

# **CAPITAN SILVER CORP.**

(formerly Capitan Mining Inc.)

## **Management's Discussion and Analysis**

**For the Nine Months Ended June 30, 2023**

## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") is an overview of the activities of Capitan Silver Corp. (the "Company" or "Capitan"), formerly Capitan Mining Inc. for the period ended June 30, 2023. The MD&A is intended to help the reader understand the Company's operations, financial performance and present and future business environment. The MD&A should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the nine months ended June 30, 2023, the audited consolidated financial statements and related notes thereto of the Company for the year ended September 30, 2022, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), and the annual Management Discussion and Analysis ("MD&A") for the year ended September 30, 2022 of the Company. All amounts are stated in Canadian dollars.

The date of this MD&A is August 25, 2023.

The Company's management is responsible for presentation and preparation of the financial statements and the MD&A. The condensed interim consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC")

The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.

The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol CAPT.

### ***Forward-Looking Statements***

Information set forth in this MD&A may involve forward-looking statements under applicable securities laws. Forward-looking statements are statements that relate to future, not past, events. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as "anticipate", "believe", "plan", "estimate", "expect", and "intend", statements that an action or event "may", "might", "could", "should", or "will" be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the size and timing of future exploration on and the development of the Company's properties are forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; operational risks associated with mineral exploration; fluctuations in commodity prices; title matters; environmental liability claims and insurance; reliance on key personnel; the volatility of our common share price and volume and other reports and filings with the TSX Venture Exchange and applicable Canadian securities regulations. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date that statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable securities laws. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR+ with the Canadian regulatory agencies to whose policies the Company is bound. Investors are cautioned against attributing undue certainty to forward-looking statements.

The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR+ ([www.sedarplus.ca](http://www.sedarplus.ca)).

## **DESCRIPTION OF BUSINESS AND OVERVIEW**

Capitan Silver Corp., formerly Capitan Mining Inc., was incorporated on October 30, 2019 to focus on the exploration and development of gold-silver projects with an emphasis on projects throughout Mexico. The head office and principal address of the Company is suite 550 - 800 West Pender Street, Vancouver, British Columbia, Canada V6C 2V6.

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Capitan was as part of a plan of arrangement (the “Arrangement”) to reorganize Riverside Resources Inc (“Riverside”). On April 1, 2020, Riverside received shareholder approval for a strategic reorganization of its exploration business. In connection with the reorganization, the Company completed the acquisition of its interest in the Cruz de Plata Property (previously known as the Peñoles Property) for \$3,500,000 to be paid by issuing 17,500,000 common shares to Riverside. Riverside would then complete a share capital reorganization whereby it will spin-out the Company’s shares to Riverside’s shareholders. On August 14, 2020, Riverside completed the Arrangement to spin out the shares of Capitan to the shareholders of Riverside. Capitan and its shareholders hold 100% interest of the gold-silver resource at the Cruz de Plata Property. Pursuant to the Arrangement, holders of common shares of Riverside received one new common share of Riverside (each, a "Riverside Share") and 0.2594 of a Capitan share (each, a "Capitan Share") for each common share held. The fair value of consideration paid pursuant to the Plan of Arrangement consisted of 17,500,000 Capitan’s common shares with a value of \$3,500,000 and was allocated to the Cruz de Plata Property.

On August 21, 2020, the Company was listed on the TSX Venture Exchange under the symbol CAPT.

With respect to the exploration property, management of Capitan considers the Cruz de Plata property to be material for the purposes of National Instrument 43-101 – Standards for Disclosure of Mineral Projects. Further information about the Cruz de Plata property can be found in the 43-101 Technical Report for the Cruz de Plata property, which is available under Capitan Silver Corp. on [www.sedarplus.ca](http://www.sedarplus.ca).

