, recoveries averaged 78% silver and 77% gold.

Currently, the identified capacities and expansion choke points in the four circuits making up the processing plant are:

- Crushing - 640 tonnes per day; second cone crusher needed for future expanded capacity;
- Grinding - 516 tonnes per day; a new ball mill will be needed for future additional throughput;
- Flotation - 620 tonnes per day plus an additional 580 tonnes per day; conditioner tank needs replumbing, flotation tanks have a total joint 1,200 tonnes per day capacity with some physical re-arrangement; and
- Concentrate Filtration and Drying - 31 tonnes of concentrate per day, assuming the historical mass reduction ratio of 100:5 tonnes processed to tonnes of concentrate produced; this equates to approximately 620 tonnes of ore per day: the capacity of the concentrate filters is the limiting factor in this circuit.

Geologic mapping and sampling in the new development drives has resulted in a reinterpretation of the Guitarra mineralized system. In the San Rafeal portion of the mine, the deepest mine area, this work has thus shown the Doncellas vein system consists of not one but three separate veins. Sampling has shown all three host economically interesting mineralization. As previously reported, in the upper portion of the Guitarra central area the Doncellas system has been found to consist of two separate veins both of which have been producing mill feed. A new access ramp. in the deeper portion of the central area, intended for exploiting resources in the main Guitarra vein, has exposed both a new segment of the Guitarra Perdida vein containing economically interesting mineralization and the presence of the Doncellas system showing a continuation of the two veins currently being mined above at depth. As a result, much of the current mill feed from stopes is not contained within veins in the 2023 NI 43-101 La Guitarra Resource Estimate.

At the end of Q1 2025, the Company made the decision to begin work to re-start production at the Coloso mine, seven months earlier than originally planned. The estimated grades of the Coloso resource are 1.7 times higher in silver, and 1.2 higher in gold. Indicated Resources at Coloso are 432,000 tonnes grading 221 g/t silver and 1.67 g/t gold and at Guitarra of 1,649,000 tonnes grading 123 g/t silver and 1.25 g/t gold (please refer to the NI 43-101 La Guitarra Resource Estimate for details). In April 2025, mineralized material from the first stope on the Jessica vein was brought into production. During the three months of Q2 2025, 649 tonnes of mineralized material were produced from Coloso. Production was substantially below the mine plan, hampered by both production sequencing and the decision to devote more resources to bring additional stopes into production. More production areas will smooth out the production profile and improve equipment and manpower efficiencies. Subsequent to the end of the quarter, a total of 576 tonnes were produced in July, a marked improvement due to the additional production areas.

Additional information on La Guitarra can be found in the Information Circular dated November 9, 2022, under "Information Concerning the Property". The related complete technical report is filed under the Company's profile on the SEDAR+ website at www.sedarplus.ca.

Tepic

The Tepic project is located approximately 27 km south-southeast of the city of Tepic, the capital of the State of Nayarit, Mexico. The project consists of five mining concessions totaling 2,612.5 hectares.

In December 2017, the Company entered into an agreement providing it with the option to purchase a 100% interest in the Tepic project located in Nayarit, Mexico. Subsequently, the Company fulfilled all of the requirements under the agreement to the point of exercising its option and following a recently concluded court hearing in Mexico, the concessions were transferred to the Company on an unencumbered basis. The Company is currently investigating the impact of the court settlement on the final payment and NSR components of the December 2017 agreement.

During 2022, a Phase-2 drill program of 28 holes was completed. In the second half of 2022 and into the first quarter of 2023, community relations efforts continued and the exploration work consisting of geological mapping, rock sampling, trenching, and surveying, mapping, and sampling of historic workings. On August 15, 2023, the Company released drill results on a further six holes from the 2022 drill program. During the second quarter of 2023, the geological team conducting the exploration programs at Tepic was transferred to the Guitarra site. It is expected that expenditures at Tepic will be significantly reduced for the near term, as the focus of efforts and resources remains on Guitarra. However, the Company currently plans to return to Tepic as soon as our staffing and funding allocations allow.

