LUCA MINING CORP.
(Formerly Altaley Mining Corporation)

Management's Discussion and Analysis
For the three and six months ended June 30, 2023
Report dated: August 21, 2023

(Expressed in thousands of Canadian dollars)

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Luca Mining Corp. (formerly Altaley Mining Corporation), ("Luca" or the "Company") has prepared this Management's Discussion and Analysis ("MD&A") as of June 30, 2023 and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2022. Unless otherwise stated, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") or ("GAAP") and all dollar amounts herein are presented in thousands of Canadian dollars unless stated otherwise. Unless otherwise stated and per share amounts, references to $ means thousands of Canadian dollars, US$ means United States dollars and MXN$ means Mexican pesos. All information contained in this MD&A is current and has been approved by the Board of Directors of the Company as of August 21, 2023, unless otherwise stated. Additional information on the Company is also available under the Company's profile at www.sedar.com and on the Company's website: www.lucamining.com. The information in this MD&A contains "forward-looking information" that is subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements.

1. – Cautionary Note Regarding Forward-Looking Information

Certain statements included in this MD&A may contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of the Company and its search for resource properties; the future prices of natural resource based commodities; the estimation of reserves and resources; the realization of reserve estimates; timing of technical reports, scoping studies, and preliminary economic assessments; expected content of scoping studies and preliminary economic assessments; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of resource operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and resource extraction risks; uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of natural resource based commodities; increased competition in the natural resource industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for natural resource based commodities develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks Factors and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

2. – Company Profile and Business Overview

Luca Mining Corp. ("Luca" or the "Company") (formerly Altaley Mining Corporation) is a Canadian mining company listed on TSX Venture Exchange under the symbol "LUCA" and it is focused on the operation, development, and exploration of mineral resource properties in North America. The Company owns and operates the Campo Morado Mine ("Campo Morado") in Guerrero state, Mexico and is also advancing its Tahuehueto mining project ("Tahuehueto") towards commercial production, which is in Durango state, Mexico.

The Company was incorporated on April 11, 1986, under the laws of British Columbia, Canada under the name of Samarkand Resources Corp., and most recently, on March 21, 2023, the Company changed its name to Luca Mining Corp.

The location of the Company's mining properties are as follows:

Tahuehueto Mining Project

Tahuehueto includes 28 mining concessions which total 7,492 hectares located in the northwest portion of the state of Durango, Mexico, about 250 km northwest of Durango city, and 160 km northeast of the city of Culiacan, Sinaloa.

Effective January 1, 2017, the decision was made to move the asset into a development stage asset as management determined that technical feasibility and commercial viability were established through the positive results associated with a pre-feasibility study completed for this project (November 2016).

The most recent technical report published for Tahuehueto, a prefeasibility study update dated April 25, 2022, reported compliant Proven & Probable Reserves of 3.58 million tonnes at grades of 2.55 g/t gold, 50.06 g/t silver, 1.92% zinc, 1.11% lead, and 0.26% copper. The report stated Resources, inclusive with Reserves, in the Measured and Indicated (M&I) categories of 6.1 million tonnes grading 2.48 g/t gold, 42.8 g/t silver, 0.31% copper, 1.2% lead and 2.15% zinc, plus Inferred Resources of 3.5 million tonnes grading 1.3 g/t gold, 37.5 g/t silver, 0.27% copper, 1.34% lead and 2.44% zinc.

The project is under construction, with the first stage to deliver a throughput of 500 tonnes per day (“tpd”) completed during June 2023. The second stage, the nameplate capacity of 1,000 tpd, will be completed by year-end 2023.

Campo Morado Mine

Luca owns 100% of the Campo Morado Mine which includes an underground polymetallic mine with a concentrator, infrastructure and equipment capable of processing 2,500 tonnes of ore per day, as well as six mining concessions occupying approximately 12,045 hectares located in the state of Guerrero, Mexico.

After the acquisition of Campo Morado, the Company restarted mining operations on a pre-production basis in October 2017. Effective May 15, 2018, the Company completed commissioning of the Campo Morado mine and declared commercial production. Mining operations have since reached sustainable levels targeted by management, which contributed to improved operating results through the latter half of 2020, through 2021, and which continue to date.

3. – Operating and Financial Performance Highlights

Three months ended June 30, 2023 (“Q2-2023”)

- The Company processed 166,796 tonnes of ore (an average of 1,833 tpd) at Campo Morado, grading 1.03 g/t gold, 79.7 g/t silver, 3.19% zinc, and 0.61% copper. An additional 19,486 tonnes of ore (an average of 214 tpd) was processed at Tahuehueto, grading 3.01 g/t gold, 37 g/t silver, 3.56% zinc, and 1.46% lead.
- Gross sales totaled $26,027 from the sale of 4,565 tonnes of zinc, 401 tonnes of copper, 242 tonnes of lead, 3,322 oz of gold, and 198,191 oz of silver.
- Mine operating loss during Q2-2023 was $472 and net loss totaled $5,371.
- Cash flow generated from operations totaled $6,673.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

4. – Overall Operations Performance

Q2-2023 Quarterly Operational Performance Results

The following table and subsequent discussion provide a summary of the operating performance of the Campo Morado mine and financial metrics of the Company for the three and six months ended June 30, 2023, and 2022.

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Operational				
Ore Processed	166,796	189,194	344,089	365,804
Zn concentrate produced (ton)	8,799	8,603	16,760	18,260
Average realized zinc price per tonne (US$)	$ 2,561	$ 3,452	$ 2,698	$ 3,320
Zn grade	47%	45%	46%	46%
Zn recovery	77%	68%	76%	69%
Cu concentrate produced (ton)	3,155	1,870	7,633	1,870
Average realized copper price per tonne (US$)	$ 8,175	$ 9,161	$ 8,413	$ –
Cu grade	14%	14%	12%	14%
Cu recovery	43%	27%	43%	17%
Pb concentrate produced (ton)	*n/a*	951	*n/a*	3,330
Average realized lead price per tonne (US$)	*n/a*	$ 2,114	*n/a*	$ 2,248
Pb grade	*n/a*	16%	*n/a*	18%
Pb recovery	*n/a*	11%	*n/a*	20%
Cost Analysis				
C1 Cash Cost (US$/lb)	$ 1.13	$ 1.13	$ 1.14	$ 1.20
All-in Sustaining Cost (US$/lb)	$ 1.51	$ 1.47	$ 1.51	$ 1.48
Financial				
Gross revenues	$ 26,027	$ 19,210	$ 54,280	$ 40,744
Mine operating profit	$ (472)	$ 1,933	$ 756	$ 3,148
Net (loss) income for the period	$ (5,371)	$ (2,051)	$ (6,635)	$ (2,206)
Cash	$ 14,831	$ 1,535	$ 14,831	$ 1,535
Working capital deficiency	$ (15,040)	$ (13,619)	$ (15,040)	$ (13,619)
Shareholders				
Basic and diluted (loss) earnings per share	$ (0.08)	$ (0.01)	$ (0.10)	$ (0.01)

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Operational Performance Results

Campo Morado Mine

Production and concentrate sales for the three months ended June 30, 2023:

- Produced 8,799 tonnes of zinc concentrate grading an average of 46.5% zinc, 1.66 g/t gold, 331 g/t silver and sold 9,280 tonnes generating Q2-2023 revenue from zinc concentrate of US$7.26 million.
- Produced 3,155 tonnes of copper concentrate, grading an average of 13.9% copper, 6.32 g/t gold, 620 g/t silver and sold 3,251 tonnes generating Q2-2023 revenue from copper concentrate of US$3.94 million
- 166,796 tonnes of mineralized material were processed through the processing plant at a C1 cash cost per lb. of US$1.13 with average grades of 3.19% zinc, 0.61% copper, 0.63% lead, 1.03 g/t gold, and 79 g/t silver
- Recoveries during Q2-2023 were 76.9% zinc, 43.2% copper, 3.3% lead, 20.8% gold, and 37.2% silver.

