



# MAGNAGOLD

**MAGNA GOLD CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2021 AND 2020

(EXPRESSED IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE STATED)

## **Magna Gold Corp.**

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

Three and Nine Months Ended September 30, 2021 and 2020

Discussion dated: November 25, 2021

(In millions of US Dollars, unless otherwise stated)

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## **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") for Magna Gold Corp. together with its subsidiaries ("Magna" or the "Company") is prepared as of November 25, 2021, and relates to the financial condition and results of operations for the three and nine months ended September 30, 2021 and 2020. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the condensed interim consolidated financial statements ("interim financial statements") and related notes for the three and nine months ended September 30, 2021 and 2020, which have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP"). As such, the interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the nine months ended December 31, 2020, and year ended March 31, 2020 ("consolidated financial statements").

The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The three months ended September 30, 2021, are also referred to as "Q3 2021". As a result of the change in the Company's year-end from March 31 to December 31 during the previous fiscal year, the comparative period for Q3 2021 is the three months ended September 30, 2020. The nine months ended September 30, 2021 and 2020, are also referred to as "YTD 2021" and "YTD 2020", respectively.

All amounts are presented in United States dollars, the Company's presentation currency, unless otherwise stated. References to "C\$" and "MXN" are to Canadian dollars and Mexican pesos, respectively.

Statements are subject to the risks and uncertainties identified in the "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" sections of this document. The Company has included the non-GAAP performance measures of cash cost per gold ounce on a by-product basis and all-in sustaining cost per gold ounce on a by-product basis throughout this document. For further information and detailed calculations of these measures, see the "Non-GAAP Measures" section of this document.

Additional information relating to the Company, including the Annual Information Form filed by the Company, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **QUARTERLY OPERATIONAL OVERVIEW AND RECENT DEVELOPMENTS**

### **San Francisco Mine Highlights**

The San Francisco Mine completed planned pre-stripping activities during June 2021. Q3 2021 was the first quarter at full-scale and steady rate commercial production.

During the three months ended September 30, 2021, the San Francisco Mine produced 19,102 ounces of gold, an increase of 63% and 95% compared to the three months ended June 30 and March 31, 2021, respectively.

During the three months ended September 30, 2021, the San Francisco Mine sold 18,276 ounces of gold, an increase of 55% and 117% compared to the three months ended June 30 and March 31, 2021, respectively. The average realized gold price per ounce during Q3 2021 was \$1,786.

### **Corporate Activities**

#### *Private placement of convertible debentures*

On May 12, 2021, the Company entered into a non-brokered private placement of C\$10.0 million secured convertible debentures (the "Debentures") with Delbrook Capital Advisors Inc. ("Delbrook") on behalf of funds managed by Delbrook. The private placement closed on August 19, 2021, and the Company received C\$10.0 million in exchange for 10,000 debentures. Additionally, the Company paid Delbrook a 1.25% arrangement fee upon closing.

The principal amount of the Debentures is convertible, at the election of Delbrook, into common shares of the Company at a conversion price of C\$1.25 per common share, subject to adjustment in certain events. The interest on the Debentures is convertible, at the election of Delbrook, into either cash or common shares of the Company based on the closing price on the day prior to the issuance of a press release relating to the applicable interest payment date and will be paid in full, including in the event of early conversion.

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The Debentures mature on August 19, 2023, twenty-four months from the closing date. The Debentures will initially be unsecured obligations of the Company and will bear interest at a rate of 8.5% per annum until the date that the security contemplated for the Debentures is delivered to Delbrook. Following such delivery, if applicable, the Debentures will bear interest at a rate of 6.5% per annum. As at the date of this MD&A, the interest rate remained at 8.5% per annum.

In connection with the private placement, the Company issued 600,000 common shares and 450,000 share purchase warrants to Medalist Capital Ltd. in lieu of cash finder's fees. The share purchase warrants were issued with an exercise price of C\$1.25 and an expiry date of August 19, 2024.

The securities issued in connection with the private placement will be subject to a four month hold period, in accordance with the rules and policies of the TSX Venture Exchange ("TSXV") and applicable Canadian securities laws. During September 2021, the private placement of the Debentures was given final TSXV approval.

#### *Argonaut promissory note*

On May 6, 2021, Minera Magna S.A. de C.V. ("Minera Magna") had provided a promissory note to Timmins Goldcorp Mexico S.A. de C.V. ("Timmins"), a Mexican subsidiary of Argonaut Gold Inc. ("Argonaut"), for the working capital differential of \$2.7 million in relation with the acquisition of the San Francisco Mine. The promissory note was to be paid in four monthly installments, plus interest, commencing July 6, 2021, and ending October 6, 2021. The promissory note carried un compounded interest at a rate of 5% per annum.

At the date of this MD&A, Minera Magna had made all of the scheduled payments, thereby satisfying the promissory note obligations with Timmins.

#### *Auramet agreement extension*

During September 2021, the Company, through its subsidiary Molimentales del Noroeste, S.A. de C.V. ("Molimentales"), and Auramet International LLC ("Auramet") signed an agreement extension pursuant to which the Company would receive an additional \$2.0 million in exchange for four equal payments of 307 gold ounces to be delivered to Auramet starting on February 28, 2022, and ending on May 31, 2022 (the "Auramet Agreement Extension").

On September 24, 2021, the Company received \$2.0 million less transaction costs and upfront fee of 1%.

#### *Stock option grant*

On September 3, 2021, the Company granted options to certain employees and officers to purchase 1,000,000 common shares of the Company pursuant to the Company's stock option plan. The options are exercisable at C\$0.90 per common share and expire on September 3, 2026. The options vested immediately.

#### *Preliminary short form base shelf prospectus*

On April 21, 2021, the Company filed a preliminary short form base shelf prospectus in connection with the qualification for distribution, from time to time, of up to an aggregate offering price of C\$100.0 million of the Company's securities. On July 20, 2021, the Company filed an amended and restated preliminary short form base shelf prospectus. On October 21, 2021, the Company filed a notice of withdrawal. The Company is currently evaluating potential financing activities, including the filing of a new base shelf prospectus.

#### *Labour Reform in Mexico*

On April 21, 2021, Mexican Congress approved a bill prohibiting outsourcing services in Mexico. Following the approval, a labour and tax reform (the "Reform") was later published in the Mexican Official Gazette. The Reform includes various changes to the Federal Labour Law, including the elimination of labour subcontracting arrangements, also known as outsourcing. The effective date of the elimination of outsourcing was initially set on August 1, 2021, but then extended to September 1, 2021.

Prior to the Reform, the Company's Mexican personnel were outsourced. During July 2021, to comply with the Reform, the Company proceeded with transferring its Mexican outsourced personnel to direct employees of either Molimentales or Minera Magna. LM Mining Corp, S.A. de C.V. does not have direct employees or outsourced personnel.

The Company has reviewed the impact of the Reform and does not expect an increase of its labour costs in Mexico. The prior employee compensation structure was already in compliance with the stated requirements of the Reform.

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## **OVERVIEW OF THE BUSINESS**

Magna was incorporated on January 9, 2018, pursuant to the *Business Corporations Act* (Ontario) under the name Magna Gold Corp. The authorized share capital of the Company consists of an unlimited number of common shares, without nominal or par value. Its shares have been listed on the TSX Venture Exchange under the symbol "MGR" since June 10, 2019. In addition, Magna's shares trade on the OTCQB Venture Market, a U.S. trading platform that is operated by OTC Markets Group in New York, under the symbol "MGLQF". The Company's address is 18 King Street East, Suite 902, Toronto, Ontario, M5C 1C4.

On June 6, 2019, the Company completed its Qualifying Transaction, as defined in TSXV Policy 2.4 - *Capital Pool Companies*, consisting of the property option agreement dated September 25, 2018, pursuant to which the Company acquired an option to acquire a 100% interest in the Mercedes Property in Yécora, Mexico.

Magna is a gold mining company engaged in acquisition, exploration, development and operation of quality precious metals properties in Mexico. Magna's vision is to create a leading precious metals company by leveraging its existing platform of assets and people to maximize value for all its stakeholders.

Magna operates one open-pit heap leach operating mine: the San Francisco Mine in the state of Sonora, Mexico, located approximately 150 kilometers north of Hermosillo and 120 kilometers south of the United States/Mexico border via Highway 15 (Pan-American Highway). The San Francisco Mine was in residual leaching when it was acquired on May 6, 2020. The mining and crushing activities restarted late in June 2020. During June 2021, the San Francisco Mine completed planned pre-stripping activities and began full-scale and steady rate commercial production.

In addition, Magna has exploration stage projects in Mexico. The exploration stage projects of the Company at the date of this MD&A consist of: (i) the Mercedes Property; (ii) the San Judas Project; (iii) the La Pima Project; (iv) the Las Marias Property; (v) the Los Muertos Project; (vi) the La Fortuna Project (previously described as the Cuproros Project); and (vii) the Margarita Project. Through the acquisition of Molimentales, in addition to the San Francisco Mine, the Company acquired title to the Patricia, Norma, Los Carlos, La Pima, TMC, and Dulce claims located in the state of Sonora, Mexico.

The Company's current sources of operating cash flows are primarily from the sale of gold and silver contained in doré bars produced at the San Francisco Mine. The doré is refined offsite and the refined gold and silver is sold primarily in the London spot market. As a result, Magna is not dependent on a particular purchaser.

## **TRENDS AND ECONOMIC CONDITIONS**

Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in both short-term operating and longer-term strategic decisions.

### **Gold price**

During the three months ended September 30, 2021, the spot gold price fluctuated between a low of \$1,723 per ounce and a high of \$1,829 per ounce. The average spot gold price for the quarter was \$1,790 per ounce, a decrease of 6% compared to \$1,909 per ounce for the three months ended September 30, 2020, and a decrease of 1% compared to the average spot gold price of \$1,816 per ounce during the three months ended June 30, 2021.

During the nine months ended September 30, 2021, the spot gold price fluctuated between a low of \$1,684 per ounce and a high of \$1,943 per ounce. The average spot gold price for the nine months was \$1,800 per ounce, an increase of 4% compared to \$1,736 per ounce for the nine months ended September 30, 2020.

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**COVID-19**

Due to the worldwide COVID-19 pandemic, material uncertainties may arise that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on:

- Global gold prices;
- Demand for gold and the ability to explore for gold;
- The severity and the length of potential measures taken by governments to manage the spread of the virus, and their effect on labour availability and supply lines;
- Availability of government supplies, such as water and electricity;
- Purchasing power of the United States dollars, Canadian dollars and Mexican pesos; and,
- Ability to obtain funding.

During the nine months ended September 30, 2021, and during the nine months ended December 31, 2020, there has been no material impact on the operating and exploration activities of the Company. Production at the San Francisco Mine has continued as per the schedule detailed in the pre-feasibility study ("PFS") dated August 28, 2020. As of the date of this MD&A, the Canadian and Mexican authorities have not introduced any further measures that are impacting, or are expected to impact, the Company's operations in Canada or Mexico. The United States authorities have not introduced any further measures that are impacting, or are expected to impact, the Company's deliveries of doré bars to its customer in the United States.

The focus of the Company is to ensure the safety of its workforce and community. The Company instituted numerous social distancing measures, including working from home, limiting travel of any kind, and restricting access to sites. Further, the Company has increased efforts to clean and sanitize common areas as well as provide training and information to employees to reduce the risk of exposure and transmission of the virus.

Even though the Company has not incurred material impacts to date from the COVID-19 pandemic, the duration and impact of the COVID-19 outbreak is undetermined. As a result, it is not possible to reliably estimate the length and severity of COVID-19 developments and the impact on the financial results and condition of Magna in future periods.

Apart from these factors and the risk factors noted under the heading "*Risk Factors*", management is not aware of any other trends, demands, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

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**OPERATING STATISTICS**

**San Francisco Mine**

The San Francisco Mine is located in the Arizona-Sonora desert in the north of the Mexican state of Sonora. The San Francisco Mine is an open pit operation, with crushing and heap leach processing facilities. The San Francisco Mine consists of two separate mineral deposits, the San Francisco pit and La Chicharra pit.