Risk Factors

Investment in securities of the Company should be considered speculative due to the high-risk nature of the Company's business and the present stage of the Company's development. There is no assurance that the Company's exploration activities will result in the discovery of an economically viable mineral deposit at the Tepic or Guitarra properties and there is no assurance that the operations at the Guitarra mine will continue to be profitable. The Company's activities are subject to the risks normally encountered in the mining and exploration industry. Readers are strongly encouraged to review in detail the identified operational and financial risks as presented in the Company's 2024 annual MD&A. The risk factors described therein are not exhaustive and there may be additional risks that we are currently not aware of or are not currently considered material to our operations. Such risks could materially affect the Company's future cash flows, earnings, results of operations, and financial condition. Accordingly, actual results and events could differ materially from those described in forward-looking statements and forward-looking information.

Non-GAAP and other Financial Measures

The Company has included certain non-GAAP performance measures throughout this MD&A, including Cash Cost per AgEq Ounce Sold, Cash Cost of Production per Tonne, All-in Sustaining Cash Cost ("AISC") per AgEq Ounce Sold, Average Realized Price per AgEq Ounce Sold, and Adjusted EBITDA each as defined in this section.

These performance measures are employed by the Company to measure its operating and financial performance internally, to assist in business decision-making, and provide key performance information to senior management. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors and other stakeholders also use these non-GAAP measures as information to evaluate the Company's operating and financial performance.

As there are no standardized methods of calculating these non-GAAP measures, the Company's methods may differ from those used by others and, accordingly, the Company's use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

<u>Cash Cost per AgEq Ounce Sold, All-in Sustaining Cash Cost ("AISC") per AgEq Ounce Sold, and Cash Cost of Production per Tonne</u>

The non-GAAP measures of cash cost per AgEq ounce sold and cash cost of production per tonne are used by the Company to manage and evaluate operating performance at respective mining operations and are widely reported in the silver mining industry as benchmarks for performance, but do not have a standardized meaning. Cash costs are calculated based on the cash operating costs at our mining operation and, in the case of cash cost per AgEq ounce sold, also include the third party concentrate treatment, smelting and refining cost. Management of the Company believes that the Company's ability to control the cash cost per AgEq ounce produced and cash cost of production per tonne are two of its key performance drivers impacting both the Company's financial condition and results of operations. Having a low cash cost of production per tonne, when taken in connection with effective management of mining dilution, will improve the cash cost per AgEq ounce produced. Having a low-cost base per AgEq ounce of production allows the Company to continue operating during times of declining commodity prices and provides more flexibility in responding to changing market conditions. In addition, low-cost operations offer a better opportunity to generate positive cash-flows, which improves the Company's financial condition. The Company believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and are relevant metrics used to understand the Company's operating profitability and ability to generate cash-flow.

AISC is a non-IFRS measure and was calculated based on guidance provided by the World Gold Council ("WGC") in September 2013. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures. AISC is a more comprehensive measure than cash cost per ounce for the Company's operating performance by providing greater visibility, comparability and representation of the total costs associated with producing Ag from our mining operation. The Company defines sustaining capital expenditures as, "costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements." Consolidated AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company

includes sustaining capital expenditures, corporate general and administrative expense, environmental costs, community relations costs, and reclamation cost accretion.

To facilitate a better understanding of these measures as calculated by the Company, the following table provides a detailed reconciliation between the cash cost of production per tonne, cash cost per AgEq ounce sold, and the Company's operating expenses as reported in the Company's consolidated statements of income (loss) and comprehensive income (loss) contained in or derived from the respective financial statements for the referenced periods.

	Q2 2025 $	Q1 2025 $
Cost of sales	4,069,201	3,604,888
Depreciation and depletion	(475,613)	(267,277)
Transportation and selling	(76,524)	(78,699)
Mine royalty expense	(92,730)	(83,862)
Production taxes	(56,470)	(48,373)
Inventory change	(56,578)	(179,572)
Cash cost of production (A)	3,311,286	2,947,105
Cost of sales	4,069,201	3,604,888
Concentrate treatment, smelting, and refining cost	408,510	389,009
General and administrative expenses, mine-site	86,928	83,269
Depreciation and depletion	(475,613)	(267,277)
Cash cost of AgEq sold (B)	4,089,026	3,809,889
Sustaining capital expenditures	425,976	432,952
Environmental costs	140,913	132,246
Community relations	28,345	24,463
General and administrative expenses, head office	482,556	318,884
Accretion of decommissioning and retirement provision	56,830	65,341
All-in sustaining cash cost (C)	5,223,646	4,783,775
Materials processed (tonnes milled) (D)	41,235	39,167
AgEq ounces sold (E)	173,562	165,093
Cash cost per AgEq ounce sold (B/E)	$ 23.56	$ 23.08
All-in sustaining cash cost per AgEq ounce sold (C/E)	$ 30.10	$ 28.98
Cash cost of production per tonne (A/D)	$ 80.30	$ 75.24

Average Realized Price per AgEq Ounce Sold

Revenues are presented as the sum of invoiced revenues related to delivered shipments of silver and gold concentrates, after having deducted treatment, smelting and refining charges.