Tahuehueto Mining Project

Although the project has not yet completed construction, below contains the production and concentrate sales for the three months ended June 30, 2023:

- Produced 933 tonnes of zinc concentrate grading an average of 46.7% zinc, 8.99 g/t gold, 119.9 g/t silver and sold 647 tonnes generating Q2-2023 revenue from zinc concentrate of US$0.70 million
- Produced 759 tonnes of lead concentrate grading an average of 29.6% lead, 54.92 g/t gold, 678.53 g/t silver and sold 839 tonnes generating Q2-2023 revenue from lead concentrate of US$3.57 million
- 19,486 tonnes of mineralized material were processed through the processing plant with average grades of 3.56% zinc, 1.46% lead, 3.01 g/t gold, and 37.02 g/t silver
- Recoveries during Q2-2023 were 62.8% zinc, 79.1% lead, 85.2% gold, and 86.9% silver.

5. – Quarterly Financial Performance Results

Comparison of the three and six months ended June 30, 2023 and 2022

The following table is a summary of the consolidated statements of loss and comprehensive loss of the Company.

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Mine operating profit	$ (472)	$ 1,933	$ 756	$ 3,148
General expenses	(3,013)	(1,635)	(5,339)	(3,069)
Other expenses	(1,886)	(2,349)	(2,052)	(2,285)
Net loss for the period	(5,371)	(2,051)	(6,635)	(2,206)
Foreign currency translation adjustment	(818)	1,204	(350)	699
Total comprehensive loss for the period	$ (6,189)	$ (847)	$ (6,985)	$ (1,507)

During the three months ended June 30, 2023, the Company reported total mine operating loss of $472 (June 30, 2022 – $1,933 profit), total comprehensive loss of $6,189 (June 30, 2022 – $847), and basic loss per share of $0.08 (June 30, 2022 – $0.01).

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

During Q2-2023, Tahuehueto pre-commercial production operations continued producing profitable results, primarily from high gold and silver grades and recoveries from its zinc and lead concentrate production. Campo Morado continues to recognize high operating costs due to inflationary pressures on its plant and operations and maintenance costs.

Mine operating profit for the three months ended June 30, 2023, and 2022 is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue				
Gross sales	$ 26,027	$ 19,210	$ 54,280	$ 40,744
Treatment and selling costs	(9,706)	(5,301)	(19,373)	(14,107)
	16,321	13,909	34,907	26,637
Cost of Sales				
Production cost	15,137	11,241	31,096	21,917
Royalties	424	410	952	943
Depletion, depreciation and amortization	1,232	325	2,103	629
	16,793	11,976	34,151	23,489
Mine operating (loss) profit	**$ (472)**	**$ 1,933**	**$ 756**	**$ 3,148**

During the three months ended June 30, 2023, the Company generated gross sales in the amount of $26,027 (June 30, 2022 – $19,210) primarily from Campo Morado operations as a result of selling 9,280 tonnes of zinc concentrate with average grades of 46.1% zinc and 331.61 g/t silver at an average selling price of US$2,561 per tonne of zinc and US$24.28/oz of silver, in addition to selling 3,251 tonnes of copper concentrate with average grades of 12.3% copper, 608.39 g/t silver, and 5.90 g/t gold at an average selling price of US$8,175 per tonne of copper, US$23.69/oz of silver, and US$1,958/oz of gold.

Additionally, from Tahuehueto pre-commercial production and mill commissioning operations, 839 tonnes of lead concentrate was sold with an average of 28.9% lead, 568.1 g/t silver and 61.9 g/t gold at an average selling price per tonne of lead of US$2,051, US$23.72/oz silver and US$1,965/oz gold, in addition to selling 647 tonnes of zinc concentrate with an average of 45.1% zinc, 134.2 g/t silver and 12.2 g/t gold at an average selling price per tonne of zinc of US$2,527, US$23.69/oz silver and US$1,966/oz gold.

Net revenues during the quarter of $16,321 (June 30, 2022 – $13,909) were inclusive of treatment charges and penalties in the amount of $6,883 (June 30, 2022 – $3,512) and freight and selling costs in the amount of $2,823 (June 30, 2022 – $1,789) reported during the period.

Total cost of sales incurred during the three months ended June 30, 2023 were $16,793 (June 30, 2022 – $11,976), including production cost in the amount of $15,137 (June 30, 2022 – $11,241), which represents direct costs attributable to the production of concentrates from both the Campo Morado and Tahuehueto mines. Relatively high production costs at Campo Morado included significant investments in equipment maintenance, both in the mine and surface plant. It also includes royalties paid and/or payable to the Servicio Geologico Mexicano in the amount of $424 (June 30, 2022 – $410), for a 2% and 3% discovery royalty, and depletion, depreciation, and amortization expenses of $1,232 (June 30, 2022 – $325).

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

General and administration expenses for the three and six months ended June 30, 2023, and 2022 are comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
General Expenses				
Consulting fees, wages and benefits	$ 1,135	$ 629	$ 2,119	$ 1,223
Legal and professional fees	341	283	569	411
Office, rent and administration	369	288	643	549
Amortization of right-of-use assets	106	31	209	61
Regulatory, transfer agent and shareholder information	47	27	75	65
Travel, promotion and investor relations	519	328	743	560
Share-based compensation	496	49	981	200
	$ 3,013	$ 1,635	$ 5,339	$ 3,069

During the three months ended June 30, 2023, the Company incurred general expenses in the amount of $3,013, compared to $1,635 during the three months ended June 30, 2022.

The net increase of $1,378 is mainly attributable to the following:

Annual retainers approved to be paid to non-executive directors in addition to the newly appointed management contributed to an increase of $506 in consulting fees, wages and benefits. Administrative costs related to Legal and professional fees in addition to travel, promotion and investor relations increased by $58 and $191, respectively, primarily to support the efforts made to strengthen the balance sheet through several debt settlement and capital raising initiatives, which increased such costs comparatively to Q2-2022. Additionally, share-based compensation recorded during the period increased by $447 as additional stock options were granted during the previous three quarters following a period of lower issuances in quantum. The share-based compensation expense is commensurate with the vesting period, which follows a vesting period of one third on the date of the grant, one third after six months, and one third on the first-year anniversary; this represents a total vesting period of 12 months, whereby the expense is weighted toward the respective grant dates.

Other income and expenses for the three and six months ended June 30, 2023, and 2022 are comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Other income and expenses:				
Interest income	$ (13)	$ (9)	$ (17)	$ (222)
Change in fair value of financial instruments	–	(76)	(823)	79
Finance costs	870	1,090	2,582	2,113
Other income and expenses	(64)	79	(6)	88
Foreign exchange loss	1,093	1,265	316	227
	$ 1,886	$ 2,349	$ 2,052	$ 2,285

During the three months ended June 30, 2023, the Company incurred net other income and expenses in the amount of $1,886, compared to $2,349 incurred during the three months ended June 30, 2022. The total net other income and expenses incurred in the year is mainly attributable to finance costs consisting of interest on debt of $96 (June 30, 2022 – $326), bank fees and penalties of $6 (June 30, 2022 – $51), interest on lease liabilities of $18 (June 30, 2022 – $6), amortization of deferred finance costs of $124 (June 30, 2022 – $271), accretion of provision for site reclamation and closure of $196 (June 30, 2022 – $196), and accretion on streaming arrangements of $430 (June 30, 2022 – $342).