## **HIGHLIGHTS OF EVENTS OCCURRING DURING AND SUBSEQUENT TO JUNE 30, 2023**

On November 2, 2022, the Company completed a non-brokered private placement, issuing 16,000,000 common shares at \$0.20 each raising gross proceeds of \$3,200,000. There was no finder’s fee paid on this private placement.

On November 28, 2022, the Company executed an option agreement with Minera Fresnillo S. A. de C. V. (a wholly owned subsidiary of Fresnillo plc) (“Minera”), to acquire a 100% interest for certain mineral concessions at the Cruz de Plata Project.

The terms of the option agreement include the right to explore and an option to acquire 100% interest in the mineral concessions for total payable amount of US\$1,000,000 over the three-year period. In the event the Company acquires 100% interest, Minera will maintain a 1% NSR which the Company can buy-back for US\$1,000,000.

The transaction details as below:

| <b>Due date</b>                                                             | <b>Cash</b>       |
|-----------------------------------------------------------------------------|-------------------|
| Upon the closing date (November 28, 2022)                                   | US\$50,000 (Paid) |
| On or before the first anniversary of the closing date (November 28, 2023)  | US\$150,000       |
| On or before the second anniversary of the closing date (November 28, 2024) | US\$150,000       |
| 30 months from the date of signing (May 28, 2025)                           | US\$150,000       |
| On or before the third anniversary of the closing date (November 28, 2025)  | US\$500,000       |

As of January 11, 2023, the Company paid US\$150,000 in cash and issued 804,974 commons shares at a fair market value of US\$150,000 to Altiplano per net smelter royalties (“NSR’s”) purchase agreement.

On March 23, 2023, the Company changed its name from Capitan Mining Inc. to Capitan Silver Corp. (“Capitan”). The Company’s shares will continue to trade under the same symbol “CAPT” on the TSX Venture Exchange and the number of shares outstanding will not change.

On August 11, 2023, the Company announced the results of Annual and Special Meeting of Shareholders which was held on June 23, 2023. Details of the matters approved at the meeting are set out in the Company's Information Circular dated May 12, 2023 and available under the Company's profile on SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

### **Cruz de Plata Property, Durango**

The Cruz de Plata Property (previously known as the Peñoles Property), 100% owned by the Company, comprises a land package of approximately 2,551 hectares located in north-central Durango State within the globally important Central Mexico Silver Belt. The Company recently consolidated the high-grade silver trend by signing an agreement with Minera Fresnillo S.A. de C.V. for a portion of the trend between the zones of Jesus Maria and San Rafael referred to as El Refugio. With this agreement, the Cruz de Plata project properties now cover a high-grade silver trend of over 2.5Km in strike length. The project also contains a disseminated, gold deposit in an area called Capitan Hill, immediately adjacent to the south to the Jesus Maria mine.

Cruz de Plata is an advanced project having an NI43-101-compliant inferred gold and silver resource based on 81 drill-holes (approx. 10,470 metres total) completed by previous operators. The resource included the Capitan gold deposit and the Jesus María, polymetallic silver deposit. Drilling by previous operators within the Cruz de Plata Property also targeted the historical San Rafael zone, where five diamond holes were completed (approx. 1,021.6 metres total). While said holes intersected mineralization, they are not part of the current inferred resource. The reader is referred to the Company's website and SEDAR+ filings for detailed information on the resource estimates and on the various previous pre-Capitan exploration programs that were completed on the Property.

Upon completing the plan of arrangement and public listing, the Company has undertaken a number of reverse-circulation drill programs with drilling initially focused on the Capitan Hill gold deposit, but shifting towards the trend of silver mineralization since late 2022. These programs had the main purpose of testing the extents of mineralization further from that previously defined by other operations.