The following is an analysis of the gross revenues prior to treatment, smelting and refining charges, and shows deducted treatment, smelting and refining charges to arrive at the net reportable revenue for the period under IFRS. Gross revenues are divided by silver equivalent ounces sold to calculate the average realized price per AgEq ounce sold.

Average realized price per AgEq ounce sold is as follows:

	Q2 $	Q1 $
Revenues	5,357,415	4,841,242
Add back: Treatment, refining, and smelter charges	408,510	389,009
Gross revenues	5,765,925	5,230,251
AgEq ounces sold	173,562	165,093
Average realized price per ounce of AgEq sold	33.22	31.68
Average market price of silver per London Silver Fix	33.64	31.91

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure in which net income is adjusted for income tax expense, finance and other income, interest expense, amortization, accretion and depletion, foreign exchange gains or losses, share-based compensation, and other non-recurring items, if any. Foreign exchange gains or losses may consist of both realized and unrealized losses. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments are in respect of the granting of stock options and can involve the recognition of significant expense amounts that are estimated using an option-pricing model and will not be settled in cash. Once a stock option is exercised, the Company issues shares in exchange for cash based on the exercise price of the options. The Company discloses Adjusted EBITDA to aid in understanding of the results of the Company and is meant to provide further information about the Company's financial results to investors. The following table provides a reconciliation of Adjusted EBITDA:

	Q2 $	Q1 $
Income (loss) for the period	276,160	335,875
Add (deduct):		
Income taxes	166,810	129,081
Finance and other income	(38,908)	(23,625)
Interest expense	220,813	199,845
Amortization, accretion and depletion	536,098	336,217
Foreign exchange losses (gains)	56,879	(64,065)
Share-based compensation	242,758	153,241
Adjusted EBITDA for the period	1,460,610	1,066,569

Working Capital

The Company also discloses working capital, which is defined herein as current assets less current liabilities.

Cautionary Note

This document contains "forward-looking information" which includes, but is not limited to, statements with respect to the re-start and maintenance of production at the mine, future price of metals, historical estimates of mineralization, capital expenditures, success of exploration activities, permitting time lines, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage, the completion of regulatory approvals. In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". In making statements containing forward looking information, the Company has applied certain factors and assumptions that it believes are reasonable, including that there is no material deterioration in general business and economic conditions; that the supply and demand for, deliveries of, and the level and volatility of prices of the Company's primary metals and minerals develop as expected; that the concessions for its current and future mineral properties are renewed and maintained in good standing; that the Company receives regulatory and governmental approvals for its mineral properties and any required operating permits on a timely basis; that the Company is able to obtain financing for the maintenance and development of its mining operations at Guitarra on reasonable terms; that the Company is able to procure equipment and supplies in sufficient quantities and on a timely basis; that any operational timetables for the Guitarra mine and the related capital cost plans are not incorrectly estimated or affected by unforeseen circumstances; that exploration timetables and capital costs for the Company's exploration plans are not incorrectly estimated or affected by unforeseen circumstances; that any environmental and other proceedings or disputes are satisfactorily resolved; and that the Company maintain its ongoing relations with the other parties to the surface rights agreements on the Guitarra property and that the Company maintains its ongoing relations with the other parties to the option agreement on the Tepic property. However, statements containing forward-looking information involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors may include, among others, the actual timing and capital costs related to maintaining mining activities at Guitarra; actual results of current exploration activities; future metal prices; accidents, labour disputes and other risks of the mining industry; the risk that the concessions and operating permits for the Guitarra property are not renewed; delays in obtaining governmental or regulatory approvals or financing for the current mining and exploration activities; and that the concessions for the Tepic and/or Guitarra properties are not renewed. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Approval

The Board of Directors of the Company has approved the disclosure contained in this Interim MD&A, a copy of which will be provided to any interested parties upon request.

Respectfully submitted,
On Behalf of the Board of Directors

"Alexander Langer"

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Alexander Langer, President & CEO