Foreign exchange variations are additionally recorded in connection to fluctuations in exchange rates between the United States dollar, Mexican peso and Canadian dollar and the underlying assets or liability and the currency in which these are receivable or payable.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Selected Quarterly Financial Information

	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross revenues	$ 26,027	$ 28,253	$ 25,075	$ 23,472	$ 19,210	$ 21,534	$ 29,671	$ 23,076
Mine operating profit	(472)	1,228	(1,302)	1,161	1,933	1,215	10,125	9,669
Net (loss) income	(5,371)	(1,264)	(3,805)	(5,596)	(2,051)	(155)	20,610	4,284
Basic (loss) earnings per share	(0.08)	(0.04)	(0.11)	(0.02)	(0.01)	0.00	0.08	0.02
Diluted (loss) earnings per share	(0.08)	(0.04)	(0.11)	(0.02)	(0.01)	0.00	0.07	0.01
Cash	14,831	3,616	1,152	2,421	1,535	1,822	3,049	7,466
Total assets	148,826	135,881	133,203	131,964	125,149	114,541	108,805	81,265
Non-current liabilities	33,782	27,292	74,169	49,562	43,702	44,585	46,392	41,605
Equity (deficiency)	59,884	48,140	28,363	38,940	35,786	32,780	30,671	5,461
Working capital deficiency	(15,040)	(29,685)	(46,275)	(22,001)	(13,619)	(9,496)	(3,114)	(5,451)

The results for the three months ended June 30, 2023 continue to reflect the strategic positioning undergone by management to allow for steady progress at the Tahuehueto mine. The mine completed its targeted 500tpd milestone and is preparing to achieve commercial production of 1,000 tpd, scheduled for year-end 2023. Capital resources continue to be highly monitored and successful restructuring of the Company's financing allows for uninhibited progress to meet production standards expected to yield very positive results for the Company in 2023 and beyond.

The Tahuehueto Project is progressing with pre-commissioning production from fresh high-grade underground ores contributing to a profitable quarter through production and sale of high-quality precious metals, which includes 1,715 payable ounces of gold and 14,459 payable ounces of silver sold during the quarter.

The Campo Morado Mine has realized improved copper performance since commissioning the copper concentrate circuit in Q2-2022. A greater strategic focus on copper production in December 2022 was prompted by a change in ore sources within the underground mine, as mining moved into areas with higher copper grade ores. Revenues from copper concentrate sales from Campo Morado comprised 35% of net revenues from other minerals at the mine during the quarter. A detailed review of process plant performance by international consultants in Q4 has also provided a roadmap for progressively improving performance in 2023 and beyond.

Cash flow results

The following table provides a summary of cash flows for the three and six months ended June 30, 2023, and 2022:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cash provided by (used in):				
Operating activities	$ 6,673	$ (1,304)	$ 9,765	$ 2,428
Investing activities	(6,456)	(2,093)	(7,747)	(9,233)
Financing activities	10,291	2,735	10,733	5,191
Effect of foreign exchange rate changes on cash	707	375	928	100
Increase (Decrease) in cash during the period	**11,215**	**(287)**	**13,679**	**(1,514)**
Cash beginning of period	3,616	3,049	1,152	3,049
Cash end of period	**$ 14,831**	**$ 2,762**	**$ 14,831**	**$ 1,535**

As at June 30, 2023, the Company had a cash balance of $14,831 and a working capital deficiency of $15,040. Current liabilities at the same date are in the amount of $55,160, which have been incurred in connection with operating Campo Morado mining project, the construction of the Tahuehueto project, and costs associated with maintaining the Company's public listing in good standing.

During the three months ended June 30, 2023, the Company generated cash from operating activities in the amount of $6,673 (June 30, 2022 – $1,304 used). The operating cash flows reflect the Company's healthy return on the sale of zinc, copper, and lead concentrates in addition to benefits from the settlement of credit due to contractors through the share issuances in the first half of 2023. The turnover of amounts receivable at Q1-2023 further contributed to increased cash generation the sale of concentrates prior to Q2-2023.

The Company also used cash in the amount of $6,456 in investing activities during the three months ended June 30, 2023 compared to $2,093 used during the three months ended June 30, 2022. The $4,363 increase in cash used in investing activities is primarily due to aggressive capital spending to bring the Tahuehueto mine to its initial 500tpd stage and onward to the project's 1,000tpd stage. Development costs directly attributable to the production of concentrate at the Tahuehueto mine have been increasingly attributable to operating activities rather than investing activities given the short-term nature of realized benefits.

During the three months ended June 30, 2023, the Company generated cash in the amount of $10,291 (June 30, 2022 – $2,735) in financing activities comprised mainly of $12,232 related to funds received in relation to the private placement, the repayment of principal and interest in the amount of $696 and $636, respectively, the repayment of lease liabilities of $326, and $202 paid to Empress Royalty as consideration for the amendment of the Precious Metals Streaming Agreement. Current available financing is being used mainly to finalize the development activities at the Tahuehueto project and general working capital purposes.

6. – Campo Morado Mine and Tahuehueto Mining Project

Campo Morado Mine

Summary of NI 43-101 compliant Mineral Resources and Preliminary Economic Assessment dated March 30, 2018, the "PEA"

The PEA Report was prepared by Eric Titley BSc, PGeo of Titley Consulting Ltd., William J. Lewis BSc, PGeo of Micon International Limited ("Micon"), Christopher Jacobs CEng, MIMMM of Micon, James W.G. Turner BSc(Hons) ACSM, MSc MCSM, MIMMM CEng of Micon and Eur Ing Bruce Pilcher CEng, FIMMM, FAusIMM (CP) of Micon.

Campo Morado PEA Highlights

- Undiscounted cash flow before income and mining taxes of US$114M
- Pre-tax Net Present Value ("NPV") at an 8% discount rate of US$81M
- Undiscounted cash flow after income and mining taxes of US$91M
- After-tax NPV at a discount rate of 8% of US$65M
- Life of mine ("LOM") of 12 years, with 9.7 million tonnes of potential mill feed at an average grade of 4.33% zinc grade, 1.00% lead grade, 0.78% copper grade, 131.9 grams per tonne ("g/t") of silver and 1.71 grams per tonne ("g/t") of gold.
  Note – only potential mill feed resources located in close proximity to existing underground mine workings that are easily accessible with limited mine development are currently included in the PEA mine plan. There are additional measured and indicated resources of approximately 6.9 million tonnes available that could extend the project's LOM.
- Mining rate of 2,500 tonnes per day ("tpd")

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Campo Morado Mine resources estimate with effective date as at November 5th, 2017:

Cut-off ZnEq (%)	ZnEq (%)	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Pb %	Zn (%)
Measured							
3.0	6.94	17,004,000	1.34	91	0.73	0.67	3.17
4.0	7.87	13,412,000	1.49	104	0.76	0.78	3.71
5.5	**9.27**	**9,292,000**	**1.70**	**124**	**0.82**	**0.94**	**4.56**
7.0	10.71	6,318,000	1.88	143	0.87	1.11	5.44
Indicated							
3.0	5.78	16,848,000	1.25	85	0.68	0.61	2.25
4.0	6.62	12,324,000	1.42	99	0.72	0.73	2.68
5.5	**7.94**	**7,335,000**	**1.70**	**123**	**0.78**	**0.92**	**3.31**
7.0	9.32	4,086,000	1.96	151	0.86	1.12	3.94
Measured + Indicated							
3.0	6.36	33,852,000	1.29	88	0.70	0.64	2.71
4.0	7.27	25,736,000	1.46	102	0.74	0.76	3.22
5.5	**8.68**	**16,627,000**	**1.70**	**123**	**0.80**	**0.93**	**4.01**
7.0	10.16	10,404,000	1.91	146	0.87	1.11	4.85
Inferred							
3.0	5.03	3,316,000	0.98	76	0.52	0.58	2.10
4.0	5.85	2,152,000	1.11	90	0.55	0.71	2.54
5.5	**7.27**	**988,000**	**1.32**	**116**	**0.64**	**0.92**	**3.20**
7.0	8.75	416,000	1.52	148	0.76	1.10	3.78

Campo Morado Operations

Luca purchased Campo Morado in September 2017 and, during August 2017, Luca commenced underground pre-production mining operations at Campo Morado. Mining development commenced within the El Largo Zone with mineralized mined development material transported and stockpiled at the mill site.