### **Initial Drill Program: Capitan Hill Gold Zone**

The initial program was focused exclusively on the Capitan gold deposit with the objective of expanding mineralization from that outlined in the inferred gold resource through on-strike and step-out drilling, as well as strategic infill holes that targeted high-grade mineralization, nested in the main Capitan gold zone. Phase I and II programs totalled 12,209m in 49 drill holes and was completed in September 2021. Results for these drill programs were released in a number of press releases issued by Capitan between November 20, 2020 and January 24, 2022. Overall, the program led to the expansion of the Capitan Gold zone along strike to the west, south-east and down-dip from the previously defined mineralized envelope, with the majority of drillholes returning Au-Ag tenors in-line with historical results. The drill program was also successful in delineating and establishing the continuity of what is now referred to as the "Hanging wall" mineralization, located immediately above the main Capitan Zone.

### **Jesus Maria Silver Zone Drill Program**

On January 24, 2022, the company announced a 5,000 m drill program at the Jesus Maria Silver deposit, with the objectives of 1) confirming the continuity of high-grade mineralization, 2) testing the continuity of the Jesus Maria zone down-dip to the south and along strike to the east and west of the current drill defined limits and 3) gaining further understanding on the mineralization of the Ag-Au Gully Fault zone. Results have been reported since February 16, 2022, showing continuity of the high grade mineralization at the Jesus Maria and Gully Fault zones. Drilling by Capitan had expanded mineralization to about 800m of strike length; however, after consolidating the silver trend, 5 drill holes by Minera Fresnillo contained within that package, expanded mineralization to a 1,300m strike length. The zone remains open to the East towards the San Rafael zone and at depth along the entire silver trend. Additionally, a number of other silver targets remain to be drill tested such as JM North and JM South (underneath of the Capitan gold zone). Results have also confirmed the Gully Fault Ag-Au zone to be a NE-strike broad structure that contains narrower intercepts of high grade silver with gold. The zone, which could be an earlier pulse relative to Jesus Maria polymetallic mineralization (Ag, Au, Pb, Zn), also remains open on strike and at depth.

During the period, the company issued press releases to provide updates and results of the drill program as summarized below:

- On December 06, 2022, Capitan announced the consolidation of the Cruz de Plata silver trend, covering an estimated strike length of 2.5Km. Such consolidation was achieved by signing an option agreement with Minera Fresnillo, S.A. de C.V. to acquire a property covering a key part of this trend between the areas of Jesus María and San Rafael. The property contained 5 diamond drill holes which immediately extended the strike length of silver mineralization 500m to the East for a total drilled length of 1.3Km, open to the East towards San Rafael and at depth. Previous Fresnillo drilling included 29m of 95.39 g/t AgEq in drill hole JEMA-02, including 1.3m of 572.48 g/t AgEq. Terms of the option agreement included payments over a 3-year period to acquire 100% interest in the property for a total payable of USD\$1.0 million and a 1% NSR that can be bought for \$1.0M up to 10 years after acquiring 100% of the rights. The Company also announced continuing drilling on several silver targets at the project.
- On January 17, 2023 the Company announced drill results from five (5) reverse circulation drill holes from the Jesus Maria – Gully Fault zones. All five drill holes intersected mineralization showing further high-grade continuity for the Gully Fault zone and down-dip extension for the Jesus María vein. Highlights include hole 22-JMRC-22 which intersected 16.8m of 224.3 g/t AgEq including 3.0m of 978.7 g/t AgEq (which included 1.5m of 1,532.8 g/t AgEq) at the Gully Fault zone. Hole 22-JMRC-15 intersected 15.2m of 101.46 g/t AgEq at the Jesus María vein.
- On March 20, 2023 the Company announced its name change from Capitan Mining Inc. to Capitan Silver Corp. to reflect its primary focus on the Cruz de Plata project after the consolidation of the silver trend announced on December 06, 2022.
- On May 24, 2023 Capitan gave an exploration update on the Cruz de Plata project which included both historical and new surface rock samples and drill data. The exploration update offered a re-interpretation of the geology of the project, as well as a new definition and characterization of exploration targets. Current main targets defined include Jesus María, Santa Teresa, San Rafael North, Gully Fault zone, Capitan, Escondida, JM South and Providencia. The latter is a newly defined target north of the diorite-granodiorite intrusive located in the central-northern part of the project.