The following is a summary of San Francisco Mine's production statistics:

	Q3 2021 <sup>(1)</sup>	Q2 2021 <sup>(1)</sup>	Q1 2021 <sup>(1)</sup>	October 1 - December 31, 2020 <sup>(1)</sup>	July 1 - September 30, 2020 <sup>(1)</sup>	May 7 - June 30, 2020 <sup>(1)</sup>	YTD 2021	YTD 2020
<b>MINING</b>								
Ore mined (dry kt)	1,725	1,231	619	427	334	80	3,575	414
Average ore mined grade (g/t Au)	0.46	0.43	0.34	0.30	0.32	0.44	0.43	0.34
Waste mined (kt)	4,522	4,880	5,195	2,954	3,091	270	14,597	3,361
Total mined (kt)	6,247	6,111	5,814	3,381	3,425	350	18,172	3,775
Strip ratio	2.62	3.96	8.40	6.92	9.26	3.38	4.08	8.12
Average total mined per day (t/d)	67,907	67,153	64,597	36,746	37,228	6,370	66,564	25,682
Cost per tonne mined <sup>(2)</sup>	\$ 1.93	\$ 2.52	\$ 2.57	\$ 3.23	\$ 2.05	\$ 1.13	\$ 2.34	\$ 1.96
<b>PROCESSING</b>								
Ore processed (kt)	1,759	1,347	744	746	871	111	3,850	982
Average ore processed grade (g/t Au)	0.45	0.49	0.51	0.39	0.29	0.35	0.48	0.30
<i>Including:</i>								
<i>Ore from underground processed (kt)</i>	5	126	130	87	11	-	261	11
<i>Average ore from underground grade (g/t Au)</i>	1.40	0.97	1.35	1.51	2.62	-	1.17	2.62
<i>Ore from stockpile processed (kt)</i>	-	-	-	243	529	26	-	555
<i>Average ore stockpiled grade (g/t Au)</i>	-	-	-	0.23	0.24	0.23	-	0.24
Ore reprocessed (kt)	-	297	477	168	-	-	774	-
Average ore reprocessed grade (g/t Au)	-	0.25	0.23	0.22	-	-	0.24	-
Average ore processed per day (t/d)	19,118	14,797	8,265	8,112	9,468	2,016	14,100	6,680
Cost per tonne processed	\$ 5.22	\$ 6.15	\$ 9.95	\$ 9.55	\$ 7.86	\$ 26.44	\$ 6.46	\$ 9.96
Gold deposited on pad (ozs)	25,663	21,094	12,177	9,411	8,112	1,248	58,934	9,360
Cost per tonne - administration	\$ 0.74	\$ 0.91	\$ 1.40	\$ 1.31	\$ 1.13	\$ 4.60	\$ 0.93	\$ 1.52
Total cost per tonne processed	\$ 12.84	\$ 18.72	\$ 31.86	\$ 25.86	\$ 17.06	\$ 34.62	\$ 18.57	\$ 19.00
<b>PRODUCTION</b>								
Gold sold (ozs)	18,276	11,777	8,430	7,827	7,473	4,935	38,483	12,408
Gold produced (ozs)	19,102	11,713	9,785	7,485	6,719	5,091	40,600	11,810
Silver produced (ozs)	7,115	7,742	8,093	4,609	3,211	2,456	22,950	5,667
<b>COSTS</b>								
Cash cost per gold ounce <sup>(3)</sup>	\$ 1,095	\$ 1,484	\$ 1,826	\$ 1,902	\$ 1,660	\$ 1,357	\$ 1,374	\$ 1,539
Site AISC per gold ounce <sup>(3,4)</sup>	\$ 1,596	\$ 2,142	\$ 3,003	\$ 2,542	\$ 2,173	\$ 1,357	\$ 2,071	\$ 1,849
<b>TOTAL DAYS IN PERIOD</b>	<b>92</b>	<b>91</b>	<b>90</b>	<b>92</b>	<b>92</b>	<b>55</b>	<b>273</b>	<b>147</b>

(1) On November 30, 2020, the Company announced a fiscal year-end change from March 31 to December 31. Due to this change, the previously reported "Q1 2021" and "Q2 2021" periods have been renamed "three months ended June 30, 2020" and "three months ended September 30, 2020", respectively, so that the quarterly periods during calendar 2021 can be named "Q1 2021", "Q2 2021", "Q3 2021" and "Q4 2021".

(2) Cost per tonne mined includes the underground mine costs and the low-grade stockpile rehandling costs.

(3) Refer to the "Non-GAAP Measures" section of the MD&A.

(4) Site AISC excludes corporate and administrative expenses and accretion for site reclamation and closure.

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**Operations review**

Mining and crushing activities were reinitiated in late June 2020. During the six months ended June 30, 2021, and the nine months ended December 31, 2020, most of the mining activity related to the stripping of the San Francisco and La Chicharra pits. During June 2021, the San Francisco Mine completed planned pre-stripping activities and began full-scale and steady rate commercial production. Q3 2021 was the first quarter at full-scale and steady rate commercial production.

The re-development of the San Francisco Mine is in line with the PFS dated August 28, 2020. To date, ore kilotonnes and waste kilotonnes mined from the pits were 4,416 and 20,912, respectively, compared to 5,417 and 21,969, respectively, in the PFS. Total tonnes mined are therefore 8% lower than in the PFS.

At the date of this MD&A, there has been no impact on the supply chain, workforce and labour hours due to the COVID-19 pandemic. Mining, crushing and leaching activities were not impacted or disrupted due to the implementation of safety measures at the mine site. To date, deliveries of doré bars to the United States have not been impacted or disrupted.

As a result of the required pre-stripping and low amount of ore extracted, the unit costs, cash cost per gold ounce and Site AISC per gold ounce are not representative of a steady rate of operations. Over the long term, unit operating costs, cash cost per gold ounce and Site AISC per gold ounce are expected to be in line with the costs outlined in the PFS dated August 28, 2020.

**Acquisition**

On May 6, 2020, the Company completed the acquisition of Molimentales and its wholly owned San Francisco Mine. The acquisition of Molimentales was accounted for as a business combination under IFRS. The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values as follows (amounts in thousands of US Dollars):

<b>Amounts recognized May 6, 2020</b>	<b>Final purchase price allocation</b>	
Purchase price allocation		
Common shares of Magna	\$	2,758
\$5.0 million in cash or a 1% net smelter return royalty		4,671
Working capital difference		2,499
Value added tax ("VAT") payable to seller		570
<b>Total consideration</b>	<b>\$</b>	<b>10,498</b>
<b>Purchase price allocation</b>		
Cash	\$	1,465
Trade and other receivables		2,954
Inventories		16,298
Advances and prepaid expenses		483
Mineral properties and plant and equipment		5,244
Deferred tax assets		2,328
Trade payables and accrued liabilities		(5,077)
Other payables <sup>(1)</sup>		(6,940)
Other provisions		(1,410)
Provision for site reclamation and closure		(4,847)
<b>Net assets</b>	<b>\$</b>	<b>10,498</b>

<sup>(1)</sup> The "Other payables" liability relates to the settlement with Peal de Mexico, S.A. de C.V. ("Peal") and the amount was determined as follows:

- The amount of \$7.4 million including VAT, corresponding to unpaid invoices issued in 2018, was adjusted from "Trade payables and accrued liabilities".
- The "Other payables" liability represents the fair value of the \$7.4 million liability at May 6, 2020. The amount of \$6.9 million including VAT is the sum of the following amounts:
  - o An amount of \$2.9 million plus VAT, corresponding to the common share portion of the settlement; and,
  - o An amount of \$3.1 million plus VAT, corresponding to the cash portion of \$3.5 million plus VAT due by December 31, 2021, and discounted at 6.86%.

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**REVIEW OF QUARTERLY AND YTD RESULTS**

The following table includes quarterly and YTD information for each of the eight most recently completed quarters. They are derived from the Company's interim financial statements, which have been prepared in accordance with IFRS. Amounts in the *Financial Results* section of the table are in thousands of US dollars, except for net earnings (loss) per share and cash dividends declared.

	Q3 2021 <sup>(1)</sup>	Q2 2021 <sup>(1)</sup>	Q1 2021 <sup>(1)</sup>	Dec. 31, 2020 <sup>(1)</sup>	Sep. 30, 2020 <sup>(1)</sup>	Jun. 30, 2020 <sup>(1)</sup>	Mar. 31, 2020	Dec. 31, 2019	YTD 2021	YTD 2020
<b>FINANCIAL RESULTS</b>										
Metal revenues	\$ 32,837	\$ 21,212	\$ 15,319	\$ 14,620	\$ 13,964	\$ 8,463	\$ -	\$ -	\$ 69,368	\$ 22,427
Net earnings (loss) <sup>(2,3)</sup>	\$ 3,793	\$ 2,404	\$ (3,379)	\$ (2,753)	\$ (2,413)	\$ (559)	\$ (869)	\$ (419)	\$ 2,818	\$ (3,841)
Net earnings (loss) and comprehensive income (loss) <sup>(2,3)</sup>	\$ 3,631	\$ 2,062	\$ (2,671)	\$ (4,030)	\$ (2,320)	\$ (973)	\$ (403)	\$ (438)	\$ 3,022	\$ (3,696)
Net earnings (loss) per share - basic and diluted <sup>(2,3,4)</sup>	\$ 0.04	\$ 0.03	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ 0.03	\$ (0.06)
Cash dividends declared	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Total assets <sup>(3)</sup>	\$ 77,017	\$ 71,339	\$ 64,170	\$ 54,506	\$ 44,270	\$ 40,014	\$ 3,156	\$ 2,790	\$ 77,017	\$ 44,270
Total non-current liabilities	\$ 16,963	\$ 11,011	\$ 10,474	\$ 9,819	\$ 6,038	\$ 6,316	\$ -	\$ -	\$ 16,963	\$ 6,038
<b>OPERATING RESULTS</b>										
Gold produced (ozs)	19,102	11,713	9,785	7,485	6,719	5,091	-	-	40,600	11,810
Gold sold (ozs)	18,276	11,777	8,430	7,827	7,473	4,935	-	-	38,483	12,408
Silver sold (ozs)	8,061	8,422	6,961	3,756	4,567	865	-	-	23,444	5,432
Average realized gold price (per oz)	\$ 1,786	\$ 1,783	\$ 1,796	\$ 1,856	\$ 1,855	\$ 1,712	\$ -	\$ -	\$ 1,787	\$ 1,798
Average London PM fix gold price (per oz)	\$ 1,790	\$ 1,816	\$ 1,794	\$ 1,875	\$ 1,909	\$ 1,712	\$ -	\$ -	\$ 1,800	\$ 1,814
By-product cash cost per ounce sold <sup>(5)</sup>	\$ 1,095	\$ 1,484	\$ 1,826	\$ 1,902	\$ 1,660	\$ 1,357	\$ -	\$ -	\$ 1,374	\$ 1,539
By-product AISC per ounce sold <sup>(5)</sup>	\$ 1,717	\$ 2,242	\$ 3,162	\$ 2,730	\$ 2,598	\$ 1,789	\$ -	\$ -	\$ 2,194	\$ 2,276

<sup>(1)</sup> On November 30, 2020, the Company announced a fiscal year-end change from March 31 to December 31. Due to this change, the previously reported "Q1 2021" and "Q2 2021" periods have been renamed "three months ended June 30, 2020" and "three months ended September 30, 2020", respectively, so that the quarterly periods during calendar 2021 can be named "Q1 2021", "Q2 2021", "Q3 2021" and "Q4 2021".

<sup>(2)</sup> Reported amounts for the three months ended September 30, 2020, and December 31, 2020, have been updated to align with the restated amounts disclosed in the interim financial statements.

<sup>(3)</sup> Effective December 31, 2020, the Company had voluntarily adopted a new accounting policy with respect to exploration and evaluation expenditures to reflect the Company's future outlook on its exploration activities. Refer to the "Change in accounting policy" subsection below.

<sup>(4)</sup> Quarterly per share amounts may not reconcile to full year per share amounts due to possible difference in the weighted average number of common shares outstanding.

<sup>(5)</sup> Refer to the "Non-GAAP Measures" section of the MD&A.



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#### **Notes to quarterly results**

On May 6, 2020, Magna closed the acquisition of the San Francisco Mine located in Sonora, Mexico. Magna had metal revenues for the first time since incorporation during 2020. Prior to May 6, 2020, Magna's focus was solely on exploration. Over the past quarters and fiscal years up to March 31, 2020, variations in the quarterly and annual net loss were caused by fluctuations in general and administrative expenses. Share-based compensation expense varies from quarter-to-quarter depending on the number of stock options granted in a quarter, their vesting periods, and the inputs, including assumptions used in the Black-Scholes Option Pricing Model, which is used to calculate the fair value of the stock options. From April 1, 2020, variations in the quarterly and annual net earnings and losses were mainly affected by the number of gold ounces sold, the average realized gold price per ounce, operating costs and corporate and administrative expenses.

At the date of this MD&A, there have been no significant costs incurred due to any impact of the COVID-19 pandemic on supply chain, workforce and labour hours. The Company did not incur any production stoppage costs as the San Francisco Mine was not placed in care and maintenance at any time. There was no significant movement in the price of consumables and supplies. Additionally, the cost of the implementation of safety measures at the mine site is not material.

#### **Change in accounting policy**

Effective December 31, 2020, the Company had voluntarily adopted a new accounting policy with respect to exploration and evaluation expenditures to reflect the Company's future outlook on its exploration activities. The Company has capitalized exploration and evaluation activities incurred in connection with the exploration and evaluation of mineral resources before technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

The Company has applied the change retrospectively in the consolidated financial statements and MD&A as if the exploration and evaluation activities have always been capitalized. The amount of exploration and evaluation expenditures capitalized retrospectively for the year ended March 31, 2020, was \$2.2 million. \$1.6 million related to the Mercedes Project, \$0.4 million to the Las Marias Property and \$0.2 million to the San Judas Project. Refer to the "Review of quarterly results" section of the MD&A for the nine months ended December 31, 2020, and year ended March 31, 2020, for a summary of the impact on the consolidated financial statements.

The Company continues to expense mining concession payments as these payments are a regulatory requirement with no future economic benefit to the Company. Mining concession payments are expensed in the period they are incurred and are presented in the consolidated statement of earnings (loss) as exploration expense.