On August 14, 2019, the Company suspended mining operations at Campo Morado placing the mine into care and maintenance as a result of weak zinc prices.

Luca brought the mine out of care and maintenance and reinitiated mining and milling operations during late January 2020, but subsequently during April and May 2020 the Company temporarily suspended operations as mandated by the Mexican Government for COVID-19 precautions, then re-initiated mining operations in September 4, 2020, after mining was declared an essential service in Mexico.

As of the date of this MD&A mining operations are continuing.

In Q4-2022 the Company engaged international engineering consultants Ausenco to undertake a detailed review of the Campo Morado process plant and its performance. This provided the operation with a roadmap to progressively improve performance, with some significant potential gains in recoveries and concentrate grades. One of the priority recommendations was to implement an effective geometallurgy program at the site, linking detailed understanding of ore zones mineralogies with process plant configurations and performance. The operating team has fully embraced this, and this approach underpins the 2023 production planning. The site is now progressively implementing the Ausenco recommendations, and the consultants will return in 3Q23 to continue supporting the improvements.

Management also initiated a metallurgical test work program to investigate technologies for potentially increasing both base metal recoveries and precious metal recoveries at Campo Morado, which, if successful, will enable Campo Morado to increase revenues and will create additional mine flexibility to target precious metal rich zones in times of reduced base metal pricing. This metallurgical test work program commenced during mid-July 2021 and is ongoing. Testing includes exploring pneumatic flotation and micro fine grinding; the potential to produce a precious metals-rich pyrite concentrate from both legacy and fresh tailings; investigating forced oxidation and leaching technologies (refer below); and ongoing metallurgical testing on various ore bodies within the global resource.

Successful testing results from these technologies may allow the Company to improve recoveries of all payable metals and potentially to reprocess the existing tailings stored in the historic tailings facility to recover a portion of the precious and base metals contained within the tailings.

During the quarter Campo Morado operations team worked on adding a further (Stage 4) lift to the Alto Tailings Storage Facility (“TSF”). The storage capacity is increased progressively through the construction of a series of embankment lifts, with each lift providing a further 15-20 months of storage capacity.

During the quarter the Company commenced producing a third concentrate stream – a bulk copper-lead-silver concentrate – at Campo Morado. With suitable copper and lead head grades this produces a commercial product that is usually sold as a copper concentrate, with strong silver contents.

Tahuehueto Mining Project

NI 43–101 Compliant Pre-Feasibility Study

In January 2017, Luca announced the results of a NI 43–101 compliant Prefeasibility Study (the "PFS") for Tahuehueto. The PFS was prepared by Metal Mining Consultants Inc. based in Highlands Ranch, Colorado. And authored by Scott E. Wilson of MMC along with contributions from other industry experts. This PFS has been prepared in compliance with Form 43-101F1 (Technical Report) and Companion Policy 43-101CP with an effective date of the report is November 18, 2016. Given that much of the data and models from the 2017 report were significantly updated in 2022, the 2017 report is no longer considered current and should therefore not be relied upon by investors.

On April 25, 2022, the Company released an update to the NI 43–101 compliant PFS for Tahuehueto. This updated PFS builds off the previous 2017 report with an expansion of the mining operation to 1,000tpd, adoption of the sub-level long hole open stoping mining method combined with lesser cut and fill mining method, and an updated reserve and resource calculation.

The Project configuration evaluated in the updated 2022 PFS is a conventional underground mine utilising contractor mining, and owner-operated surface facilities. Mill feed will be processed in a 1,000 tonnes per day comminution circuit consisting of primary and secondary crushing, wet grinding to an initial two-circuit flotation/concentration plant producing precious metal rich lead and zinc concentrates and subsequently, in the second year of operation a third circuit added to produce copper concentrates.

The PFS was prepared by independent third-party consultants, Resource Development Associates Inc. ("RDA") and integrated updated geological interpretations based on expanded knowledge of the mineral deposit, geological modeling, an optimized mine plan and production schedule, additional metallurgical work, a mill currently under construction and updated cost estimates, all of which de-risk the Project.

The Company cautions that the PFS is preliminary in nature and is based on technical and economic assumptions which could be further refined and evaluated in a full feasibility study. The PFS is based on an updated project reserve and resource estimate effective as of February 23, 2022. As the Company has elected to bring the Tahuehueto Mining Project into production without the benefits of a full feasibility study, the Company cautions that this could result in a higher risk of economic or technical failure of the operation than if a full feasibility study had been prepared. There are no assurances that the Tahuehueto Mining Project will be found to be economic.

Investors are urged to review the complete NI 43-101 report for complete details of the Technical Report that summarises the results of the PFS has been filed on SEDAR at www.sedar.com on April 25,2022 and is available on the Company's website www.lucamining.com.

Tahuehueto Construction Project

The construction project achieved a major milestone at the end of June 2023 with the completion of the necessary elements to operate at a rate of 500tpd. This included Stage 1 of the tailings storage facility. Construction of the latter will continue throughout 2023, with expected completion by year-end.

Construction efforts will be maintained throughout the remainder of 2023, with the goal of achieving the nameplate capacity of 1000tpd by end 2023. Crucially, the second ball mill and all the ancillary systems were acquired during the quarter, and maintenance and refurbishment near complete. Arrangements for transportation to site are underway.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Mineral Properties and Development Assets

Effective January 1, 2017, the Company commenced capitalization of all direct costs related to the development of the Tahuehueto project to property, plant and equipment under IAS 16, as management determined the technical feasibility and commercial viability were established through the positive results associated with the pre-feasibility study, thereby moving it into a development stage asset under IFRS.

As at June 30, 2023, the Company capitalized the following acquisition and developments costs:

		Tahuehueto
Balance, December 31, 2022	**$**	**38,439**
Costs incurred:		
Depreciation and amortization capitalized		1,162
Development costs		58
Project general and office expenses		78
Permitting, environmental and community costs		24
Salaries and wages		195
Share-based compensation		149
Travel and accommodation		31
Loss on extinguishment of debt (Note 10)		192
Interest capitalized, net		2,584
Total additions for the year	$	4,473
Foreign currency movement		(432)
Balance, June 30, 2023	**$**	**42,480**

Qualified Person

The Qualified Person who has reviewed and approved all technical disclosure in this MD&A is Ralph Shearing, P. Geol, who is a Director of the Company.