In addition, the exploration team maintains the evaluation of results and update of 3D geological model including gold and silver mineralization models, lithologies, alterations and oxidation boundaries on a continuing basis. The company has continued evaluating historical exploration information and additional targets within the property and has been conducting field work for surface evaluation at multiple targets to define drill targets in these zones.

Additionally, community relations activities, and efforts to maintain long-term access agreements continue to be progressed. Other community efforts include helping with local social programs and hiring local people for work and special projects in the community.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected consolidated information of the Company as at September 30, 2022, 2021 and 2020 prepared in accordance with IFRS. The selected consolidated financial information should be read in conjunction with the audited consolidated financial statements of the Company.

| Canadian Dollars                                                                                                           | 2022         | 2021         | 2020           |
|----------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|
| Net loss for the year ended September 30, 2022 and 2021 and from the date of incorporation to September 30, 2020           | \$ (660,430) | \$ (918,758) | \$ (1,116,479) |
| Comprehensive loss for the year ended September 30, 2022 and 2021 and from the date of incorporation to September 30, 2020 | (350,980)    | (1,007,667)  | (1,137,057)    |
| Loss per share, basic and fully diluted                                                                                    | (0.01)       | (0.02)       | (0.24)         |
| Cash                                                                                                                       | 78,882       | 2,710,583    | 2,403,630      |
| Total assets                                                                                                               | 8,581,197    | 8,787,916    | 6,124,604      |

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

### Three-month period ended June 30, 2023 and 2022

During the three months ended June 30, 2023, the Company had a net loss of \$220,054 and a net loss of \$127,826 during the same period last year, an increase in net loss of \$92,228. The increase in net loss was primarily due to the increase in consulting fees of \$54,301, foreign exchange loss of \$18,688 and filing fees of \$35,989, partially offset by the decrease in investor relation of \$12,683 and share based compensation of \$12,140 and the increase of interest income of \$6,751. The increase in expenses was mainly related to the Company increasing consulting activities and annual general and special meeting (“AGSM”) held in June 2023 resulting in increasing in transfer agent and filing fees whereas there was no AGSM held during the same period last year.

### Nine-month period ended June 30, 2023 and 2022

During the nine months ended June 30, 2023, the Company had a net loss of \$644,965 and a net loss of \$416,155 during the same period last year, an increase in net loss of \$228,810. The increase in net loss was primarily due to the increase in consulting fees of \$249,171, foreign exchange loss of \$30,603 and filing fees of \$35,822, partially offset by the decrease in investor relation of \$44,449 and share based compensation of \$36,422 and the increase of interest income of \$33,985. The increase in these expenses was mainly related to the Company increasing consulting activities and annual general and special meeting (“AGSM”) held in June 2023 resulting in increasing in transfer agent and filing fees whereas there was no AGSM held during the same period last year.

### Exploration and evaluation assets

#### Cruz de Plata, Durango, Mexico

On August 14, 2020, the Company completed the acquisition of 100% interest in the Cruz de Plata Property (previously known as the Peñoles Property) for \$3,500,000 by issuing 17,500,000 common shares to Riverside in connection with the reorganization as previously mentioned.

On January 10, 2022 and as amended on March 1, 2022, the Company entered into a purchase agreement to acquire all outstanding net smelter royalties (NSR’s) on mining claims in the Cruz de Plata Property (previously known as the Peñoles Property) from Exploraciones del Altiplano (“Altiplano”), a private Mexican exploration company (the “Royalty Purchasers”). The royalties covered several targets including the current gold-silver resource areas of Capitan and Jesús María. This included a 2% NSR on the Capitan Hill claims, 0.75% on claims covering the Jesús María, San Rafael, Pinchazo and Capitan 2 targets and 0.5% on third-party claims surrounding these targets. The total consideration for the

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transaction is US\$1,000,000, of which US\$550,000 will be paid in cash and US\$450,000 in common shares of the Company to be issued over 2 years. The Company would also retain a right of first refusal (“ROFR”) on any shares distributed to Altiplano as consideration.