#### **Review of consolidated financial information for the three months ended September 30, 2021 and 2020**

The Company had net earnings of \$3.8 million and net comprehensive income of \$3.6 million during the three months ended September 30, 2021, with basic and diluted earnings per share of \$0.04. This compares with a net loss of \$2.4 million and net comprehensive loss of \$2.3 million during the three months ended September 30, 2020, with basic and diluted loss per share of \$0.03. The increase in net earnings of \$6.2 million was principally due to the following factors:

##### *Metal revenues*

During the three months ended September 30, 2021, revenues were \$32.8 million compared to \$14.0 million during the three months ended September 30, 2020. During the three months ended September 30, 2021, the Company sold 18,276 gold ounces at an average realized gold price of \$1,786 per ounce compared to 7,473 gold ounces at an average realized gold price of \$1,855 per ounce during the three months ended September 30, 2020.

##### *Cost of sales*

Production costs, which comprise the full cost of operations excluding depreciation and depletion, form a component of cost of sales and were \$20.2 million compared to \$12.5 million during the three months ended September 30, 2020.

A total of 6.2 million tonnes were mined at the San Francisco Mine during the three months ended September 30, 2021, compared to 3.4 million tonnes during the three months ended September 30, 2020. Total mining costs were \$12.1 million, of which deferred stripping costs of \$5.1 million were capitalized, resulting in costs of mining of \$7.0 million during the three months ended September 30, 2021. This compares with \$7.1 million, of which deferred stripping costs of \$3.5 million were capitalized, resulting in costs of mining of \$3.6 million during the three months ended September 30, 2020.

Crushing and gold recovery costs were \$9.2 million during the three months ended September 30, 2021, compared to \$6.8 million during the three months ended September 30, 2020. A total of 1.8 million tonnes were processed at the San Francisco Mine during the three months ended September 30, 2021, compared to 0.9 million during the three months ended September 30, 2020.

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Mine site administrative costs were \$1.3 million during the three months ended September 30, 2021, compared to \$1.0 million during the three months ended September 30, 2020. The increase is due to a change in the cost structure as the San Francisco Mine was operating at full-scale production rate during the three months ended September 30, 2021, whereas it was in the restart phase during the three months ended September 30, 2020.

Royalty, transport, and refining costs were \$0.3 million during the three months ended September 30, 2021, compared to \$0.1 million during the three months ended September 30, 2020, as a result of increased sales.

Change in inventories increased cost of sales by \$2.5 million during the three months ended September 30, 2021, compared to \$1.0 million during the three months ended September 30, 2020. During the three months ended September 30, 2021, there were less recoverable gold ounces deposited onto the pad than ounces recovered from the pad. It resulted in a net decrease of the inventory value. During the three months ended September 30, 2020, the San Francisco Mine was mostly in residual leaching and there were less recoverable gold ounces deposited onto the pad than ounces recovered from the pad. It resulted in a net decrease of the inventory value.

Depletion and depreciation costs form a component of cost of sales and were \$4.9 million during the three months ended September 30, 2021, compared to \$0.2 million during the three months ended September 30, 2020. The increase is due to a larger amount of depreciable assets in operation combined with a higher units of production ("UOP") depreciation rate during the three months ended September 30, 2021. This was partially offset by a higher amount of depreciation and depletion costs valued in inventory.

*Corporate and administrative expenses*

Corporate and administrative expenses were \$1.6 million during the three months ended September 30, 2021, compared to \$1.4 million during the three months ended September 30, 2020. The increase is the result of general growth in activities of the Company. The significant components of these expenses include salaries, consulting and professional fees, administrative and other, and business development. Salaries were \$0.7 million during the three months ended September 30, 2021, compared to \$0.6 million during the three months ended September 30, 2020. Consulting and professional fees were \$0.5 million during the three months ended September 30, 2021, compared to \$0.4 million during the three months ended September 30, 2020. Business development costs were \$0.2 million during the three months ended September 30, 2021, compared to \$0.1 million during the three months ended September 30, 2020. Administrative and other expenses were \$0.1 million during the three months ended September 30, 2021 and 2020.

*Share-based compensation*

Share-based compensation was \$0.6 million during the three months ended September 30, 2021, compared to \$1.7 million during the three months ended September 30, 2020. There were 1,000,000 options granted to certain employees and officers of the Company during the three months ended September 30, 2021, whereas the Company granted options to certain directors, officers, employees, and consultants to purchase 2,350,000 common shares during the three months ended September 30, 2020.

*Exploration expenses*

Exploration expenses were \$0.4 million for the three months ended September 30, 2021 and 2020. Exploration expenses relate to the bi-annual concession payments made in order to keep the mineral concessions in good standing. Refer to the "Exploration Properties" section of this document for further details on the exploration activities.

*Other income, net*

Other income was \$0.5 million during the three months ended September 30, 2021 and 2020. During the three months ended September 30, 2021, the Company applied tax credits dating from calendar year 2018 to its interim tax reporting for an amount of \$0.5 million. Upon the acquisition of Molimentales on May 6, 2020, the tax credits were not recognized as a receivable as there was uncertainty on whether the Company would be able to apply them against future income tax liabilities. Therefore, the Company recognized a gain of \$0.5 million in relation to the application of these tax credits. Refer to the "Contingencies" section of this document for further details. During the three months ended September 30, 2020, other income was mostly due to a \$0.4 million revaluation of the provision for the demobilization of the mining contractor.

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*Finance expenses*

Finance expenses were \$0.6 million during the three months ended September 30, 2021, compared to \$0.3 million during the three months ended September 30, 2020. The increase is due to accretion on the Sandstorm and Auramet deferred revenue items, which were \$0.1 million each during the three months ended September 30, 2021, compared to \$nil each during the three months ended September 30, 2020. Furthermore, the accretion on other payables was \$0.1 million during the three months ended September 30, 2021, compared to \$0.2 million during the three months ended September 30, 2020. Additionally, accretion on the provisions for site reclamation and the demobilization of the mining contractor totaled \$0.1 million during the three months ended September 30, 2021 and 2020. Finally, interest and accretion on debentures, interest on note payable and interest on vendor loan totaled \$0.2 million during the three months ended September 30, 2021, compared to \$nil during the three months ended September 30, 2020.

*Income taxes*

## Current tax

Current tax expense during the three months ended September 30, 2021, was \$0.6 million compared to \$0.3 million during the three months ended September 30, 2020. During the three months ended September 30, 2021, increased profitability of the San Francisco Mine resulted in required cash payments following its interim tax filings. At September 30, 2020, there was a provision for the 7.5% special mining duty tax which resulted in a tax expense of \$0.3 million.

## Deferred tax

Deferred tax expense was \$0.8 million during the three months ended September 30, 2021, compared to \$nil during the three months ended September 30, 2020.

During the three months ended September 30, 2021, the deferred tax asset decreased by \$1.3 million to \$1.7 million. Increased profitability of the San Francisco Mine is expected to result in the use of existing recognized loss carryforwards.

During the three months ended September 30, 2021, the deferred tax liability related to the 7.5% special mining duty tax decreased by \$0.5 million to \$1.5 million. The decrease of \$0.5 million was mostly due an increase in deferred revenue items, resulting in an increase of the amount of deferred tax assets offsetting the deferred tax liabilities.

**Review of consolidated financial information for the nine months ended September 30, 2021 and 2020**

The Company had net earnings of \$2.8 million and net comprehensive income of \$3.0 million during the nine months ended September 30, 2021, with basic and diluted earnings per share of \$0.03. This compares with a net loss of \$3.8 million and net comprehensive loss of \$3.7 million during the nine months ended September 30, 2020, with basic and diluted loss per share of \$0.06. The increase in net earnings of \$6.6 million was principally due to the following factors:

*Metal revenues*

During the nine months ended September 30, 2021, revenues were \$69.4 million compared to \$22.4 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, the Company sold 38,483 gold ounces at an average realized gold price of \$1,787 per ounce compared to 12,408 gold ounces at an average realized gold price of \$1,798 per ounce during the nine months ended September 30, 2020. Metal revenues were generated from the San Francisco Mine, which commenced on May 6, 2020, the date that the San Francisco Mine was acquired.

*Cost of sales*

Production costs, which comprise the full cost of operations excluding depreciation and depletion, form a component of cost of sales and were \$53.5 million compared to \$19.2 million during the nine months ended September 30, 2020.

A total of 18.2 million tonnes were mined at the San Francisco Mine during the nine months ended September 30, 2021, compared to 3.8 million tonnes during the nine months ended September 30, 2020. Total mining costs were \$43.0 million, of which deferred stripping and underground development costs of \$15.7 million and \$2.3 million, respectively, were capitalized, resulting in costs of mining of \$25.0 million during the nine months ended September 30, 2021. This compares with \$7.4 million, of which deferred stripping and underground development costs of \$3.5 million and \$nil, respectively, were capitalized, resulting in costs of mining of \$3.9 million during the nine months ended September 30, 2020.

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Crushing and gold recovery costs were \$24.9 million during the nine months ended September 30, 2021, compared to \$9.8 million during the nine months ended September 30, 2020. A total of 3.9 million tonnes were processed at the San Francisco Mine during the nine months ended September 30, 2021, compared to 1.0 million during the nine months ended September 30, 2020.

Mine site administrative costs were \$3.6 million during the nine months ended September 30, 2021, compared to \$1.5 million during the nine months ended September 30, 2020. The increase is due to a change in the cost structure as the San Francisco Mine was operating towards full-scale production rate during the nine months ended September 30, 2021, whereas it was in the restart phase during the nine months ended September 30, 2020.

Royalty, transport, and refining costs were \$0.6 million during the nine months ended September 30, 2021, compared to \$0.2 million during the nine months ended September 30, 2020, as a result of increased sales.

Change in inventories decreased cost of sales by \$0.6 million during the nine months ended September 30, 2021, compared to an increase of \$3.8 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, the San Francisco Mine returned to full-scale production and it resulted in an increased number of ounces extracted from the pit. Therefore, there were more recoverable gold ounces deposited onto the pad than ounces recovered from the pad. It resulted in a net increase of the inventory value. During the nine months ended September 30, 2020, the San Francisco Mine was mostly in the restart phase and there were less recoverable gold ounces deposited onto the pad than ounces recovered from the pad. It resulted in a net decrease of the inventory value.

Depletion and depreciation costs form a component of cost of sales and were \$8.6 million during the nine months ended September 30, 2021, compared to \$0.5 million during the nine months ended September 30, 2020. The increase is due to a larger amount of depreciable assets in operation combined with a higher UOP depreciation rate during the nine months ended September 30, 2021. This was partially offset by a higher amount of depreciation and depletion costs valued in inventory.

*Corporate and administrative expenses*

Corporate and administrative expenses were \$4.0 million during the nine months ended September 30, 2021, compared to \$2.4 million during the nine months ended September 30, 2020, as a result of the addition of Molimentales in May 2020 and general growth in activities of the Company. The significant components of these expenses include salaries, consulting and professional fees, administrative and other, and business development. Salaries were \$1.7 million during the nine months ended September 30, 2021, compared to \$0.9 million during the nine months ended September 30, 2020. Consulting and professional fees were \$1.6 million during the nine months ended September 30, 2021, compared to \$0.8 million during the nine months ended September 30, 2020. Business development costs were \$0.3 million during the nine months ended September 30, 2021, compared to \$0.2 million during the nine months ended September 30, 2020. Administrative and other expenses were \$0.3 million during the nine months ended September 30, 2021, compared to \$0.2 million during the nine months ended September 30, 2020.

Additionally, the Company expenses the VAT paid by Minera Magna as there is uncertainty on whether it will be refunded by the Mexican tax authority. During the nine months ended September 30, 2021, due to payment of intercompany charges, the Company applied a VAT payable by Minera Magna to the Mexican tax authority against the period's VAT expense, resulting in a net VAT recovery of \$0.2 million. During the nine months ended September 30, 2020, VAT expense was \$0.3 million.

*Share-based compensation*

Share-based compensation was \$0.6 million during the nine months ended September 30, 2021, compared to \$3.2 million during the nine months ended September 30, 2020. There were 1,000,000 options granted to certain employees and officers of the Company during the nine months ended September 30, 2021, whereas the Company granted options to certain directors, officers, employees, and consultants to purchase 4,600,000 common shares during the nine months ended September 30, 2020.

*Exploration expenses*

Exploration expenses were \$0.9 million during the nine months ended September 30, 2021, compared to \$0.4 million during the nine months ended September 30, 2020. Exploration expenses relate to the bi-annual concession payments made in order to keep the mineral concessions in good standing. Refer to the "Exploration Properties" section of this document for further details on the exploration activities.

*Other income, net*

During the nine months ended September 30, 2021, the Company had other income of \$4.0 million compared to \$0.5 million during the nine months ended September 30, 2020.