7. – Non-GAAP measures

The Company has included certain non-GAAP performance measures throughout this MD&A. These performance measures are employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, as explained elsewhere herein, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

C1 cash cost per pound of payable zinc

C1 cash costs per pound of payable zinc for the Campo Morado Mine operation are estimated by adding the total cost to produce concentrate (mining, milling, site general and administration), adding the cost of transporting concentrate to the point of sale, adding the cost of smelter treatment and refining charges, subtracting the by-product credits estimated from sales of lead, silver, gold and dividing by the pounds of payable zinc. By-product credits are calculated using the realized weighted average metal price, during the year.

All-in sustaining costs ("AISC")

The Company believes that AISC more fully defines the total costs associated with producing zinc. The Company calculates all-in sustaining costs as the sum of total cash costs (as described above), corporate general and administrative expense (net of stock-based compensation), reclamation cost accretion and amortization and sustaining capital, all divided by the zinc pounds produced to arrive at a per pound figure.

Other companies may calculate this measure differently as a result of differences in underlying principles and policies applied. Differences may also arise due to a different definition of sustaining versus growth capital.

(Amounts in US dollars)

	Three months ended June 30,				Six months ended June 30,			
		2023		2022		2023		2022
Non GAAP reconciliation								
Production payable Zinc (1,000 lb)		7,475		7,061		14,090		15,154
Production cost per financial statements (US$000)	$	8,311	$	8,414	$	16,885	$	16,844
Treatment and refining charges (US$000)		4,633		2,721		9,006		8,007
Freight (US$000)		1,910		1,401		3,876		3,068
By-product credits (US$000)		(6,425)		(4,580)		(13,710)		(9,802)
C1 cash cost (US$000)	$	8,429	$	7,957	$	16,058	$	18,118
C1 cash cost per payable pound of zinc (US$/lb)								
Production Cost	$	1.11	$	1.19	$	1.20	$	1.11
Treatment and refining charges		0.62		0.39		0.64		0.53
Freight		0.26		0.20		0.28		0.20
By-product credits – estimated		(0.86)		(0.65)		(0.97)		(0.65)
C1 cash cost per payable pound of zinc (US$/lb)	$	1.13	$	1.13	$	1.14	$	1.20
All-in Sustaining Costs								
C1 cash cost (US$000)	$	8,429	$	7,957	$	16,058	$	18,118
Depletion, Depreciation & Amortization (US$000)		917		255		1,561		495
Accretion (US$000)		87		63		154		124
Corporate Costs (US$000)		1,025		673		1,846		1,303
Royalties (US$000)		316		321		706		742
Capital Expenditure (sustaining) (US$000)		540		1,099		913		1,670
All-in Sustaining Costs (US$000)	$	11,315	$	10,368	$	21,238	$	22,451
AISC per payable pound of zinc (US$/lb)	$	1.51	$	1.47	$	1.51	$	1.48

Note: Amounts in the table above are presented in thousands of US dollars in relation to Campo Morado operations. These amounts were translated into US dollars using the average foreign exchange rate or the true US dollar amounts if available.

8. – Liquidity

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, development, exploration and evaluation of assets. The Board does not impose quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

The Company's principal business activity is the production of base metals and the acquisition, exploration and development of resource properties in Mexico, with a focus on the mine operation of Campo Morado and the development of Tahuehueto mine project. Effective May 16, 2018, the Company completed commissioning of Campo Morado mine and declared commercial production. On February 23, 2021, the Company executed a letter of intent with Accendo Banco S.A. de C.V., Empress Royalty Corp., & Endeavour Financial (the "Accendo Syndicate") to provide up to US$25 million of financing to complete the construction and ramp-up of Tahuehueto mining project, meet debt service obligations and working capital purposes. On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo's banking license and started its liquidation. The Company has a US$5.8 million balance to be drawn down from its executed Medium Term Loan Facility ("MTLF") which is now impaired and was part of the total US$25 million Accendo Syndicate financing. Notwithstanding, subsequent to completing the necessary financing to place Tahuehueto into commercial production, there can be no assurances that the Company will meet its production targets and that realized metal prices will be sufficient to cover the cost of operations. In addition, the business of mineral development involves a high degree of risk and there can be no assurance that the Company's current operations, including development programs, will result in profitable mining operations. The recoverability of the carrying value of development project assets or mineral properties, and the Company's continued ongoing existence is dependent upon the preservation of its interest in the underlying properties, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis. As a result of these risks, there are material uncertainties which may cast significant doubt as to the Company's ability to continue as a going concern. In response to these matters the Company has taken several actions during the first and second quarters of 2023 to improve its financial position. These actions include a series of debt settlement agreements settling $13,921 through the issuance of 35,711,450 common shares in the Company, and capital raising initiatives resulting gross proceeds of $24,897.

The condensed interim consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported consolidated statements of financial position classifications that would be necessary if the going concern assumption were inappropriate. No adjustments have been made should the going concern assumption not be appropriate and such adjustments could be material. The Company has an excess of current liabilities over current assets as at June 30, 2023 of $15,040 (December 31, 2022 - $46,275) and an accumulated deficit of $82,729 (December 31, 2022 - $76,094). These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

There are inherent risks to mining that may affect the Company's liquidity. The ability to generate revenue and positive cash flow will depend on the ability of the Company to meet its production targets, ship concentrates and realize economic commodity prices for zinc, lead, copper, gold and silver. Exchange rates could also have a significant impact on the Company's profitability since some of its costs and expenses are denominated in currencies other than the US dollar.

The Company has received the following sources of capital:

Line of Credit

On July 22, 2016, the Company entered into an agreement with Estrategica Corporativa en Finanzas, S.A.P.I. de C.V. ("Escorfin"), for a line of credit for up to $9.2 million (MXN$150 million) (the "LOC"). The funds from the LOC were used towards the Company's investment plan established in its completed Internal Scoping Study. The funds drawn down under the LOC accrue interest at a rate of 15% per annum, payable monthly after a grace period of 12 months. Interest generated during the grace period will be subsequently paid in 12 consecutive monthly instalments. Furthermore, the Company is required to pay back any cash advances in 24 equal consecutive monthly instalments following a 36-month grace period and no later than July 28, 2022. In case of default any payment under the LOC, the Company will pay a moratorium interest rate of 30% per annum. The Company has drawn down from its LOC a total amount of $2.8M (MXN$46 million) primarily to further its Tahuehueto project.

Effective July 1, 2021, the Company and Escorfin agreed to amend the LOC agreement resulting in a substantial modification whereby the outstanding balance including interest was capitalized and converted to United States dollars at current exchange rates. To accommodate the amendment, Escorfin has been accepted into the Trust Agreement defined in Note 11(b). The remaining term was extended thirty-six months from the date of amendment with a grace period equal to twelve months on principal and interest. The amended interest rate was decreased to

10% per annum from 15% per annum and as consideration for LOC modification, the Company has agreed to issue Escorfin, 62,500 bonus shares and 187,500 bonus warrants. Each bonus warrant is exercisable within a period of two years at a price of $3.80. The shares issued were valued at the date of issuance, July 30, 2021, and the bonus warrants were fair valued using the Black-Scholes option pricing model, together totaling $1,197 which was recorded as deferred financing costs in other assets.

Effective May 26, 2022, the Company and Escorfin agreed to amend the terms of the LOC Agreement. As a result of amendment of terms, the maturity dates of the LOC Agreement were extended to September 2025, with thirty-six equal instalments beginning October 2023 with outstanding principal accruing interest at a rate of 10% per annum.
Effective February 28, 2023, the Company and Escorfin agreed to settle outstanding principal and interest in the amount of $5,725 with 12,721,310 common shares of the Company. As a result of the amendments and settlement, as at June 30, 2023, the Company has an outstanding balance of $nil.

Campo Morado Loan Agreement

As at June 30, 2023, the Company has a balance owing of $3,316, which includes interest accrued during Q2-2023 of $105 and principal and interest repayments of $279 and $91, respectively.

