



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the three and six months ended June 30, 2019 prepared as of August 29, 2019, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2019 Q2 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2018 as well as the accompanying MD&A for the year then ended (the "**Annual MD&A**").

The above referenced condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**") and as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. All dollar amounts are expressed in thousands of US dollars (US\$000's) unless otherwise indicated. Throughout this MD&A the terms first quarter, second quarter and third quarter are respectively used interchangeably with the terms Q1, Q2 and Q3.

The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the Annual MD&A have remained substantially unchanged and are still applicable to the Company unless otherwise indicated.

Forward-Looking Statements

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, "**forward-looking information**"). The forward-looking information contained in this MD&A is made as of the date hereof. Except as required under applicable securities legislation, the Company does not intend, and does not assume any obligation, to update forward-looking information.

Forward-looking information includes, but is not limited to, statements with respect to the future price of silver, gold and other metals and the effects thereof on the Company's mineral resources; statements relating to the potential mineralization and geological merits of the Company's Rosario mine and related mineral concessions (the "**Rosario Mine**" which is part of the "**Rosario Project**"), the Cinco Estrellas property ("**Cinco Estrellas Property**" which is part of the **Rosario Project**), the Membrillo prospect ("Membrillo Prospect" which is part of the Rosario Project); and the Veta Grande mine (the "**Veta Grande Mine**" which is part of the "**Veta Grande Project**"), the Minillas property (the "**Minillas Property**" which is part of the Veta Grande Project), and the Zacatecas properties (the "**Zacatecas Properties**" which are part of the Veta Grande Project) including the Panuco deposit ("**Panuco Deposit**"), the Company's expected production and recoveries for its Rosario Project and Veta Grande Project; expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; expected timing regarding installation of certain facilities on the Company's projects; the Company's proposed development and exploration plans for the Veta Grande Mine, the Cinco Estrellas Property, the Membrillo Prospect, and the Panuco Deposit; plans for drilling; expectations regarding environmental issues that may affect the exploration progress; project capital cost estimates; and the Company's other plans for development of its projects. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends",

"anticipates", or "believes" or the negatives thereof or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

This forward-looking information is based on certain assumptions that the Company believes are reasonable, including that: the Company is able to obtain any required government or other regulatory approvals, including approval of the TSX-V and shareholder approval in respect of the Silva Acquisition, and adequate financing to complete its current and future exploration and development programs; current gold, silver and base metal prices will not materially decrease; the proposed development of the Company's mineral projects will be viable operationally and economically and proceed as expected; the Company will not experience any material accident, labour dispute or failure of plant or equipment; any additional financing needed by the Company will be available on reasonable terms; that planned drilling at its mineral properties will be completed and that the results of such drilling will be consistent with management's expectations; that general business, economic, and political conditions will not change in a material adverse manner; that the Company's exploration of its properties is not adversely affected by unexpected adverse weather conditions; that the estimates of the resources at the Panuco Deposit obtained by the Company are within reasonable bounds of accuracy (including with respect to size, grade and recovery); and that the Company's current exploration and development programs and objectives can be achieved.

Any financial outlook contained herein, as defined by applicable securities legislation, is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Forward-looking information involves 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 information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that the future price of silver, gold and base metals will decline, that mineral resources are not as estimated, that actual costs of reclamation activities are greater than expected; that changes in project parameters as plans continue to be refined result in increased costs, that lower rates of production are achieved than are expected, that unexpected variations in mineral grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents or labour disputes occur, delays in and/or failure to obtain necessary regulatory and shareholder approvals of the Silva Acquisition, that unanticipated delays occur in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on forward-looking information due to the inherent uncertainty thereof.

General

Santacruz was incorporated pursuant to the *Business Corporations Act* (British Columbia) on January 24, 2011. The Company's registered office is located at the 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company's shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "SCZ".

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver and zinc, but also including gold and lead. The Company currently has two producing projects, the Veta Grande Project and the Rosario Project. In addition, the Company holds two exploration properties in its mineral property portfolio, the Minillas Property and the Zacatecas Properties. The Company also owns 50% of PCG Mining, S.A. de C.V. ("PCG"), a holding company that owns 100% of Carrizal Mining S.A. de

C.V. (“Carrizal”), Carrizal is a private Mexican mining company, the principal asset of which is a 20% working interest in all mining concessions and assets comprising the Company’s Veta Grande Project and Zacatecas Properties (collectively the “Properties”). Carrizal also has the right to operate the Zimapan Mine until December 31, 2019 under a mining lease agreement with Minera Cedros, S.A. de C.V. (“Minera Cedros”), a wholly-owned subsidiary of Grupo Peñoles, S.A.B. de C.V.

The Company's strategic objective is to become a mid-tier silver producer in Mexico. As first steps to achieving this objective the Company is focused in the near term on continuing to increase production and upgrade performance at both the Veta Grande Project and Rosario Project.

The decisions to commence the production phase at the Rosario Mine, Veta Grande Project, Cinco Estrellas Property, and the Membrillo Prospect were not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this decision. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis according to and in accordance with NI 43-101.

Transactions with Carrizal Mining

On November 28, 2017 the Company entered into an agreement (the “Mine Services Agreement”) with Carrizal whereby the Company provides Carrizal with certain mine development, metallurgical and geological consulting services as well as administrative services in connection with Carrizal’s mining activities. The costs included in the Mine Services Agreement are only labour and other costs incurred by Santacruz in performing services. Costs for equipment and supplies incurred by Carrizal are not included as these are not billed to Santacruz. The Mine Services Agreement has no fixed termination date but may be terminated by either party giving 30 days written notice to the counter party.