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During the nine months ended September 30, 2021, the Company received a tax refund of \$3.5 million and interest of \$0.5 million from the Mexican tax authority related to Molimentales' activities during the 2017 calendar year. Additionally, the Company applied tax credits dating from calendar year 2018 to its interim tax reporting for an amount of \$0.5 million. Upon the acquisition of Molimentales on May 6, 2020, the tax credits were not recognized as a receivable as there was uncertainty on whether the Company would be able to apply them against future income tax liabilities. The refund, interest received, and the application of tax credits resulted in gains of \$3.8 million, net of related fees to retrieve the funds. Refer to the "Contingencies" section of this document for further details.

During the nine months ended September 30, 2020, other income was mostly due to a \$0.4 million revaluation of the provision for the demobilization of the mining contractor.

*Finance expenses*

Finance expenses were \$1.5 million during the nine months ended September 30, 2021, compared to \$0.5 million during the nine months ended September 30, 2020. The increase is due to accretion on the Sandstorm and Auramet deferred revenue items, which were \$0.4 million and \$0.2 million, respectively, during the nine months ended September 30, 2021, compared to \$nil and \$nil, respectively, during the nine months ended September 30, 2020. Furthermore, the accretion on other payables was \$0.4 million during the nine months ended September 30, 2021, compared to \$0.3 million during the nine months ended September 30, 2020. Additionally, accretion on the provisions for site reclamation and the demobilization of the mining contractor totaled \$0.3 million during the nine months ended September 30, 2021, compared to \$0.2 million during the nine months ended September 30, 2020. Finally, interest and accretion on debentures, interest on note payable and interest on vendor loan totaled \$0.2 million during the nine months ended September 30, 2021, compared to \$nil during the nine months ended September 30, 2020.

*Income taxes**Current tax*

Current tax expense during the nine months ended September 30, 2021, was \$0.6 million compared to a recovery of \$0.2 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, increased profitability of the San Francisco Mine resulted in required cash payments following its interim tax filings. At September 30, 2020, the provision for the 7.5% special mining duty tax was lower than at the time of acquisition and resulted in a tax recovery of \$0.2 million.

*Deferred tax*

Deferred tax expense was \$0.1 million during the nine months ended September 30, 2021, compared to \$nil during the nine months ended September 30, 2020.

During the nine months ended September 30, 2021, the deferred tax asset increased by \$0.9 million to \$1.7 million due to an increase of loss carryforwards and recognition of a temporary difference related to the Auramet deferred revenue. These increases were offset by a reduction of the tax value of inventory, increasing the temporary difference with its accounting basis.

During the nine months ended September 30, 2021, the deferred tax liability related to the 7.5% special mining duty tax increased by \$0.9 million to \$1.5 million. The increase of \$0.9 million was mostly due to deferred stripping costs, which are deductible during the current period, thus increasing future tax liabilities.

**Review of derivative contracts for the three and nine months ended September 30, 2021 and 2020***Derivatives*

The Company had no outstanding gold option contracts at December 31, 2020.

During the three and nine months ended September 30, 2021, the Company entered into gold option contracts whereby the Company sold the right to a third party to purchase a number of the Company's gold ounces at a set price. The carrying value of the derivatives are based on the valuation of the outstanding gold option contracts using Level 2 inputs and valuation techniques.

Of these gold options contracts entered into during the three months ended September 30, 2021, contracts covering 6,100 gold ounces expired unexercised and contracts covering 300 gold ounces were exercised.

Of these gold options contracts entered into during the nine months ended September 30, 2021, contracts covering 12,600 gold ounces expired unexercised and contracts covering 3,700 gold ounces were exercised.

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During the three and nine months ended September 30, 2021, a gain of \$0.1 million and a loss of \$0.1 million, respectively, were recognized on the fair value of the contracts, compared to a gain of \$0.1 million and a loss of \$0.1 million during the three and nine months ended September 30, 2020, respectively.

Of these gold options contracts entered into during the nine months ended September 30, 2021, none were outstanding at September 30, 2021, and therefore no derivative asset or liability was recognized.

Subsequent to September 30, 2021, the Company entered into additional contracts with one counterparty, being Auramet. The following describes the Company's position on these subsequent contracts at the date of this MD&A:

Contract type	Buy/sell	Contract expiry date range	Ounces	Average exercise price	Exercised	Expired unexercised	Outstanding
Call	Sell	October 27, 2021	1,200	\$ 1,799	300	900	-
Call	Sell	November 24, 2021	300	\$ 1,835	-	300	-
Call	Sell	November 26, 2021	1,700	\$ 1,854	-	-	1,700
Call	Sell	November 30, 2021	1,000	\$ 1,845	-	-	1,000
Call	Sell	December 15, 2021	500	\$ 1,870	-	-	500
Call	Sell	December 26, 2021	600	\$ 1,873	-	-	600
Call	Sell	December 28, 2021	300	\$ 1,910	-	-	300
Call	Sell	December 29, 2021	2,000	\$ 1,898	-	-	2,000
<b>Total ounces covered</b>			<b>7,600</b>	<b>\$ 1,859</b>	<b>300</b>	<b>1,200</b>	<b>6,100</b>

Additionally, subsequent to September 30, 2021, the Company entered into gold option contracts whereby the Company purchased the option to sell 2,000 gold ounces at an exercise price of \$1,810 per gold ounce and concurrently sold the right to a third party to purchase 2,000 gold ounces at an exercise price of \$1,900 per gold ounce. These contracts have expiry dates of December 29, 2021.

*Derivatives in relation to the Auramet Agreement*

During the nine months ended September 30, 2021, and in conjunction with an agreement with Auramet, the Company granted the following contracts:

Contract type	Buy/sell	Contract expiry date range	Ounces	Average exercise price	Exercised	Expired unexercised	Outstanding
Call <sup>(1)</sup>	Sell	August 31, 2021 to May 31, 2022	3,000	\$ 2,000	-	600	2,400
Call <sup>(2)</sup>	Sell	May 28, 2021 to January 31, 2022	13,000	\$ 2,011	-	3,500	9,500
Put <sup>(3)</sup>	Buy	May 28, 2021 to January 31, 2022	13,000	\$ 1,700	-	9,000	4,000
Call <sup>(4)</sup>	Buy	May 26, 2021 to September 28, 2021	5,000	\$ 1,900	-	5,000	-
Forward <sup>(5)</sup>	Sell	May 26, 2021 to September 28, 2021	5,000	\$ 1,700	5,000	-	-

<sup>(1)</sup> During the three months ended September 30, 2021, gain on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the three months ended September 30, 2020. During the nine months ended September 30, 2021, loss on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the nine months ended September 30, 2020. A \$0.1 million derivative liability was recognized at September 30, 2021.

<sup>(2)</sup> During the three months ended September 30, 2021, gain on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the three months ended September 30, 2020. During the nine months ended September 30, 2021, loss on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the nine months ended September 30, 2020. A \$0.1 million derivative liability was recognized at September 30, 2021.

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- (3) During the three months ended September 30, 2021, loss on the fair value of the outstanding contracts was \$0.2 million compared to \$nil during the three months ended September 30, 2020. During the nine months ended September 30, 2021, gain on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the nine months ended September 30, 2020. A \$0.1 million derivative asset was recognized at September 30, 2021.
- (4) During the three months ended September 30, 2021, loss on the fair value of the outstanding contracts was \$0.1 million compared to \$nil during the three months ended September 30, 2020. During the nine months ended September 30, 2021 and 2020, gain (loss) on the fair value of the outstanding contracts was \$nil. No derivative asset or liability was recognized at September 30, 2021.
- (5) During the three and nine months ended September 30, 2021, forward contracts covering 3,000 ounces and 5,000 ounces, respectively, were exercised.

During the three and nine months ended September 30, 2021, loss of \$0.1 million and \$0.5 million, respectively, were recognized on the fair value of the contracts, compared to \$nil and \$nil during the three and nine months ended September 30, 2020, respectively.

All derivative assets and liabilities are presented on a net basis on the condensed interim consolidated statements of financial position. At September 30, 2021, derivative assets, net of derivative liabilities, was \$0.1 million, compared to \$nil at September 30 and December 31, 2020.

**Review of financial position at September 30, 2021**

Total assets at September 30, 2021, were \$77.0 million compared to \$54.5 million at December 31, 2020. The increase in total assets of \$22.5 million was primarily due to additions of plant and equipment of \$7.2 million and mineral properties additions of \$18.2 million which include capitalized deferred stripping and underground development costs of \$15.7 million and \$2.3 million, respectively. Additionally, the value of inventories increased by \$2.8 million during the nine months ended September 30, 2021, as a result of more recoverable ounces being deposited onto the leach pads than ounces recovered from the pads. Finally, trade and other receivables increased by \$3.5 million during the nine months ended September 30, 2021, due to increased sales.

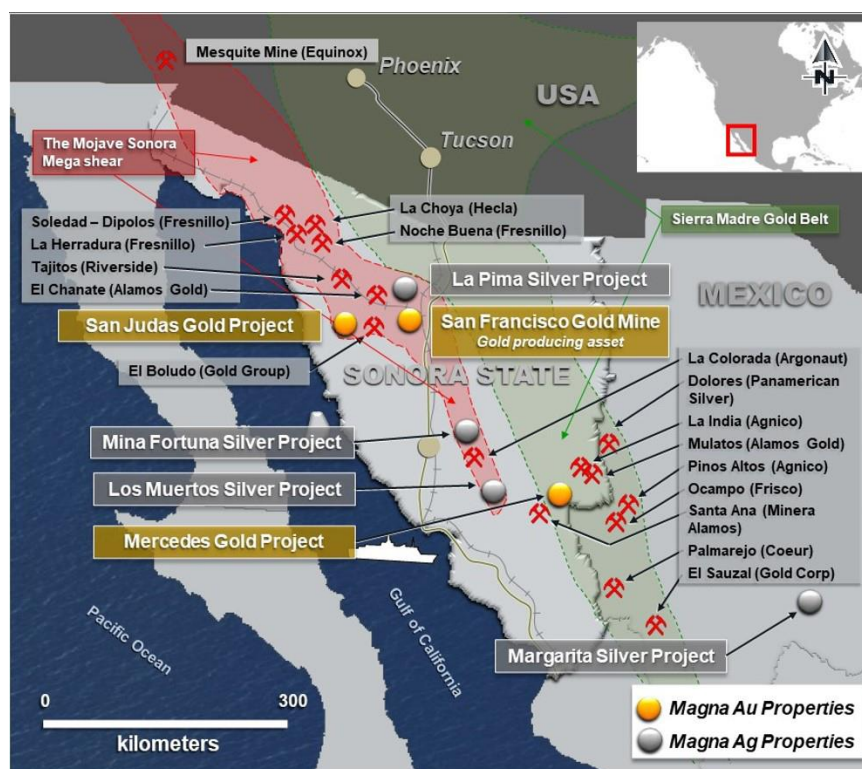
Total liabilities at September 30, 2021, were \$57.5 million compared to \$39.6 million at December 31, 2020. The increase in total liabilities of \$17.9 million was primarily due to trade payables and accrued liabilities, which increased by \$13.5 million during the nine months ended September 30, 2021. Additionally, the private placement of convertible debentures resulted in an increase of liabilities of \$6.4 million during the nine months ended September 30, 2021. Furthermore, the Auramet deferred revenue item was recognized during the nine months ended September 30, 2021, and increased liabilities by \$3.8 million. These increases were offset by a decrease in other payables of \$6.6 million during the nine months ended September 30, 2021, as a result of payments of \$7.1 million to Timmins in relation to the Molimentales acquisition.

Total equity at September 30, 2021, was \$19.5 million compared to \$14.9 million at December 31, 2020. The increase of \$4.6 million was mostly due to net comprehensive earnings of \$3.0 million for the nine months ended September 30, 2021.

**EXPLORATION PROPERTIES**

The Company has not yet determined whether the Company's exploration properties (Mercedes, San Judas, Las Marias, La Pima, Los Muertos, La Fortuna (previously described as Cuproros), and Margarita) contain an economic mineral reserve. Any activities on these projects will constitute exploratory searches for minerals. Planned expenditures may be adjusted depending on new acquisitions, prioritization of activities, capital allocation and other factors. Refer to the "Risk Factors" section of this MD&A.

**Figure 1: Location of Magna's exploration properties**



The Company reviewed and revised its planned expenditures for fiscal year 2021 to focus its available capital resources towards the Margarita Project and the San Francisco Mine, where the Company is currently carrying out exploration activities and an infill drilling program, respectively.

Exploration expenditures by property (in thousands of US Dollars)	Actual expenditures for the nine months ended September 30, 2021	Revised planned expenditures for 2021	Original planned expenditures for 2021
San Francisco Mine	\$ 859	\$ 1,360	\$ 4,895
Margarita Project	75	1,200	2,241
Mercedes Property	318	499	802
San Judas Project	89	259	1,316
La Pima Project	99	120	455
Los Muertos Project	70	146	560
La Fortuna Project <sup>(1)</sup>	44	53	238
Las Marias Property	13	14	11
<b>Total</b>	<b>\$ 1,567</b>	<b>\$ 3,651</b>	<b>\$ 10,518</b>

<sup>(1)</sup> Previously described as the Cuproros Project.



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**The San Francisco Mine***Planned activities*

The Company will continue the infill drilling program started during the previous fiscal year.