On June 12, 2018, the Company renegotiated the terms for the remaining balance on the Campo Morado Agreement and entered into a loan agreement (“Campo Morado Loan Agreement”) with Nyrstar, a subsidiary of Trafigura.

On June 17, 2021, the Company and Nyrstar agreed to amend the Campo Morado Loan Agreement with the following terms: upon the execution and funding of the Accendo MTLF, the Company will repay the interest owing, a portion of the principal of the loan and the incurred variable purchase price for a total of US$3.2 million (paid). The remaining outstanding balance of the loan will be paid in twenty-six equal monthly instalments accruing interest at a rate of 10% per annum.

In addition to the aforementioned monthly principal repayments, Luca will pay at the end of each quarter succeeding the grace period, 70% of any excess cash above US$7 million generated by Luca on the Campo Morado mining project.

Effective September 30, 2021, Breakwater Resources Ltd., a subsidiary of Trafigura, acquired from Nyrstar the rights and obligations associated with the Campo Morado Loan Agreement. The Deed of Novation between the Company, Nyrstar, and Breakwater effectively releases and discharges the Company and Nyrstar from further obligations to each other with respect to the Campo Morado Loan Agreement and their respective rights against each other thereunder are cancelled. In respect to the Deed of Novation, the Company and Breakwater each undertake liabilities and obligations towards the other and acquire rights against each other effectively replacing Nyrstar with Breakwater as the lender in relation to the Campo Morado Loan Agreement.

Effective May 1, 2022, the Company and Breakwater agreed to amend the terms of the Campo Morado Loan Agreement. As a result of amendment of terms, the maturity date of the Campo Morado Loan Agreement was extended to December 2023, with a three-month grace period between May and July 2022. All other terms remain unchanged from the amending agreement entered on June 17, 2021.

As at June 30, 2023, principal payments with a carrying value of US$1.24 million were overdue and Breakwater is contractually entitled to request for immediate payment of the loan. As at the date these condensed interim consolidated financial statements and accompanying MD&A were approved, the Company has successfully negotiated an amendment of terms that remedies the default and brings back into compliance the terms and conditions of the Campo Morado Loan Agreement.

Loan Facilities

On September 11, 2017, the Company entered into a loan agreement ("Loan Agreement Campo") with Trafigura in the amount of US$5 million for financing working capital to initiate the restart of continuous mining operations at the Campo Morado mining facility. The loan bears interest at an effective annual rate equivalent to LIBOR (3M) plus 5%, it has a three-year term with nine months grace period followed by thirty monthly repayments. In connection to the loan agreement the Company's subsidiary, Minas de Campo Morado, S.A. de C.V., also entered into an Offtake agreement with Trafigura, ("Offtake Agreement Campo") in which the Company will sell all its zinc and lead concentrates for a fifty-one-month term starting October 2017.

On December 7, 2017, the Company entered into an additional loan agreement ("Loan Agreement Real") with Trafigura Mexico, S.A. de C.V. in the amount of US$15 million for financing working capital, rehabilitation and operation of the Tahuehueto mining project. The Loan Facility was available in three tranches, the first tranche equivalent to US$7.5 million, which was received upon signing of the agreement. The second tranche equal to US$5 million, which was received on November 6, 2018. The third tranche for US$2.5 million was not received and is no longer available. The loan bears interest at an effective annual rate equivalent to LIBOR (1 year) plus 6%, it has a three-year term with a twelve-month grace period followed by twenty-four repayments. In connection to the loan agreement, the Company's subsidiary Real de la Bufa, S.A. de C.V., also entered into an Offtake agreement with Trafigura., ("Offtake Agreement Real") in which the Company will sell all its zinc and lead concentrates for a sixty-month term, starting January 2018.

On July 1, 2021, the Company and Trafigura agreed to amend the terms of the Loan Agreement Campo and Loan Agreement Real (collectively the "Trafigura Loans"). The loan amendments resulted in a substantial modification whereby the interest rates remained unchanged and unpaid interest was capitalized to the outstanding principal of the loans. The maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to September 30, 2023 and September 30, 2024, respectively, with twenty-six equal instalments beginning August 30, 2021 for the Loan Agreement Campo and thirty-two equal instalments beginning February 1, 2022 for the Loan Agreement Real.

In connection to the restructure of the Trafigura Loans and the waiver received on March 26, 2020, to correct previous non-compliance of the Trafigura Loans terms and conditions, the Company agreed to transfer all of its assets in the Campo Morado and Tahuehueto mining projects to a trustee of the Trust Agreement (the "Trust") in order to secure the full repayment of the Loan Agreements. Should the total debt due to Trafigura under the Loan Agreements be fully repaid, the Trust will be terminated, and all assets held within the Trust will return to the Company. On November 12, 2020, the Company executed the Trust with Trafigura.

Effective April 1, 2022, the Company and Trafigura agreed to a subsequent amendment of terms. As a result, the maturity dates of the Loan Agreement Campo and Loan Agreement Real were extended to December 2023 and December 2024, respectively, with eighteen equal instalments due for the Loan Agreement Campo and thirty equal instalments due for the Loan Agreement Real, each beginning July 2022.

The Company successfully negotiated a subsequent amendment of terms intended to alleviate debt servicing obligations to allow the allocation of available funds to be used for completion of the Tahuehueto mining project. Effective June 30, 2023, the maturities of the Loan Agreement Campo and Loan Agreement Real have been extended to June 2024 and December 2024, respectively with 14 equal instalments beginning May 2023 for the Loan Agreement Campo and November for the Loan Agreement Real. Additionally, effective interest rates have been changed from LIBOR (3M) plus 5% to SOFR plus 5.26% per annum for the Loan Agreement Campo and from LIBOR (1 year) plus 6% to SOFR plus 6.72% for the Loan Agreement Real. As a result of these amendments, during the six months ended June 30, 2023, the Company assessed the overall impact of the changes and have recognized a $nil fair value change on the non-substantial modification in other income and expenses impacting the fair value of the Loan Agreement Campo and capitalized a loss on the non-substantial modification to development project assets of $144 impacting the fair value of the Loan Agreement Real.

As at June 30, 2023, the Company has a balance owing of $2,451 under the Loan Agreement Campo which includes interest accrued during Q2-2023 in the amount of $74, and principal and interest repayments of $417 and $72, respectively were paid during Q2-2023.

As at June 30, 2023, the Company has a balance owing of $16,653 under the Loan Agreement Real which includes interest accrued during Q2-2023 in the amount of $131, and principal and interest repayments of $nil and $491, respectively were paid during Q2-2023.

Accendo Loan

On July 1, 2021, the Company and Accendo executed a US$12 million Medium Term Loan Facility (“MTLF”) for the purpose of funding the construction of Luca Mining’s Tahuehueto mining project and several working capital purposes. First and second funding were received in the amount of US$3.2 million and US$2.5 million on July 19, 2021 and August 23, 2021, respectively. Additionally, an amount of US$500,000 was advanced during the year ended December 31, 2020.

The main terms and conditions of Accendo's MTLF are as follows:

- Loan facility amount - US$12 million
- Repayment term - 4 years including a one-year grace period on principal
- Repayable in 36 equal monthly payments starting 12 months after closing
- Interest rate of 13.5% per annum payable quarterly in arrears calculated on the drawn amount
- Secured by second ranking security interest over all assets of the Company
- An arrangement fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing
- An origination fee of 2.5% of the facility amount payable from the proceeds upon first draw down at the closing

On September 29, 2021, the Mexican National Banking and Securities Commission revoked Accendo’s operating license to organize and operate as a multiple banking institution and started a liquidation process to protect the savings of the bank’s clients. The Company had a balance of US$5.8 million available from the MTLF for drawdown. However, due to the ongoing liquidation process, the Company’s ability to access this remaining balance is impaired

As at June 30, 2023, the Company has a balance owing of $9,779 under the Accendo MTLF which includes interest accrued during Q2-2023 of $288.