The transaction details as below:

| <b>Due date</b>                                                            | <b>Cash</b>        | <b>Common shares in value</b> |
|----------------------------------------------------------------------------|--------------------|-------------------------------|
| Upon the closing date (January 11, 2022)                                   | US\$100,000 (paid) | -                             |
| On or before the first anniversary of the closing date (January 11, 2023)  | US\$150,000 (paid) | US\$150,000(issued)           |
| On or before the second anniversary of the closing date (January 11, 2024) | US\$300,000        | US\$300,000                   |

In addition to the royalties held by Altiplano, the Cruz de Plata Property has a 1% royalty owned by Riverside which was created as part of the asset spinout in 2020. Capitan has the contractual option to purchase and retire the Riverside royalty for C\$250,000 at any time.

On November 28, 2022, the Company executed an option agreement with Minera Fresnillo S. A. de C. V. (a wholly owned subsidiary of Fresnillo plc) (“Minera”), to acquire a 100% interest for certain mineral concessions at the Cruz de Plata Project.

The terms of the option agreement include the right to explore and an option to acquire 100% interest in the mineral concessions for total payable amount of US\$1,000,000 over the three-year period. In the event the Company acquires 100% interest, Minera will maintain a 1% NSR which the Company can buy-back for US\$1,000,000.

The transaction details as below:

| <b>Due date</b>                                                             | <b>Cash</b>       |
|-----------------------------------------------------------------------------|-------------------|
| Upon the closing date (November 28, 2022)                                   | US\$50,000 (Paid) |
| On or before the first anniversary of the closing date (November 28, 2023)  | US\$150,000       |
| On or before the second anniversary of the closing date (November 28, 2024) | US\$150,000       |
| 30 months from the date of signing (May 28, 2025)                           | US\$150,000       |
| On or before the third anniversary of the closing date (November 28, 2025)  | US\$500,000       |

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The breakdown of exploration and evaluation assets is as follows:

|                                         | June 30, 2023 | September 30, 2022 |
|-----------------------------------------|---------------|--------------------|
| Acquisition costs                       | \$ 509,514    | \$ 160,832         |
| Exploration costs:                      |               |                    |
| Assaying                                | 75,973        | 322,902            |
| Data acquisition                        | 24,245        | 18,744             |
| Field & camp costs                      | 24,208        | 47,352             |
| Geological consulting                   | 527,638       | 641,395            |
| Drilling                                | 124,046       | 503,774            |
| Transport & support                     | 111,621       | 88,603             |
| Total current exploration costs         | 887,731       | 1,622,770          |
| Professional fees:                      |               |                    |
| Legal fees                              | 68,965        | 24,232             |
| Business development                    | 20,592        | -                  |
| Total current professional & other fees | 89,557        | 24,232             |
| Total costs incurred during the year    | 1,486,802     | 1,807,834          |
| Balance, Opening                        | 7,832,792     | 5,655,126          |
| Foreign exchange movements              | 687,894       | 369,832            |
| Balance, End of the period              | \$ 10,007,488 | \$ 7,832,792       |
| Cumulative costs:                       |               |                    |
| Acquisition                             | \$ 4,221,764  | \$ 3,712,250       |
| Exploration                             | 4,623,394     | 3,735,663          |
| Professional & other fees               | 132,380       | 42,823             |
| Foreign exchange movements              | 1,029,950     | 342,056            |
|                                         | \$ 10,007,488 | \$ 7,832,792       |

## RISKS AND UNCERTAINTIES

In conducting its business, the Company faces a number of risks and uncertainties related to the mineral exploration industry. Some of these risk factors include risks associated with land titles, exploration and development, government and environmental regulations, permits and licenses, competition, dependence on key personnel, fluctuating mineral and metal prices, the requirement and ability to raise additional capital through future financings and price volatility of publicly traded securities.