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the San Francisco Mine (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>• 2,800 meters of reverse circulation ("RC") drilling on the north-western portion of the San Francisco ore body</li> </ul>	\$859 <sup>(1)</sup>	\$1,360	\$4,895
<ul style="list-style-type: none"> <li>• Other costs (concession payments, other geological and administrative costs)</li> </ul>			

<sup>(1)</sup> The amount of \$859 was allocated as follows during the nine months ended September 30, 2021:

- \$129 capitalized in mineral properties; and,
- \$730 in exploration expenses.

**Margarita Project***Overview*

The Margarita silver project is an exploration property comprised of two mining concessions, covering 125.625 hectares, located within the prolific Sierra Madre Gold Belt, which hosts numerous multimillion-ounce gold-silver deposits, 88 kilometers south of the state capital of Chihuahua in the Municipality of Satevo, State of Chihuahua, Mexico. The property lies 15 kilometers northwest on strike with Gatos Silver Inc's Cerro Los Gatos Mine.

*Planned activities*

The Company intends to carry out a mineral resource and preliminary economic assessment ("PEA") upon completion of the drill program. The PEA is expected to be completed by the end of Q1 2022. The estimated total cost to complete the PEA is \$2.2 million, of which \$1.2 million is expected to be incurred during fiscal year 2021, and the remaining \$1.0 million during fiscal year 2022.

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the Margarita Project (amounts in thousands of US Dollars):

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<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>• Review historical drilling data</li> <li>• Re-log drill core, re-sample and sample vein and vein extensions</li> <li>• Topographic survey of the drill holes and topographic map to support the construction of new cross and long sections to support the following drill program</li> <li>• Drill program of 9,000 meters of core and RC drilling to test continuity of mineral interceptions and explore at depth</li> <li>• Other costs (concession/land payments, other geological and administrative costs)</li> </ul>	\$75 <sup>(1)</sup>	\$1,200	\$2,241

<sup>(1)</sup> The amount of \$75 was allocated as follows during the nine months ended September 30, 2021:

- \$73 capitalized in exploration and evaluation assets; and,
- \$2 in exploration expenses.

**Mercedes Property***Overview*

The Mercedes project is an exploration property within the Sierra Madre Occidental province. It is a historically productive, regionally extensive tertiary volcanic field that stretches from the United States/Mexico border to Central Mexico. Previous work at the La Lamosa area, one of the mineralized targets within the mining concessions, display disseminated gold mineralization hosted within an andesitic and rhyodacitic volcanic complex intruded by a quartz-feldspar porphyry. Gold and silver are target commodities sought at Mercedes and the property exhibits textures and alteration consistent with high sulphidation epithermal mineralization, typical of important discoveries in the region.

*Planned activities*

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the Mercedes Property (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>• IP-R to test the quartz/tourmaline breccias at depth, including five targets located in a geological environment of epithermal high sulphidation copper porphyry targets <sup>(2)</sup></li> <li>• Compile and review the data to generate a RC drill program on the quartz/tourmaline breccias <sup>(2)</sup></li> <li>• Hydrological study and completion of the IP-R two lines</li> <li>• Other costs (option/concession/land payments, other geological and administrative costs)</li> </ul>	\$318 <sup>(1)</sup>	\$499	\$802

<sup>(1)</sup> The amount of \$318 was allocated as follows during the nine months ended September 30, 2021:

- \$315 capitalized in exploration and evaluation assets; and,
- \$3 in exploration expenses.

<sup>(2)</sup> The Las Marias concessions cover the eastern portion of the Mercedes property where lies the quartz/tourmaline breccias system.

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With respect to any prior disclosure by the Company regarding the potential production and sale of gold from the Mercedes Property, the decision of the Company to potentially produce at the Mercedes Property is not based on a technical report supporting mineral reserves or a feasibility study of mineral reserves, demonstrating economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery, which include increased risks associated with developing a commercially mineable deposit. Historically, such projects have a much higher risk of economic or technical failure. There is no guarantee that anticipated production costs will be achieved. Failure to achieve the anticipated production costs would have a material adverse impact on the Company's cash flow and future profitability. Readers are cautioned that there is increased uncertainty and higher risk of economic and technical failure associated with such production decisions. It is further cautioned that mineral resources are not mineral reserves and do not have demonstrated economic viability.

### San Judas Project

#### Overview

San Judas is an early-stage exploration project hosting structurally controlled mineralization within lithologies similar in age to the La Herradura and San Francisco gold mines. The project is underlain by a basement composed of a Precambrian aged igneous-metamorphic sequence including granite, gneiss, pegmatites and schists. Augen gneiss is locally present and is likely derived from pegmatitic granitic protolith. The entire sequence is affected by multiple deformations and the emplacement of intrusions such as leucocratic granites and andesitic dikes.

Structural and lithological interpretation of available data suggest the mineralized structures, characterized by gold-bearing quartz veins and mineralized quartz-sericite altered hanging-wall rocks extend under the surface.

#### Planned activities

The Company is currently carrying out a comprehensive surface exploration program including geological and structural mapping, trenching and reconnaissance sampling in conjunction with a surface geophysical program to define targets in anticipation of a drilling campaign.

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the San Judas Project (amounts in thousands of US Dollars):

Plans for the project during 2021	Actual expenditures for the nine months ended September 30, 2021	Revised planned expenditures for 2021	Original planned expenditures for 2021
<ul style="list-style-type: none"><li>Detailed mapping on surface to collect structural measurements to validate the selection of drill targets</li><li>Interpretation of the structural field mapping to define the best sites for drilling on the four targets and extend the exploration to the rest of the property where gold anomalies occur</li><li>Other costs (option/concession/land payments, other geological and administrative costs)</li></ul>	\$89 <sup>(1)</sup>	\$259	\$1,316

<sup>(1)</sup> The amount of \$89 was allocated as follows during the nine months ended September 30, 2021:

- \$51 capitalized in exploration and evaluation assets; and,
- \$38 in exploration expenses.

### La Pima Project

#### Overview

The La Pima Project is located approximately 25 kilometers north of the San Francisco Mine. The mineralization within the La Pima Project is related to structurally controlled hydrothermal Ba-Ca-Ag-Pb-Zn breccias with over a 2.5 kilometers strike length that are hosted in fossiliferous limestones of Cretaceous age. Artisanal mines and diggings have been developed within the limestone beds.

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*Planned activities*

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the La Pima Project (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>Review interpretation of the historical drilling results and decide future exploration works, follow step and infill drilling</li> </ul>	\$99 <sup>(1)</sup>	\$120	\$455
<ul style="list-style-type: none"> <li>Other costs (concession/land payments, other geological and administrative costs)</li> </ul>			

<sup>(1)</sup> The amount of \$99 was allocated as follows during the nine months ended September 30, 2021:

- \$12 capitalized in exploration and evaluation assets; and,
- \$87 in exploration expenses.

**Los Muertos Project***Overview*

The Los Muertos Project is located in central Sonora, 75 kilometers southeast of the city of Hermosillo, within the La Colorada municipality, and approximately 30 kilometers southeast of the La Colorada gold mine, owned by Argonaut Gold Inc.

*Planned activities*

Upon acquisition, the Company has undertaken the task of compiling and interpreting the database of the exploration works performed during 2007 and 2008 and has performed field reconnaissance to confirm the presence of silver and gold mineralization on the property.

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the Los Muertos Project (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>Soil and rock chip sampling to confirm the results of previous sampling campaigns</li> </ul>			
<ul style="list-style-type: none"> <li>Geology mapping</li> </ul>			
<ul style="list-style-type: none"> <li>Review and validation of the IP-R survey and, if positive, extend the lines to the north and east targets</li> </ul>	\$70 <sup>(1)</sup>	\$146	\$560
<ul style="list-style-type: none"> <li>Other costs (option/concession/land payments, other geological and administrative costs)</li> </ul>			

<sup>(1)</sup> The amount of \$70 was allocated as follows during the nine months ended September 30, 2021:

- \$54 capitalized in exploration and evaluation assets; and,
- \$16 in exploration expenses.

**La Fortuna Project***Overview*

The La Fortuna Project, previously described as the Cuproros Project, consists of three contiguous claims covering an aggregate area of approximately 196 hectares located approximately 150 kilometers east from the Sonora state capital, Hermosillo.

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*Planned activities*

The Company will be prospecting the concession, looking for additional mineral occurrences similar to those known to date and extend the mineral potential for exploration.

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the La Fortuna Project (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>• Survey of the mining concessions</li> <li>• Chip rock sampling</li> <li>• Consider an IP-R survey to identify sulfide rich mineral shoots below surface</li> <li>• Other costs (option/land payments, other geological and administrative costs)</li> </ul>	\$44 <sup>(1)</sup>	\$53	\$238

<sup>(1)</sup> The amount of \$44 was allocated as follows during the nine months ended September 30, 2021:

- \$42 capitalized in exploration and evaluation assets; and,
- \$2 in exploration expenses.

**Las Marías Property***Overview*

The Las Marias Property consists of seven mining concessions covering 646 hectares adjacent to the Mercedes Property. It also includes the Las Cabanas mineral claims, which consist of two claims covering 248 hectares located approximately 10 kilometers south-west of the Mercedes Property.

*Planned Activities*

The following table summarizes the Company's planned activities and actual and planned expenditures for the current fiscal year at the Las Marias Property (amounts in thousands of US Dollars):

<b>Plans for the project during 2021</b>	<b>Actual expenditures for the nine months ended September 30, 2021</b>	<b>Revised planned expenditures for 2021</b>	<b>Original planned expenditures for 2021</b>
<ul style="list-style-type: none"> <li>• The Las Marias concessions cover the eastern portion of the Mercedes property where lies the quartz/tourmaline breccias system with exploration works included in the Mercedes property (IP-R; drilling and review and interpretation of results)</li> <li>• Other costs (concession/land payments, other geological and administrative costs)</li> </ul>	\$13 <sup>(1)</sup>	\$14	\$11

<sup>(1)</sup> The amount of \$13 was allocated in exploration expenses during the nine months ended September 30, 2021.

**Quality assurance and quality control ("QA/QC")**

The exploration works and their results discussed in this MD&A comply with the QA/QC protocols, which consists of the regular insertion of duplicates, blanks and certified reference standards into the sample stream. Check samples are submitted to an umpire laboratory at the end of the drilling programs. Samples are kept in a secure facility and transferred to Bureau Veritas in Hermosillo, Mexico, in sealed containers on a weekly basis from the work site by the Company's own laboratory personnel. Personnel handling samples are using Company-approved protocols for all phases of chip logging, sample delineation, sample layout, and storage. Bureau Veritas is ISO 9001 certified. Bureau Veritas has a standard operating procedure for all aspects of sample drop off, drying and preparation, digestion, instrument analysis, quality control assurance and computerized data reporting. QA/QC protocols applies both to chips rock and soil samples.

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## **OUTLOOK**

With the ramp-up of the San Francisco Mine completed, the main objective of the Company is to establish stable low-cost production. This will help strengthen the financial position of the Company and will enable the Company to pursue external growth opportunities and advance the exploration pipeline. The Company remains committed to the protection of health, safety and environment and will continue to operate in a sustainable and socially responsible manner.

The Company had retained Micon International Limited to complete a PFS to re-evaluate the resource model, examine potential operational improvements and develop an optimized production schedule that incorporates all currently available drill data, updated operating costs and revised gold price assumptions. The results of the PFS were announced on September 17, 2020. The goal of the Company is to successfully execute the PFS operating plan and to create additional value through the advancement of a number of identified opportunities.

Since acquiring the San Francisco Mine in May 2020, the Company has been focusing on pre-stripping both the San Francisco and La Chicharra open pits. The Company has reinvested approximately \$36.0 million towards plant and equipment refurbishing, leach pad construction, infill drilling to increase resources, pre-stripping of the pits, and underground mine exploration and development. The full ramp-up of the San Francisco Mine was completed during June 2021 and it is now operating at a full-scale and steady rate of production.

The Company expects the San Francisco Mine to produce between 55,000 to 65,000 ounces during 2021. The production profile is weighted to the latter half of 2021, representing approximately 60% of the yearly production, which will result in a very strong operational progression through 2021. With a YTD 2021 production of 40,600 ounces of gold, the Company is on track to achieve its targeted production.

The expected cash generated by the operation will help strengthen the financial position and support the execution of the Company's exploration strategy in and around the existing open pits of the San Francisco Mine and across its extensive portfolio of gold and silver projects.

The Company has over 45,000 hectares of highly prospective ground, a gold operation with increasing resources, two very promising gold projects, and a portfolio of four silver properties including La Pima and Margarita - all in two of the most mining-friendly states in Mexico. The Company has a well-defined exploration program for 2021 and details of the on-going activities are described in the "Exploration Properties" section of this document.

## **LIQUIDITY, CONTINGENCIES AND CASH FLOWS**

### **Liquidity**

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include the market price of gold, production levels, operating costs, capital costs, exploration expenditures, the timing of VAT recoveries, income tax refunds, foreign currency fluctuations, health and safety risks related to the coronavirus (COVID-19), and other risks and uncertainties (refer to "Risk Factors" section of this MD&A). In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements, there is no guarantee that the Company would be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk.