Calu Loan

On December 29, 2021, the Company executed a loan agreement (“Calu Loan”) with Calu Opportunity Fund, LP (“Calu ”) whereby Calu will provide a US$5 million loan facility to Luca, with proceeds to be used to fund the final costs of construction and working capital at the Company's Tahuehueto Gold Mine Project. The Company received US$1.7 million on January 7, 2022 and US$645,000 in February 2022 for a total amount drawn from the facility of US$2.345 million. The loan is unsecured, has a term of 4 years, bears interest at 13.5% per annum, and is payable in 12 quarterly instalments commencing March 10, 2023.

Effective August 31, 2022, the Company and Calu agreed to amend the terms of the Calu Loan whereby US$144,088 of interest accrued as of June 30, 2022 was capitalized to the loan principal. Interest thereafter shall continue to accrue interest at a rate of 13.5% per annum and payment terms the remaining balance is payable in thirty-seven blended principal and interest payments to be made monthly commencing December 21, 2022.

Effective February 28, 2023, the Company and Calu entered into a second amending agreement to remedy the overdue amounts and subsequently settled the full balance of the Calu Loan through the issuance of 8,254,954 shares.

As at June 30, 2023, the Company has a balance owing of $nil under the Calu Loan.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Right of use assets and lease liabilities

The continuity of lease liabilities for the six months ended June 30, 2023 and year ended December 31, 2022 are as follows:

		Amount
Balance, December 31, 2021	$	10,021
Lease additions		574
Lease amendments		15
Lease cancelations		-
Lease payments		(1,204)
Interest expense		1,025
Interest paid		(1,025)
Foreign currency movement		656
Balance, December 31, 2022	$	10,062
Lease additions		104
Lease amendments		-
Lease cancelations		-
Lease payments		(204)
Interest expense		521
Interest paid		(319)
Foreign currency movement		(222)
Balance, June 30, 2023	**$**	**9,942**

9. – Capital Resources

Common shares issued

For the six months ended June 30, 2023

i. On January 3, 2023, the Company entered into a debt settlement agreement with an arms' length mining contractor (the "Creditor") to settle $1,176 which is owing to the Creditor as a result of underground mine development work. The Company and the Creditor have agreed that the issuance to the Creditor of 735,186 common shares of the Company at a deemed price of $1.60 per common share will extinguish and settle the debt and the fair value, net of share issue costs of $309 has been recorded as share capital.

ii. On February 28, 2023, the Company entered into a series of debt settlement agreements in respect of $9,439 of loan debts owed to various creditors (the "Debt Settlements"). Pursuant to the Debt Settlements, the Company issued an aggregate of 20,976,264 shares at a deemed price of $0.45 per Share. In connection with the Debt Settlements, the Company incurred $309 of transaction fees and the fair value of the shares, net of transaction fees of $9,132 has been allocated to share capital.

iii. On April 25, 2023, the Company closed the first tranche of its non-brokered private placement (the "Private Placement") previously announced. The Company has sold 52,412,064 units of the Company (each, a "Unit") at a price of $0.35 per Unit for gross proceeds of $18,344. Each Unit consists of one common share in the Company and one half of one share purchase warrant (each whole, a "Warrant") entitling the holder to purchase an additional common share at a price of $0.50 per common share until April 25, 2025.

On June 2, 2023, the Company closed the second tranche of the Private Placement under the same terms and sold 6,889,462 Units at a price of $0.35 per Unit for gross proceeds of $2,411. Warrants issued in the second tranche entitle the holder to purchase an additional common share at a price of $0.50 per common share until June 2, 2025.

On June 25, 2023, the Company closed the third and final tranche of the Private Placement under the same terms and sold 11,831,474 Units at a price of $0.35 per Unit for gross proceeds of $4,141. Warrants issued in the second tranche entitle the holder to purchase an additional common share at a price of $0.50 per common share until June 25, 2025.

In connection with the Private Placement, related parties to the Company acquired 14,937,830 Units for an aggregate purchase price of $5,228. Additionally, the Company incurred $2,329 of share issue costs consisting of finders' fees of $1,340, issuance of 3,423,556 finders' warrants with a fair value of $680, and legal fees and other transaction costs of $309. The entirety of the fair value net of share issuance costs have been allocated to share capital with $680 for the finders' warrants being allocated to equity reserves.

iv. On June 2, 2023, the Company agreed to settle an amount of $4,900 advanced in relation to a standby guarantee under the Company's proposed but no longer proceeding Rights Offering. Pursuant to the debt settlement, the Company agreed to issue 14,000,000 Units, having the identical terms as the Private Placement Units as consideration. In connection with the settlement, the Company incurred $421 of transaction fees.

v. During the six months ended June 30, 2023, the Company recognized the expiry of 212,500 stock options and 3,089,072 warrants. The fair value of the remaining reserves from the expired securities of $775 was transferred from equity reserves and recorded against share capital.

For the six months ended June 30, 2022

i. During the six months ended June 30, 2022, the Company issued 750,773 common shares for gross proceeds of $1,502 in connection with share purchase warrants exercised. As a result of the share purchase warrants exercised, Escorfin, a related party to the Company, was issued 454,137 common shares and a fair value of $6 was transferred from equity reserves and recorded against share capital.

ii. On April 20, 2022, the Company closed the first tranche of a non-brokered private placement for gross proceeds of $4,241. The Company issued 1,514,537 units (each, a "Unit") of the Company at a price of $0.35 per Unit. Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share of the Company at a price of $4.40 per Common Share within twenty-four months from April 20, 2022 (the "Closing Date"). All securities issued under the private placement were subject to a hold period expiring four months and one day after the Closing Date.

On May 12, 2022, the Company closed the second and final tranche of a non-brokered private placement, whereby gross proceeds of $759 were raised through the issuance of 271,178 Units.

In connection with the above private placement, the Company incurred $143 of share issue costs consisting of finders' fees of $68, issuance of 5,200 finders' Units with a fair value of $15, and legal fees of $60.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

Other sources of funds

As at June 30, 2023, the other sources of funds potentially available to the Company are through the exercise of outstanding stock options and share purchase warrants with terms as follows:

Stock options outstanding are as follows:

	Outstanding			Exercisable
Expiry date	**Number of options**	**Exercise price**	**Remaining contractual life (years)**	**Number of options**
September 6, 2023	62,500	0.50	0.2	62,500
December 3, 2023	37,500	0.50	0.4	37,500
January 29, 2025	25,000	0.50	1.6	25,000
February 8, 2025	31,250	0.50	1.6	31,250
February 10, 2025	100,000	0.40	1.6	50,000
August 6, 2025	12,500	0.50	2.1	12,500
December 5, 2025	112,500	0.72	2.4	75,000
February 25, 2026	635,417	0.50	2.7	635,417
May 11, 2026	9,375	0.50	2.9	9,375
May 19, 2026	62,500	0.50	2.9	62,500
August 9, 2026	12,500	0.50	3.1	12,500
August 23, 2026	12,500	0.50	3.2	12,500
April 25, 2028	527,778	0.45	4.8	175,926
June 7, 2028	4,970,000	0.46	4.9	1,656,667
Outstanding, June 30, 2023	**6,611,320**			**2,858,635**