### *Property Risks*

Title to exploration and evaluation asset interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mineral claims. Upon completion to the Arrangement, the Company intends to investigate title to all of its exploration and evaluation asset interests. The exploration and evaluation asset interests in which the Company has committed to earn an interest are located in Mexico.

### *Title Risks*

Although the Company will exercise due diligence with respect to determining title to the properties in which will earn a material interest, there is no guarantee that title to such properties will not be challenged or impugned. Third parties may have valid claims underlying portions of the Company's interests, and the permits or tenures may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.



### ***Exploration and Development***

Resource exploration and development is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. Substantial expenses are required to establish reserves by drilling, sampling and other techniques and to design and construct mining and processing facilities. Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit (i.e., size, grade, access and proximity to infrastructure), financing costs, the cyclical nature of commodity prices and government regulations (including those relating to prices, taxes, currency controls, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection). The effect of these factors or a combination thereof cannot be accurately predicted but could have an adverse impact on the Company after the Company acquires the Cruz de Plata Property.

### ***Environmental Regulations Permits and Licenses***

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas that would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for noncompliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. We intend to comply fully with all environmental regulations.

The future operations of the Company, including development activities and commencement of production on our properties, require permits from various federal, state or territorial and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. The Company intends to conduct exploration activities which are subject to substantial regulation under applicable laws by governmental agencies that may require that we obtain permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

### ***Competition***

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial and technical resources. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

### ***Dependence on Key Personnel***

The success of the Company will largely be dependent on the performance of the directors and officers. There is no assurance that the Company will be able to maintain the services of the directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and the prospects.

### ***Fluctuating Mineral and Metal Prices***

Factors beyond our control may affect the marketability of metals discovered, if any. Metal prices have fluctuated widely, particularly in recent years. The effect of these factors on the exploration activities cannot be predicted. For example, gold prices are affected by numerous factors beyond the Company's control, including central bank sales, producer hedging activities, the relative exchange rate of the U.S. dollar with other major currencies, global and regional demand and political and economic conditions. Worldwide gold production levels also affect gold prices. In addition, the price of gold has on occasion been subject to rapid short-term changes due to speculative activities.

### ***Future Financings***

The Company's continued operation will be dependent upon the ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained on acceptable terms. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in some or all of the properties or joint ventures or reduce or terminate some or all of the operations.

### ***Price Volatility of Publicly Traded Securities***

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Corporation in creating revenues, cash flows or earnings. The value of securities distributed hereunder will be affected by market volatility.

## **SUMMARY OF QUARTERLY RESULTS**

The following table sets forth selected quarterly consolidated financial information for each of the last eight quarters in Canadian dollar.

| Quarter end  | Professional fee | Investor relations | Net loss  | (Loss) per share<br>(basic & fully diluted) |
|--------------|------------------|--------------------|-----------|---------------------------------------------|
| Jun-30- 2023 | 30,756           | 27,635             | (220,054) | (0.00)                                      |
| Mar-31-2023  | 22,535           | 34,881             | (151,490) | (0.00)                                      |
| Dec-31-2022  | 20,024           | 12,750             | (273,421) | (0.00)                                      |
| Sep-30-2022  | 28,933           | 57,854             | (244,275) | (0.01)                                      |
| Jun-30-2022  | 23,354           | 40,318             | (127,826) | (0.00)                                      |
| Mar-31-2022  | 22,215           | 47,099             | (140,405) | (0.03)                                      |
| Dec-31-2021  | 17,476           | 32,298             | (147,924) | (0.00)                                      |
| Sep-30-2021  | 41,952           | 35,293             | (167,847) | (0.00)                                      |

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company will rely on equity financings and exploration alliances for its working capital requirements and to fund its planned exploration and development activities. Management ensures the Company has sufficient cash in its treasury to maintain underlying option payments and keep claims in good standing. Increase in cash and cash equivalents from the year ended September 30, 2022 to the period ended June 30, 2023 was \$814,243. As of June 30, 2023, the Company has a working capital of \$934,449.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no undisclosed off-balance sheet arrangements or off-balance sheet financing structures in place.