At September 30, 2021, the Company had negative net working capital of \$7.2 million. The Company had cash of \$6.9 million, trade and other receivables of \$11.1 million, inventories of \$14.7 million, advances and prepaid expenses of \$0.7 million, trade payables and accrued liabilities of \$31.4 million, other payables of \$4.7 million and current deferred revenue liabilities of \$4.5 million. The working capital deficiency is expected to be remedied by the generation of cash flows from operations and, if not sufficient, by raising additional capital.

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During the three months ended September 30, 2021, the Company closed a non-brokered private placement of C\$10.0 million convertible debentures with funds managed by Delbrook. The Debentures are currently unsecured obligations of the Company and bear interest at a rate of 8.5% per annum until the date that the security contemplated by the Debentures is delivered to Delbrook. Following such delivery, if applicable, the Debentures will bear interest at a rate of 6.5% per annum. The funds were received on August 19, 2021, and will go towards meeting the Company's working capital obligations and supporting its exploration programs. As at the date of this MD&A, the interest rate of the Debentures remained at 8.5% per annum and the Company had made the scheduled interest payments in cash.

During the three months ended September 30, 2021, the Company entered into an agreement extension with Auramet pursuant to which the Company received an additional \$2.0 million in exchange for four equal payments of 307 gold ounces to be delivered to Auramet starting February 28, 2022, and ending on May 31, 2022. Pursuant to the initial agreement entered into during the three months ended March 31, 2021, the Company received \$4.0 million in exchange for nine equal payments of 270 gold ounces to be delivered to Auramet starting May 31, 2021, and ending on January 31, 2022. The funds are not restricted for use and are budgeted for operational activities at the San Francisco Mine. In conjunction with the agreement, the Company is required to maintain a minimum consolidated cash balance of \$1.0 million and will be required to do so until the gold delivery obligation is fulfilled on May 31, 2022. As at the date of this MD&A, the Company had made the scheduled gold deliveries and maintained the minimum cash balance required, and therefore was in compliance with the agreement.

During the three months ended September 30, 2021, the Company made the first three scheduled payments of the promissory note of \$2.7 million corresponding to the working capital difference due to Timmins in relation with the Molimentales acquisition. At the date of this MD&A, the Company had made the fourth and last scheduled payment, thereby satisfying the promissory note obligations with Timmins.

During the three months ended September 30, 2021, the Company made the scheduled principal and interest payments in relation with the settlement agreement entered into by Molimentales and Inmobiliaria y Hotelera Los Algodones, S.A. de C.V. regarding their amparo suit with respect to an amount of \$1.7 million.

The deferred revenue liabilities with Sandstorm and Auramet are met through the deliveries of monthly gold ounces and as at the date of this MD&A, the Company has made all scheduled deliveries. In addition, Molimentales has agreed to pay \$3.5 million in cash, plus value added taxes of 16%, to Peal by December 31, 2021.

The Company holds, directly or through option contracts, a total of 38 mineral concessions and must pay bi-annual fees in order to keep them in good standing. The expected amount of concession payments for fiscal 2021 is \$0.9 million. During the nine months ended September 30, 2021, bi-annual payments of \$0.8 million were submitted. The Company expects to pay the remaining amount of \$0.1 million during Q4 2021. Additionally, the Company is party to four option agreements to acquire mineral concessions (Mercedes, San Judas, Los Muertos and La Fortuna). The expected amount of option payments for fiscal 2021 is \$0.4 million. During the nine months ended September 30, 2021, option payments of \$0.2 million were made.

With the San Francisco Mine now operating on a full-scale and steady rate of production and the other financial resources described above, the Company believes it is able to generate sufficient amounts of cash during the remainder of the fiscal year to fund its operating and corporate costs and its revised exploration plans of \$3.7 million at the San Francisco Mine and its other projects, while meeting its contractual obligations in relation to the Argonaut promissory note, Sandstorm and Auramet deferred revenue items, debentures interest, other payables, and settlement payments related to the amparo suit. However, the Company may prioritize expenditures in the short term and may require additional financing in order to fulfill its financial commitments and carry out its operational activities.

At this time, it is challenging to definitively project the funds necessary to support the planned activities of the Company over the long term. For these reasons, management considers it to be in the best interests of the Company and its shareholders to afford management a reasonable degree of flexibility as to how the funds are employed, or for other purposes, as needs arise. See the "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" sections of this MD&A.

Changes in capital markets, including a decline in the market price for gold, could materially and adversely impact Magna's ability to continue as a going concern.

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A summary of undiscounted liabilities and future operating commitments, in thousands of US Dollars, at September 30, 2021, are as follows:

	Total	Within 1 year	1 - 3 years	4 - 5 years	Greater than 5 years
<b>Maturity analysis of financial liabilities</b>					
Trade payables and accrued liabilities	\$ 31,373	\$ 30,798	\$ 575	\$ -	\$ -
Other payables <sup>(1)</sup>	4,734	4,734	-	-	-
Debentures <sup>(2)</sup>	7,849	-	7,849	-	-
Interest payments on debentures <sup>(2)</sup>	1,256	667	589	-	-
	<b>45,212</b>	<b>36,199</b>	<b>9,013</b>	<b>-</b>	<b>-</b>
<b>Commitments</b>					
Option payments on exploration and evaluation properties	3,341	411	1,900	1,030	-
Other provisions <sup>(3)</sup>	1,732	-	-	-	1,732
Provision for site reclamation and closure <sup>(4)</sup>	6,277	-	-	-	6,277
<b>Total financial liabilities and commitments</b>	<b>\$ 56,562</b>	<b>\$ 36,610</b>	<b>\$ 10,913</b>	<b>\$ 1,030</b>	<b>\$ 8,009</b>

(1) Other payables include the following:

- (i) Undiscounted consideration of \$4.1 million due to Peal; and,
- (ii) Principal of \$0.7 million and final scheduled interest payment of \$0.01 million due to Timmins.

(2) Debentures represent the undiscounted and non-componentized obligation to the debenture holders of C\$10.0 million twenty-four months from the issuance date. Interest payments on the Debentures are the estimated future payments of C\$1.6 million on September 30, 2021, assuming an interest rate of 8.5% throughout the term of the Debentures.

(3) Other provisions represent the undiscounted amount of the demobilization costs related to the mining contractor, whereby the Company is responsible for demobilization costs payable one month prior to the end of the mining contract. This obligation has been recorded at an annualized discount rate of 5.25%, reflecting the implied interest rate, and calculated according to the formula stipulated in the contract. The undiscounted amount is \$1.7 million. At September 30, 2021, the discounted obligation was determined to be \$1.2 million.

(4) Provision for site reclamation and closure represents the undiscounted amount of the estimated cash flows required to settle the retirement obligations of the San Francisco Mine. This obligation has been recorded at an annualized discount rate of 5.25%, reflecting the implied interest rate. The undiscounted amount is \$6.3 million. At September 30, 2021, the discounted obligation was determined to be \$5.8 million.

**Contingencies**

Various tax and legal matters may arise from time to time. The Company will recognize the financial effects of these matters in the consolidated financial statements in the period such matters occur.

*Molimentales Income Tax Receivable*

At the time of the acquisition of Molimentales from Alio Gold on May 6, 2020, Molimentales had an income tax receivable that was the result of prior cash instalment payments made during the 2017 and 2018 calendar years. The income tax receivable was represented as a credit held at the Mexican tax authority. Interim tax reporting is a Mexican regulatory requirement for which cash payments are required if an entity is profitable during a reporting period, assuming no credit is held at the Mexican tax authority that could be applied to reduce such payments.

Prior to the Acquisition, Molimentales' income tax receivable was deemed uncollectible by Alio Gold due to unsuccessful attempts to retrieve the instalment payments. Magna reached a similar conclusion and assigned a \$nil value to the income tax receivable in the Molimentales purchase price allocation.

During April 2021, Molimentales was made aware that an income tax cash refund from the 2017 calendar year was to be refunded by the Mexican tax authority. On April 29, 2021, the full 2017 income tax refund was received for \$3.5 million, with additional \$0.5 million representing interest. For the three and nine months ended September 30, 2021, other income included a net gain of \$nil and \$3.3 million, respectively, in relation to the income tax refund, inclusive of related fees to retrieve the funds.



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During August and September 2021, due to positive earnings at Molimentales, the Company applied the remaining 2018 credits to its interim tax reporting, thereby reducing the Company's cash obligation to the Mexican tax authority. During the three and nine months ended September 30, 2021, other income included a non-cash gain of \$0.5 million in relation to the application of these remaining tax credits.

**Cash Flows**

Effective December 31, 2020, the Company had voluntarily adopted a new accounting policy with respect to exploration and evaluation expenditures. These expenditures were capitalized in the consolidated financial statements and MD&A retrospectively as if such activities have always been capitalized. The below discussion on cash flows refers to periods that have been retrospectively restated to reflect exploration expenditures as an investing activity. Refer to the "Change in accounting policy" subsection of this document for more information.

*Three months ended September 30, 2021 and 2020*

At September 30, 2021, the Company had cash of \$6.9 million compared to \$2.1 million at June 30, 2021. The three-month increase in cash was primarily due to financing activities of \$9.6 million, as a result of the receipt of proceeds from the debentures and the Auramet Agreement Extension. Additionally, cash flow from operations was \$6.6 million. These increases were offset by significant investment of \$9.2 million in deferred stripping and infrastructure at the San Francisco Mine, and payments of \$2.1 million made in relation with the acquisition of the San Francisco Mine. At September 30, 2020, the Company had cash of \$11.1 million compared to \$14.3 million at June 30, 2020. The decrease was mostly due to investing activities of \$4.8 million.

Net earnings for the three months ended September 30, 2021, were \$3.8 million compared to a loss of \$2.4 million for the three months ended September 30, 2020. For the three months ended September 30, 2021, items not affecting cash totaled \$4.9 million, including depletion and depreciation of \$4.9 million, income tax expense of \$1.4 million, finance expenses of \$0.6 million and share-based compensation of \$0.6 million. This was offset by non-cash gold delivery to satisfy the Sandstorm and Auramet deferred revenue agreements of \$0.3 million and \$1.5 million, respectively, other income of \$0.5 million, unrealized gain on derivative contracts of \$0.2 million and unrealized foreign exchange gain of \$0.1 million. For the three months ended September 30, 2020, items not affecting cash totaled \$2.0 million, including share-based compensation of \$1.7 million, finance expenses of \$0.3 million, income tax expense of \$0.3 million, depletion and depreciation of \$0.2 million and unrealized foreign exchange loss of \$0.1 million, offset by gain on revaluation of other provision of \$0.4 million and unrealized gain on derivative contracts of \$0.2 million.

Change in non-cash working capital balances decreased cash by \$2.0 million during the three months ended September 30, 2021, compared to an increase of \$1.9 million during the three months ended September 30, 2020. During the three months ended September 30, 2021, movements in inventories and advances and prepaid expenses increased cash by \$1.9 million and \$0.2 million, respectively. This was offset by movements in trade and other receivables and trade payables and accrued liabilities, which decreased cash by \$2.5 million and \$1.6 million, respectively. During the three months ended September 30, 2020, movements in trade payables and accrued liabilities and inventories increased cash by \$4.9 million and \$0.9 million, respectively. Movements in trade and other receivables and advances and prepaid expenses decreased cash by \$3.9 million and \$0.1 million, respectively.

Cash used in investing activities was \$11.5 million during the three months ended September 30, 2021, compared to \$4.8 million during the three months ended September 30, 2020. During the three months ended September 30, 2021, investing activities included \$5.1 million related to deferred stripping costs. \$4.1 million was spent on property, plant and equipment and mineral properties at the San Francisco Mine, mostly for the expansion of the leaching pads and the refurbishment of the crushing circuits. Additionally, payments totaling \$2.1 million were made to Timmins in relation with the Molimentales acquisition. Finally, \$0.3 million was spent on exploration and evaluation projects. During the three months ended September 30, 2020, cash used in investing activities included \$3.5 million of deferred stripping costs and \$0.6 million spent on property, plant and equipment and mineral properties at the San Francisco. Additionally, \$0.7 was million spent on exploration and evaluation expenditures.

Cash provided by financing activities was \$9.6 million during the three months ended September 30, 2021, compared to \$nil during the three months ended September 30, 2020. During the three months ended September 30, 2021, the Company received proceeds from the Debentures issued, net of transaction costs, of \$7.7 million, and proceeds from the Auramet Agreement Extension, net of transaction costs, of \$2.0 million. This was offset by the payment of \$0.1 million of the Debentures interest.

The effects of exchange rate changes on the balance of cash held in foreign currencies increased cash by \$0.1 million during the three months ended September 30, 2021, and 2020.

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*Nine months ended September 30, 2021 and 2020*

At September 30, 2021, the Company had cash of \$6.9 million compared to \$7.1 million at December 31, 2020. The nine-month decrease in cash was primarily due to payments made in relation to the Molimentales acquisition and significant investment in deferred stripping, machinery and infrastructure at the San Francisco Mine, illustrated by cash used in investing activities of \$33.8 million. The investment was partially funded internally with cash flow provided by operating activities of \$20.0 million, as a result of an increase in trade payables and accrued liabilities, and externally with the receipt of a \$4.0 million income tax refund plus interest and with cash provided by financing activities of \$13.5 million. At September 30, 2020, the Company had cash of \$11.1 million compared to \$0.8 million at December 31, 2019. The increase was a result of cash flows from operations of \$8.1 million and cash flow provided by financing activities of \$6.5 million, offset by cash used in investing activities of \$4.3 million.