Share purchase warrants outstanding are as follows:

	Outstanding		
Expiry date	**Granted**	**Exercise price**	**Remaining contractual life (years)**
July 1, 2023	187,500	3.80	0.0
October 16, 2023	1,375,000	1.40	0.3
April 20, 2024	757,273	4.40	0.8
May 12, 2024	43,750	4.40	0.9
May 30, 2024	94,463	4.40	0.9
April 25, 2025	28,905,717	0.50	1.8
June 2, 2025	10,832,896	0.50	1.9
June 23, 2025	250,000	0.50	2.0
June 26, 2025	6,001,435	0.50	2.0
June 30, 2025	622,272	2.80	2.0
	49,070,306		

In the future, the Company may have capital requirements in excess of its currently available resources and may be required to seek additional financing. There can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

10.– Off-balance sheet arrangements

The Company does not utilize off-balance sheet arrangements.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

11.– Transactions between related parties

The Company's related parties consist of the Company's directors, officers and companies associated with them including the following:

- Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. (“Escorfin”) with Roberto Guzman as a Director in common.
- Bursametrica Casa de Bolsa, S.A. de C.V. (“Bursametrica”) with Roberto Guzman as a Director in common.

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management.

a) Compensation of key management personnel:

Key management personnel include members of the Board of Directors and officers of the Company. The net aggregate compensation paid, or payable and related party transactions are shown as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Short-term benefits	$ 629	$ 253	$ 1,142	$ 503
Share-based compensation	514	39	529	162
	$ 1,143	$ 292	$ 1,671	$ 665

b) Related party balances:

As at June 30, 2023, directors and officers or their related companies were owed $552 (December 31, 2022 – $732) included in accounts payable and accrued liabilities mainly in respect to reimbursement of expenses, labour obligations, and director fees. These amounts are unsecured, non-interest bearing and have no specific terms of settlement.

c) Estrategica Corporativa en Finanzas, S.A.P.I. DE C.V. (“Escorfin”)

Effective November 6, 2018, the Company appointed Roberto Guzman to the Board of Directors. Roberto is also the president, director and shareholder of Escorfin. Escorfin is a private equity fund that specialize in real estate development, energy innovations, and tourism investment in Mexico.

The following summarizes the transactions and balances owing to Escorfin as at June 30, 2023:

	June 30, 2023	December 31, 2022
Debt current portion	$ -	$ 1,274
Debt long term portion	-	4,145
Balance	**$ -**	**$ 5,419**

During the three and six months ended June 30, 2023, the Company incurred interest in the amount of $nil and $206, respectively (June 30, 2022 – $123 and $236) and principal and interest owing of $nil and $5,725 was settled, respectively (June 30, 2022 – $nil) with the issuance of 12,721,310 common shares of the Company (June 30, 2022 – $nil).

d) Bursametrica Casa de Bolsa, S.A. de C.V. (“Bursametrica”)

On April 4, 2021, the Company entered into a service agreement with Bursametrica whereby the financial institution would provide foreign exchange services primarily for the exchange of funds denominated in US dollars for funds denominated in the Mexican Peso. A director of the Company was deemed to have economic influence in the financial institution. During the three and six months ended June 30, 2023, the amount exchanged for currency denominated in the Mexican Peso at exchange rates at the time of the conversion was $5,392 (US$4.01 million) and $13,103 (US$9.72 million), respectively (June 30, 2022 – $5,823 (US$4.56 million) and $15,432 (US$12.14 million)). As at June 30, 2023, the amount owed to Bursametrica was $nil (December 31, 2022 - $nil).

12.– Subsequent events

Effective July 14, 2023, the Company negotiated an amendment of terms pursuant to the Campo Morado Loan Agreement. The amendment remedies any previous default and brings back into compliance the terms and conditions of the Campo Morado Loan Agreement. Pursuant to the fourth amendment, the parties agreed to a revised payment schedule with all other terms, including interest rates remaining unchanged. The amended payment schedule is structured in such a way that 13 equal monthly instalments will be made starting June 2023 to maturity.

13.– Proposed transaction

The Company has not engaged in any proposed transactions that have not been executed.

14.– Accounting policies and critical accounting estimates and judgements

Full disclosure of the Company’s accounting policies and significant accounting estimates and judgments in accordance with IFRS can be found in note 2 and 3 of its audited consolidated financial statements as at December 31, 2022. Key estimates and judgements include going concern assumptions, functional currency, economic recoverability, impairment and probability of future economic benefits of mineral property interests, commencement of commercial production, accounting policies for streaming arrangements, mineral reserves and mineral resource estimates, operating levels intended by management, provisions for site reclamation and closure, assumptions in inventory, accounts receivable, and stock based compensation valuation, depreciation and amortization rates, and deferred tax assets and liabilities.

15.– Financial Instruments

As at June 30, 2023, the Company’s financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities, obligation under share purchase obligation, and current portion of the long-term debt. The fair values of these financial instruments approximate their carrying values due to their short-term to maturity. The fair value of the long-term debt has been determined based on Level 1 of the fair value hierarchy and approximates their carrying values as the cost of the long-term debt is consistent with market rates.

The Company’s financial instruments are exposed to certain financial risks including credit risk, liquidity risk, foreign currency risks, interest rate risk, commodity and equity price risk and capital risk management. Details of each risk are laid out in the notes to the Company’s consolidated financial statements.

(Expressed in thousands of Canadian dollars, unless otherwise stated and per share amounts)

16.– Other requirements

Outstanding share data

Authorized: Unlimited number of common shares
Number of common shares issued and outstanding as at June 30, 2023: 141,712,507
Number of common shares issued and outstanding as at August 21, 2023: 141,712,507

Stock options as at August 21, 2023:

		Outstanding		Exercisable
Expiry date	**Number of options**	**Exercise price**	**Remaining contractual life (years)**	**Number of options**
September 6, 2023	62,500	0.50	0.0	62,500
December 3, 2023	37,500	0.50	0.3	37,500
January 29, 2025	25,000	0.50	1.4	25,000
February 8, 2025	31,250	0.50	1.5	31,250
February 10, 2025	100,000	0.40	1.5	75,000
August 6, 2025	12,500	0.50	2.0	12,500
December 5, 2025	112,500	0.72	2.3	75,000
February 25, 2026	635,417	0.50	2.5	635,417
May 11, 2026	9,375	0.50	2.7	9,375
May 19, 2026	62,500	0.50	2.7	62,500
August 9, 2026	12,500	0.50	3.0	12,500
August 23, 2026	12,500	0.50	3.0	12,500
April 25, 2028	527,778	0.45	4.7	175,926
June 7, 2028	4,925,000	0.46	4.8	1,641,667
Outstanding	**6,566,320**	**$ 0.46**	**4.3**	**2,868,635**

Share purchase warrants outstanding as at August 21, 2023:

	Outstanding		
Expiry date	**Granted**	**Exercise price**	**Remaining contractual life (years)**
October 16, 2023	1,375,000	$ 1.40	0.2
April 20, 2024	757,273	4.40	0.7
May 12, 2024	43,750	4.40	0.7
May 30, 2024	94,463	4.40	0.8
April 25, 2025	28,905,717	0.50	1.7
June 2, 2025	10,832,896	0.50	1.8
June 23, 2025	250,000	0.50	1.8
June 26, 2025	6,001,435	0.50	1.8
June 30, 2025	622,272	2.80	1.9
	48,882,806	**$ 0.63**	**1.7**

17.– Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim consolidated financial statements for the three and six months ended June 30, 2023, and 2022, and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR at www.sedar.com.