## RELATED PARTY TRANSACTIONS

### (a) Transactions:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. 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. The remuneration of directors and key management personnel during the period ended June 30, 2023 is as follows:

|                                    |    | June 30,<br>2023 |    | September 30,<br>2022 |
|------------------------------------|----|------------------|----|-----------------------|
| Management and consulting fees (i) | \$ | 166,500          | \$ | 360,904               |
| Share-based compensation           |    | 15,281           |    | 55,363                |
|                                    | \$ | 181,781          | \$ | 416,267               |

Management and consulting fees of the key management personnel for the period ended June 30, 2023 were allocated as follows: \$54,000 (2022 - \$74,000) expensed to consulting fees and \$112,500 (2022- \$112,500) capitalized to exploration and evaluation assets.

### (b) Due to related parties:

|                                                      |    | June 30,<br>2023 |    | September 30,<br>2022 |
|------------------------------------------------------|----|------------------|----|-----------------------|
| Consulting and management fees                       | \$ | -                | \$ | 12,600                |
| Mineral Property - exploration and evaluation assets |    | -                |    | 45,414                |
|                                                      | \$ | -                | \$ | 58,014                |

Amounts due to related parties are included in accounts payable and accrued liabilities and are unsecured, have no fixed repayments, and are non-interest bearing.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's accounting policies are described in Note 4 to the condensed interim consolidated financial statements for the period ended June 30, 2023 and the audited consolidated financial statements for year ended September 30, 2022. Management considers the following to be the most critical in understanding the judgments that are involved in preparing the Company's financial statements and the uncertainties that could impact its results of operations, financial condition and future cash flow.

### *Exploration and Evaluation Assets*

Pre-exploration costs are expensed as incurred. The Company records exploration and evaluation asset interests, which consist of the right to explore for mineral deposits, at cost. The Company records deferred exploration costs, which consist of costs attributable to the exploration of exploration and evaluation asset interests, at cost. All direct and indirect costs relating to the acquisition and exploration of these exploration and evaluation asset interests are capitalized on the basis of specific claim blocks until the exploration and evaluation asset interests to which they relate are placed into production, disposed of through sale, or where management has determined there to be an impairment. If an exploration and evaluation asset interest is abandoned, the exploration and evaluation asset interests and deferred exploration costs will be written off to operations in the

period of abandonment.

On an on-going basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. Management's determination for impairment is based on: 1) whether the Company's exploration programs have significantly changed, such that previously identified resource targets are no longer being pursued; 2) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; or 3) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

The recorded cost of exploration and evaluation asset interests is based on cash paid and the assigned value of share consideration issued (where shares are issued) for exploration and evaluation asset interest acquisitions and exploration costs incurred. The recorded amount may not reflect the recoverable value, as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Property option payments received from its farm-out partners are recorded as a reduction to the capitalized cost of exploration and evaluation assets. Once the capitalized cost is recovered, they are recorded as property income. Management fees received pursuant to exploration alliance arrangements are recorded as a reduction in consulting fees.

### ***Impairment of Long-Lived Assets***

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### ***Critical Accounting Estimates, Judgments, and Assumptions***

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amount of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

#### Critical accounting judgments

- *Recoverability and classification of value added tax ("VAT")*: which are included in the consolidated statements of financial position. Management has determined that the timing of collection is uncertain as the recovery of VAT receivable involves a complex application process, accordingly VAT is recorded as a non-current asset.
- Management's determination of the functional currency of the Company and each of its subsidiaries requires judgment based on the factors outline in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

#### Critical accounting estimates

##### *Exploration and evaluation assets*

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount.

Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the exploration and evaluation assets themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets properties.

##### *Share-based payments*

Charges for share-based payments are based on the fair value on the date the awards are granted. Stock options are valued using the Black-Scholes option pricing model, and inputs to the model include assumptions on share price volatility, discount rates and expected life outstanding.

#### Functional currencies

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. That of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

#### Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of shareholders' equity.

#### Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

### ***Share-based payments***

The stock option plan allows Company employees, directors and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payments expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from contributed reserves to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

### ***Financial instruments***

#### **Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company's accounting policy for each of the categories is as follows:

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed as incurred. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are recognized in profit or loss.

**Financial assets at FVTOCI:** Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

**Financial assets at amortized cost:** A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

**Impairment of financial assets at amortized cost:** The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

The following table shows the classification of the Company's financial assets and liabilities under IFRS 9:

| Financial asset or liability             | IFRS 9 Classification |
|------------------------------------------|-----------------------|
| Cash                                     | Amortized cost        |
| Restricted cash                          | Amortized cost        |
| Accounts payable and accrued liabilities | Amortized cost        |

### **Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities* - This category comprises liabilities initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

The Company has classified its cash as FVTPL. The Company's receivables and accounts payable and accrued liabilities are classified as amortized cost. Refer to the audited financial statement September 30, 2022, Note 13 for additional details.

### **Financial instruments**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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.

The fair value of the Company's cash, receivables, accounts payable and accrued liabilities approximate carrying value, which is the amount recorded on the statements of financial position. The fair value of the Company's cash under the fair value hierarchy are based on level 1 quoted prices in active markets for identical assets and liabilities.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2023, the Company had cash of \$893,125 (September 30, 2022 - \$78,882) to settle current liabilities of \$60,610 (September 30, 2022 - \$278,088). The Company believes it has sufficient funds to meet its current liabilities as they become due.

#### *Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, silver and copper, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

#### *Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to accounts payable and accrued liabilities that are denominated in Mexican pesos.

#### *Sensitivity analysis*

The Company operates in Mexico and is exposed to risk from changes in the Mexican peso. A 10% fluctuation in the Mexico peso against the Canadian dollar would affect loss for the period by \$79,618 (September 30, 2022- \$52,590).

**CAPITAN SILVER CORP.**  
(formerly Capitan Mining Inc.)  
Management Discussion and Analysis  
For the Nine Months Ended June 30, 2023

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**OUTSTANDING SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares have been issued to date. As of August 25, 2023, 70,590,771 common shares were issued and outstanding.

The Company has zero share purchase warrants outstanding as of August 25, 2023.

The following summarizes information about the stock options outstanding as of the date of this MD&A:

| <b>Expiry date<br/>(mm/dd/yyyy)</b> | <b>Number of<br/>options<br/>outstanding</b> | <b>Weighted average<br/>remaining life<br/>in years</b> | <b>Exercise<br/>price</b> | <b>Number of<br/>options<br/>exercisable</b> |
|-------------------------------------|----------------------------------------------|---------------------------------------------------------|---------------------------|----------------------------------------------|
| 01/08/2024                          | 50,583                                       | 0.37                                                    | \$ 0.155                  | 50,583                                       |
| 11/15/2024                          | 116,730                                      | 1.23                                                    | \$ 0.100                  | 116,730                                      |
| 09/08/2025                          | 2,065,000                                    | 2.04                                                    | \$ 0.250                  | 1,690,000                                    |
| 07/16/2026                          | 50,000                                       | 2.89                                                    | \$ 0.260                  | 37,500                                       |
|                                     | 2,282,313                                    | 1.98                                                    |                           | 1,894,813                                    |