Net earnings for the nine months ended September 30, 2021, were \$2.8 million compared to a net loss of \$3.8 million for the nine months ended September 30, 2020. For the nine months ended September 30, 2021, items not affecting cash totaled \$7.6 million, including depletion and depreciation of \$8.6 million, finance expenses of \$1.5 million, income tax expense of \$0.6 million, share-based compensation of \$0.6 million and unrealized foreign exchange loss of \$0.2 million. This was offset by non-cash gold delivery to satisfy the Sandstorm and Auramet deferred revenue agreements of \$0.9 million and \$2.4 million, respectively, other income of \$0.5 million and unrealized gain on derivative contracts of \$0.1 million. For the nine months ended September 30, 2020, items not affecting cash totaled \$3.5 million, including share-based compensation of \$3.2 million, depletion and depreciation of \$0.5 million and finance expenses of \$0.5 million, offset by gain on revaluation of other provision of \$0.4 million, income tax recovery of \$0.2 million and unrealized foreign exchange gain of \$0.1 million.

Change in non-cash working capital balances increased cash by \$9.6 million during the nine months ended September 30, 2021, compared to \$8.4 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, trade payables and accrued liabilities increased cash by \$14.3 million. This was offset by movements in inventories and trade and other receivables, which decreased cash by \$1.0 million and \$3.7 million, respectively. During the nine months ended September 30, 2020, movements in trade payables and accrued liabilities and inventories increased cash by \$7.1 million and \$3.8 million, respectively. Movements in trade and other receivables decreased cash by \$2.5 million.

Cash used in investing activities was \$33.8 million during the nine months ended September 30, 2021, compared to \$4.3 million during the nine months ended September 30, 2020. During the nine months ended September 30, 2021, investing activities included \$18.0 million related to deferred stripping and underground development costs. \$8.2 million was spent on property, plant and equipment and mineral properties at the San Francisco Mine, mostly for the expansion of the leaching pads and the refurbishment of the crushing circuits. Additionally, payments of \$7.1 million were made to Timmins in relation with the Molimentales acquisition. Finally, \$0.5 million was spent on exploration and evaluation projects. During the nine months ended September 30, 2020, cash used in investing activities included \$3.5 million of deferred stripping costs and \$0.6 million spent on property, plant and equipment and mineral properties at the San Francisco Mine. Additionally, \$1.0 million was spent on exploration and evaluation expenditures and \$0.6 million was paid to Alio Gold in relation to the Molimentales acquisition. This was offset by \$1.5 million cash acquired in connection with the Molimentales acquisition.

Cash provided by financing activities was \$13.5 million during the nine months ended September 30, 2021. Proceeds of \$7.7 million and \$5.9 million were received from the Debentures, net of transaction costs, and Auramet agreement and its extension, net of transaction costs, respectively. This was offset by the payment of \$0.1 million of the Debentures interest. During the nine months ended September 30, 2020, proceeds from private placements, net of transaction costs, of \$6.5 million were received.

The effects of exchange rate changes on the balance of cash held in foreign currencies increased cash by \$0.1 million during the nine months ended September 30, 2021 and 2020.

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**CAPITAL RESOURCES**

The capital of the Company consisted of consolidated equity and other payables, net of cash. Amounts are disclosed in thousands of US Dollars.

	<b>September 30, 2021</b>	December 31, 2020
Equity	<b>\$ 19,486</b>	\$ 14,871
Other payables	<b>4,665</b>	11,285
Debentures	<b>6,420</b>	-
	<b>30,571</b>	26,156
Less: Cash	<b>(6,863)</b>	(7,056)
	<b>\$ 23,708</b>	\$ 19,100

At September 30, 2021, the Company was required to maintain a minimum consolidated cash balance of \$1.0 million and will be required to do so until all the gold delivery obligations in relation to the Auramet agreement and its extension are fulfilled on May 31, 2022.

At December 31, 2020, the Company was not subject to any externally imposed capital requirements.

The economic analysis included in the PFS of the San Francisco Mine, dated August 28, 2020, with an effective date of August 8, 2020, indicates that an annual average of \$2.6 million of sustaining capital expenditures will be required to maintain the production capacity over the life of mine. Additionally, the Company estimates, based on the mine plan included in the PFS, to capitalize a total of \$69.0 million of deferred stripping costs over the life of mine. As at September 30, 2021, cumulative deferred costs capitalization totaled \$22.1 million since the restart of mining activities in June 2020. As of the date of this MD&A, both the sustaining capital expenditures and deferred stripping costs are expected to be funded by cash flow from operations.

The Company has planned exploration expenditures of \$3.7 million for the fiscal year 2021. Further exploration expenditures cannot be determined at the date of this MD&A as they are dependent on the results of current exploration programs and the financial condition of the Company. Additionally, the Company must pay \$0.9 million in bi-annual fees in order to keep its 38 mineral concessions in good standing. Finally, the Company is party to four option agreements to acquire mineral concessions and has, as of September 30, 2021, remaining payments of \$3.3 million over the course of the next four years.

**RELATED PARTY TRANSACTIONS**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

- a) The Company defines its key management personnel as its Board of Directors, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO"), and certain officers of the Company. Remuneration of Directors and key management personnel of the Company was as follows, in thousands of US Dollars:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Salaries and benefits <sup>(1)(2)(3)</sup>	<b>\$ 315</b>	\$ 263	<b>\$ 693</b>	\$ 406
Director fees <sup>(4)</sup>	<b>\$ 38</b>	\$ -	<b>\$ 38</b>	\$ -
Share-based compensation <sup>(5)</sup>	<b>\$ -</b>	\$ 1,166	<b>\$ -</b>	\$ 1,875

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- (1) Of the Board of Directors, the CEO, CFO and COO each have employment contracts with the Company.
  - (2) Salaries and benefits exclude fees paid to the former CFO's associated companies.
  - (3) Includes Arturo Bonillas, CEO and Director, Colin Sutherland, CFO and Director, Miguel Bonilla, COO and Director, and Miguel Soto, VP Exploration.
  - (4) Independent Directors are Parviz Farsangi, Laura Diaz and Alex Tsakumis. Additionally, Colin Sutherland, CFO and Director, and Miguel Bonilla, COO and Director, receive compensation as committee chair.
  - (5) Includes Arturo Bonillas, CEO and Director, Colin Sutherland, CFO and Director, Miguel Bonilla, COO and Director, Miguel Soto, VP Exploration, Parviz Farsangi, Director, Laura Diaz, Director, and Alex Tsakumis, Director.
- b) On January 27, 2021, the Company entered into an employment agreement with Colin Sutherland. Mr. Sutherland served, and continues to serve, as a member of the Board of Directors prior to the employment agreement. During the three and nine months ended September 30, 2021, Mr. Sutherland incurred reimbursable amounts of \$0.01 million (three and nine months ended September 30, 2020 - \$nil) related to corporate and administrative expenses of which \$0.01 million is included in accounts payable and accrued liabilities on September 30, 2021 (December 31, 2020 - \$nil).
- c) On March 31, 2021, the Board of Directors approved recommendations from the Company's compensation committee to retroactively increase the base compensation of certain management positions. The compensation increase was effective January 1, 2021, with payment contingent on successful completion of specific corporate objectives. During the three and nine months ended September 30, 2021, \$0.1 million in salaries expense related to this compensation increase which is included in accounts payable and accrued liabilities at September 30, 2021 (December 31, 2020 - \$nil).
- d) On September 9, 2021, the Board of Directors approved recommendations from the Company's compensation committee whereby independent Directors are to each receive compensation of C\$0.04 million per annum and each committee chair and board chair will receive annual compensation of C\$0.002 million for each chair position, all effective as of May 1, 2021. During the three and nine months ended September 30, 2021, the Company recognized director fees of \$0.04 million in salaries expense (three and nine months ended September 30, 2020 - \$nil) which are included in accounts payable and accrued liabilities at September 30, 2021 (December 31, 2020 - \$nil).
- e) The Company receives legal advisory services through two Mexico-based entities of which Laura Diaz, a Director of the Company, is a partner. Ms. Diaz was first elected to the Board of Directors on September 15, 2020, at the Company's annual and special meeting of shareholders. During the three and nine months ended September 30, 2021, legal advisory services of \$0.01 million and \$0.1 million, respectively, were incurred by the Company (three and nine months ended September 30, 2020 - \$0.1 million). The cost of the legal advisory services is on market terms.

As at September 30, 2021, these entities were owed \$nil (December 31, 2020 - \$nil) for these services.

In addition, Ms. Diaz provided legal advisory consulting services directly to the Company. During the three and nine months ended September 30, 2021, the Company incurred legal advisory consulting services of \$nil and \$0.1 million (three and nine months ended September 30, 2020 - \$nil). The cost of the legal advisory services is on market terms.

As at September 30, 2021, the Director was owed \$nil (December 31, 2020 - \$nil) for these services.

- f) During the three and nine months ended September 30, 2021, the CEO incurred reimbursable amounts of \$0.01 million (three and nine months ended September 30, 2020 - \$0.01 million) related to corporate and administrative expenses.
- g) During the three and nine months ended September 30, 2021, the VP of Exploration incurred reimbursable amounts of \$0.01 million (three and nine months ended September 30, 2020 - \$0.01 million) related to corporate and administrative expenses.
- h) During the three and nine months ended September 30, 2021, the Company incurred \$nil (three and nine months ended September 30, 2020 - \$0.01 million) for business development advisory fees performed by Alex Tsakumis, a director of the Company. The services related to the preparation and review of the Company's corporate communications material and the cost of these services was on market terms.

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- i) During the three and nine months ended September 30, 2021, Carmelo Marrelli, the former CFO of Magna, provided services through entities controlled by Mr. Marrelli for total fees of \$nil and \$0.01 million, respectively, (three and nine months ended September 30, 2020 - \$0.02 million and \$0.06 million, respectively) on terms equivalent to those that prevail with arm's length transactions.

As at September 30, 2021, these entities were owed \$nil (December 31, 2020 - \$0.01 million) for these services.

**NON-GAAP MEASURES****Cash cost per gold ounce on a by-product basis**

Cash cost per gold ounce on a by-product basis is a non-GAAP performance measure that management uses to assess the Company's performance and its expected future performance. The Company has included the non-GAAP performance measure of cash cost per gold ounce on a by-product basis throughout this document. In the gold mining industry, this is a common performance measure but it does not have any standardized meaning. As such, it is unlikely to be comparable to similar measures presented by other issuers.

Management believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, presentation of this measure is to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

The cash cost per gold ounce on a by-product basis is calculated by dividing the operating production costs by the total number of gold ounces sold and deducting the by-product silver credits per gold ounce sold.

The following table provides a reconciliation of the cash cost per gold ounce on a by-product basis to the interim financial statements, in thousands of US Dollars:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020 <sup>(1)</sup>	2021	2020 <sup>(1)</sup>
Production costs	\$ 20,209	\$ 12,524	\$ 53,482	\$ 19,236
Divided by gold sold (ozs)	18,276	7,473	38,483	12,408
	1,106	1,676	1,390	1,550
Less: by-product silver credits per gold ounce sold <sup>(2)</sup>	(11)	(16)	(16)	(11)
<b>Cash cost per gold ounce sold on a by-product basis</b>	<b>\$ 1,095</b>	<b>\$ 1,660</b>	<b>\$ 1,374</b>	<b>\$ 1,539</b>

<sup>(1)</sup> Restated due to adjustments relating to the Molimentales acquisition purchase price allocation.

<sup>(2)</sup> Management determined that silver metal revenues, when compared to gold metal revenues, are immaterial and therefore considered a by-product of the production of gold. For the three and nine months ended September 30, 2021, total by-product silver credits were \$0.2 million and \$0.6 million, respectively (three and nine months ended September 30, 2020 - \$0.1 million).

For further details on the calculation of production costs, refer to the notes of the interim financial statements. Cash cost is not necessarily indicative of earnings from operations or cash flow from operations as determined under GAAP. Other companies may calculate these measures differently.

**All-in sustaining cost per gold ounce**

The Company has adopted an all-in sustaining cost per ounce on a by-product basis performance measure which is calculated based on the guidance note issued by the World Gold Council. Management uses this information as an additional measure to evaluate the Company's performance and ability to generate cash.

All-in sustaining costs on a by-product basis include total production cash costs, corporate and administrative expenses, sustaining capital expenditures and accretion for site reclamation and closure costs. These reclamation and closure costs represent the gradual unwinding of the discounted liability to rehabilitate the area around the San Francisco Mine at the end of its mine life. The Company believes this measure to be representative of the total costs associated with producing gold; however, this performance measure has no standardized meaning. As such, there are likely to be differences in the method of computation when compared to similar measures presented by other issuers.

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The following table provides a reconciliation of the Site AISC per gold ounce on a by-product basis and of the all-in sustaining cost ("AISC") per gold ounce on a by-product basis to the interim financial statements, in thousands of US Dollars:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020 <sup>(1)</sup>	2021	2020 <sup>(1)</sup>
Production costs	\$ 20,209	\$ 12,524	\$ 53,482	\$ 19,236
Sustaining exploration expenses <sup>(2)</sup>	354	314	730	314
Capital expenditures <sup>(2,3)</sup>	8,897	4,106	26,228	4,106
Less: development expenditures <sup>(4)</sup>	(97)	(600)	(129)	(600)
Less: by-product silver credits	(193)	(103)	(595)	(118)
<b>Site all-in sustaining costs</b>	<b>29,170</b>	<b>16,241</b>	<b>79,716</b>	<b>22,938</b>
Divided by gold sold (ozs)	18,276	7,473	38,483	12,408
<b>Site AISC per gold ounce sold on a by-product basis</b>	<b>\$ 1,596</b>	<b>\$ 2,173</b>	<b>\$ 2,071</b>	<b>\$ 1,849</b>
Site all-in sustaining costs (per above)	\$ 29,170	\$ 16,241	\$ 79,716	\$ 22,938
Corporate and administrative expenses	1,587	1,379	3,960	2,421
Share-based compensation	555	1,713	555	3,163
Less: Corporate and administrative expenses Q1 2020 <sup>(5)</sup>	-	-	-	(410)
Accretion for site reclamation and closure	73	81	218	130
<b>All-in sustaining costs</b>	<b>31,385</b>	<b>19,414</b>	<b>84,449</b>	<b>28,242</b>
Divided by gold sold (ozs)	18,276	7,473	38,483	12,408
<b>AISC per gold ounce sold on a by-product basis</b>	<b>\$ 1,717</b>	<b>\$ 2,598</b>	<b>\$ 2,194</b>	<b>\$ 2,276</b>

(1) Restated due to adjustments relating to the Molimentales acquisition purchase price allocation.

(2) Sustaining exploration expenses and capital expenditures only include expenditures related to the San Francisco Mine.

(3) Sustaining capital expenditures include deferred stripping and underground development costs of \$5.1 million and \$18.0 million for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$3.5 million).

(4) Management determined the exploration program costs at the San Francisco Mine to be development capital expenditures.

(5) The acquisition of Molimentales completed on May 6, 2020. To better reflect the performance of the Company, management determined that only the corporate and administrative expenses for the six months ended September 30, 2020, should be included in the calculation of the AISC per gold ounce sold on a by-product basis for the nine months ended September 30, 2020.

Site AISC calculated for the San Francisco Mine excludes corporate and administrative expenses and accretion for site reclamation and closure.

**OFF-BALANCE-SHEET ARRANGEMENTS**

As of the date of this MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

**PROPOSED TRANSACTIONS**

There were no material proposed transactions as of the date of this MD&A.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), effective as of September 30, 2021. The Company's significant accounting policies are described in note 4 of the Company's consolidated financial statements for the nine months ended December 31, 2020, and year ended March 31, 2020.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the Company's interim financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

The critical judgements made by management of the Company in the application of the accounting policies are consistent with those applied and disclosed in note 4 of the Company's consolidated financial statements for the nine months ended December 31, 2020, and year ended March 31, 2020.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Fair value measurement of financial assets and liabilities**

The Company follows a fair value hierarchy under *IFRS 9 – Financial Instruments* that reflects the significance of inputs of valuation techniques used in making fair value measurements as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and,

Level 3 - inputs for the asset or liability that are not based upon observable market data.

The carrying values of cash, trade and other receivables, trade payables and accrued liabilities, other payables and amounts due to and from related parties approximate their fair value due to their short-term nature, and are classified at amortized cost.

The derivative liability was classified as a Level 2 instrument because the inputs are derived from observable market data.

At September 30, 2021, and December 31, 2020, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy above.

There were no transfers between Level 1 and Level 2, during the nine months ended September 30, 2021 and 2020.

### **Risk management**

The Company's primary business activities consist of the acquisition, exploration, development and operation of mineral resource properties in Mexico. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, commodity price risk, currency risk, liquidity risk, and interest rate risk. The Company's risk management program strives to evaluate the unpredictability of financial and commodity markets and its objective is to minimize the potential adverse effects of such risks on the Company's financial performance, where financially feasible to do so. When deemed material, these risks may be monitored by the Company's finance team and they are regularly discussed with the Board of Directors or one of its committees.

#### *i. Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the interim financial statements.

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The Company's credit risk is predominantly limited to cash balances held in financial institutions and any gold and silver sales and related receivables and other receivables. The maximum exposure to credit risk is equal to the carrying value of such financial assets. At September 30, 2021, and December 31, 2020, the Company expected to recover the full amount of such assets.

The objective of managing counterparty credit risk is to minimize potential losses in financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors.

Cash is only deposited with or held by major financial institutions where the Company conducts its business.

Gold and silver sales are made to a limited number of large international organizations specializing in the precious metals markets. The Company believes them to be of sound credit worthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions.

**ii. Commodity price risks**

The Company is exposed to price risk associated with the volatility of the market price of commodities, in particular gold and silver, and also to many consumables that are used in the production of gold and silver.

The prices of most commodities are determined in international markets and as such the Company has limited or no ability to control or predict the future level of most commodity prices. In some instances, the Company may have the ability to enter into derivative financial instruments (refer to the "Review of derivative contracts for the three and nine months ended September 30, 2021 and 2020" section of this MD&A) to manage the Company's exposure to changes in the price of commodities such as gold, silver, oil and electricity.

**iii. Currency risk**

The functional currency of Magna and 2660170 Ontario Ltd. is the Canadian dollar and the Mexican Peso for LM Mining Corp, S.A. de C.V. and Minera Magna. The functional currency of Molimentales was determined to be the US Dollar. Therefore, the Company's earnings (loss) and comprehensive income (loss) are impacted by fluctuations in the value of foreign currencies in relation to the US Dollar.

The table below summarizes the net monetary assets and liabilities held in foreign currencies, in thousands of US Dollars:

	<b>September 30, 2021</b>	December 31, 2020
Mexican peso net monetary assets	\$ 1,768	\$ 3,920
Canadian dollar net monetary (liabilities) assets	\$ (93)	\$ 547

The effect on earnings (loss) before income tax at September 30, 2021, of a 10.0% change in the foreign currencies against the US Dollar on the above-mentioned net monetary assets of the Company is estimated to be an increase/decrease of \$0.2 million (December 31, 2020 - \$0.4 million) assuming that all other variables remained constant.

**iv. Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its exploration and production plans.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The Company has no concentrations of liquidity risk.



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**v. Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The observable impacts on the fair value and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in profit or loss from financial instruments whose cash flows are determined with reference to floating interest rates and potential changes in value of financial instruments whose cash flows are fixed in nature. The Company does not have any financial liabilities with floating interest rates and accordingly is not exposed to cash flow risk. Additionally, the Company does not have any non-current fixed rate financial instruments that are subsequently measured at fair value and accordingly is not exposed to fair value interest rate risk. The liability component of the Company's convertible debentures is carried at amortized cost.

The Company does not enter into derivative contracts, interest rate swaps or other instruments to actively manage these risks.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

As of the date of this MD&A, the Company had 90,059,874 common shares outstanding, with the following held in escrow:

	<b>Common shares</b>	<b>Options</b>
CPC Escrow	1,875,000	60,000
Value Escrow	213,750	-
<b>Total</b>	<b>2,088,750</b>	<b>60,000</b>

In addition, the Company had the following warrants and stock options outstanding at the date of this MD&A:

**Warrants**

<b>Expiry date</b>	<b>Exercise price (C\$)</b>	<b>Warrants outstanding</b>
May 6, 2022	0.35	69,124
June 1, 2022	0.41	632,975
August 19, 2024	1.25	450,000
<b>Total</b>		<b>1,152,099</b>

**Options**

<b>Expiry date</b>	<b>Exercise price (C\$)</b>	<b>Options outstanding</b>
August 15, 2023	0.10	200,000
June 29, 2025	0.98	2,250,000
August 12, 2025	1.53	2,350,000
September 3, 2026	0.90	1,000,000
<b>Total</b>		<b>5,800,000</b>

**DISCLOSURE OF INTERNAL CONTROLS**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the interim financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

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In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **RISK FACTORS**

There are many risk factors facing companies involved in the industry of mineral exploration, development and operation. Risk management is an ongoing exercise upon which the Company spends a substantial amount of time. While it is not possible to eliminate all the risks inherent to the industry, the Company strives to manage these risks, to the greatest extent possible.

The risks described in the Company's MD&A and Annual Information Form for the nine months ended December 31, 2020, and year ended March 31, 2020, are most applicable to the Company but may not be the only risks faced by the Company. Risks and uncertainties not presently known by the Company or which are presently considered immaterial may also adversely affect the Company's business, projections, results of operations and/or condition (financial or otherwise).

Prior to making an investment decision, investors should consider the investment risks set out in the Company's MD&A and Annual Information Form for the nine months ended December 31, 2020, and year ended March 31, 2020, and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a mineral exploration, development and production company. The directors of the Company consider the risks set out in the aforementioned documents to be the most significant to potential investors in the Company, but not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware or which they consider not to be material in relation to the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may lose all or part of their investment. An investment in the Company may not be suitable for all investors.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements and information contained in this MD&A constitute "forward-looking statements" within the meaning of applicable U.S. securities laws and "forward-looking information" within the meaning of applicable Canadian securities laws, which we refer to collectively as "forward-looking statements". Forward-looking statements are statements and information regarding possible events, conditions or results of operations that are based upon assumptions about future economic conditions and courses of action. All statements and information other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by the use of words such as "seek", "expect", "anticipate", "budget", "plan", "estimate", "continue", "forecast", "intend", "believe", "predict", "potential", "target", "may", "could", "would", "might", "will" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook.

## Magna Gold Corp.

### Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2021 and 2020

Discussion dated: November 25, 2021

(In millions of US Dollars, unless otherwise stated)

Forward-looking statements in this MD&A include, but are not limited to, statements and information regarding: the Company's future mining activities, including mining capacity, recovery, cash costs, production and mine life; the Company's reserve and resource estimates; the Company's exploration and development plans, including anticipated costs and timing thereof; the timing and location of future drilling; the timing of geological and/or technical reports; the Company's ability to obtain and maintain required licences, permits, required agreements with third parties and regulatory approvals; the Company's plans for growth through exploration activities, acquisitions or otherwise; and expectations regarding future maintenance and capital expenditures, working capital requirements, the availability of financing and future effective tax rates. Such forward-looking statements are based on a number of material factors and assumptions, including, but not limited to: the Company's ability to carry on exploration and development activities; the Company's ability to secure and to meet obligations under property and option agreements and other material agreements; the timely receipt of required approvals and permits; that there is no material adverse change affecting the Company or its properties; that contracted parties provide goods or services in a timely manner, that no unusual geological or technical problems occur, that plant and equipment function as anticipated and that there is no material adverse change in the price of gold, costs associated with production or recovery. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements, or industry results, to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and you are cautioned not to place undue reliance on forward-looking statements contained herein.

Some of the risks and other factors which could cause actual results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations; results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; risks relating to possible variations in reserves, resources, grade, planned mining dilution and ore loss, or recovery rates and changes in project parameters as plans continue to be refined; mining and development risks, including risks related to accidents, equipment breakdowns, labour disputes (including work stoppages and strikes) or other unanticipated difficulties with or interruptions in exploration and development; the potential for delays in exploration or development activities or the completion of feasibility studies; risks related to the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses; risks related to commodity price and foreign exchange rate fluctuations; the uncertainty of profitability based upon the cyclical nature of the industry in which the Company operates; risks related to failure to obtain adequate financing on a timely basis and on acceptable terms or delays in obtaining governmental or local community approvals or in the completion of development or construction activities; risks related to environmental regulation and liability; political and regulatory risks associated with mining and exploration; risks related to the uncertain global economic environment; risks related to COVID-19; and other factors contained in the section entitled "Risk Factors" per above.

Although the Company has attempted to identify important factors that could cause actual results or events to differ materially from those described in the forward-looking statements, you are cautioned that this list is not exhaustive and there may be other factors that the Company has not identified. Furthermore, the Company undertakes no obligation to update or revise any forward-looking statements included in, or incorporated by reference in, this MD&A if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

### QUALIFIED PERSON AND TECHNICAL REPORTS

James Baughman, Consulting Geologist, and a Qualified Person as defined by *National Instrument 43-101 - Standards of Disclosure for Mineral Projects*, has approved the scientific and technical information in this MD&A.

For further information on the Company's properties, please see the reports as listed below on the Company's website or on [www.sedar.com](http://www.sedar.com):

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<i>San Francisco Mine</i>	"NI 43-101 F1 Technical Report - Pre-Feasibility Study for the San Francisco Gold Project, Sonora, Mexico" dated August 28, 2020, with an effective date of August 8, 2020
<i>Mercedes Property</i>	"NI 43-101 Technical Report, Initial Mineral Resource Estimate for the La Lamosa Ridge Deposit, Mercedes Project, Santa Rosa de Yécora, Sonora State, Mexico" dated January 22, 2021, with an effective date of January 11, 2021

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