On November 30, 2017 the Company entered into a binding Letter of Intent (the “Carrizal LOI”) wherein the Company granted Carrizal the right to earn a 20% working interest the Properties. In order to earn its 20% working interest Carrizal was required to fund all expenditures necessary to increase the mining and milling rate at the Veta Grande mine to 750 tpd and in addition had to fund an exploration program sufficient to allow an appropriate mine plan to be developed for the ongoing operation of the Veta Grande mine, subject to the Company agreeing to contribute on an as-is where-is basis a 250 tpd ball mill and motor plus other redundant equipment not in use at the Rosario Project. Although the facility is capable of operating at 750 tpd, subsequent metallurgical testing has indicated that the current optimal run rate is 650 tpd to maximize metal recoveries.

On May 22, 2019, the Company announced that Carrizal had earned a 20% working interest in the Properties pursuant to the terms of the Carrizal LOI.

Carrizal Acquisition

On July 1, 2019, the Company, through its wholly-owned subsidiary Carrizal Holdings Ltd., acquired 50% of the outstanding shares of PCG. The shares of PCG were purchased from one of PCG’s shareholders, who is at arm's-length to Santacruz (the “Vendor”).

Consideration for the share acquisition was a cash payment on closing by Santacruz to the Vendor of \$500 and other consideration in the amount of approximately \$680, including the transfer of a life-insurance policy and three vehicles from Carrizal to the Vendor; ; and the forgiveness of approximately \$264 in debt owed by the Vendor to Carrizal. As at June 30, 2019, \$500 related to the cash consideration referenced above was held in trust and classified as restricted cash on the Company’s statement of financial position.

The Company also entered into a parallel agreement, with binding effect as of May 21, 2019, to acquire the remaining 50% of the outstanding shares of PCG that are owned by Carlos Silva (the "Silva Acquisition"), Santacruz's COO. The consideration to be paid by Santacruz to Mr. Silva with respect to the Silva Acquisition is

30,000,000 shares of Santacruz at a deemed price of CDN\$0.05 per share. This transaction is subject to regulatory approval, including the approval of the TSX-V, as well as shareholder approval. The Company has called a meeting of shareholders for October 1, 2019 to, among other things, approve the Silva Acquisition.

Transaction with Contracuña

On June 14, 2017, as revised on December 13, 2017 and further revised on March 28, and August 27, 2018, the Company amended the terms of its prior agreement with Minera Contracuña I, S.A. de C.V. and Vetelinda Compania Minera, S.A. de C.V. (together “Contracuña”) (collectively the “Contracuña Option Agreement”) to acquire 100% ownership of the Veta Grande Project, including the Veta Grande Mine as well as the Minillas Property located in Zacatecas, Mexico.

Details of the payment schedule per the Contracuña Option Agreement are as follows:

1. \$500 on December 13, 2017 (paid);
2. \$750 on or before December 13, 2018 (\$224 paid);
3. \$3,000 on or before December 2, 2019;
4. \$3,000 on or before December 2, 2020;
5. \$4,000 on or before December 2, 2021; and
6. \$4,250 on or before December 2, 2022;

Contracuña has agreed to extend the date for payment of the balance of the December 13, 2018 option payment (\$526) to September 15, 2019.

The Company concurrently executed on August 27, 2018 a promissory note (the “Promissory Note”) in favour Contracuña in the amount of \$1,422. The Promissory Note was repayable on or before August 30, 2019 and relates to a trade payable balance owing to Contracuña at August 27, 2018. Contracuña has agreed to defer payment of the Promissory Note to a date to be determined in mid-September that is expected to be in late Q4. Failure by the Company to settle the Promissory Note on its due date, as amended, will constitute an event of default under the terms of the Contracuña Option Agreement. In addition, the Company granted to Contracuña a 1% net smelter royalty (“NSR”) over all mineral properties under option pursuant to the Contracuña Option Agreement. The NSR takes effect December 2, 2021. The Company has the right to acquire the NSR at any time by paying Contracuña US\$1,500.

2019 Second Quarter Highlights

- Selected operating and financial information for the second, third and fourth quarters of 2018 and first and second quarters of 2019 is presented below:

	2019		2018		
	Q2	Q1	Q4	Q3	Q2
Financial					
Revenue – Mining Operations	3,247	2,490	1,258	1,657	1,466
Revenue – Mining Services	888	790	1,466	569	3,569
Gross Profit (Loss) ⁽⁴⁾	251	(514)	(3,073)	(2,157)	1,287
Debt forgiveness	-	-	134	-	2,590
Impairment	-	-	(1,486)	-	-
Net (Loss) Income	(1,137)	(1,846)	(4,239)	(2,888)	3,297
Net (Loss) Income Per Share – Basic (\$/share)	(0.01)	(0.01)	(0.03)	(0.02)	0.02
Adjusted EBITDA ⁽⁴⁾	(113)	(921)	(2,404)	(2,151)	1,290
Operating					
Material Processed (tonnes milled)	57,945	42,904	53,396	57,976	52,025
Silver Equivalent Produced (ounces) ⁽¹⁾	373,318	257,138	237,542	249,431	174,175
Silver Equivalent Sold (payable ounces) ⁽²⁾	277,748	205,374	106,757	137,834	116,314
Production Cost per Tonne ⁽³⁾	62.80	83.23	89.97	58.32	66.12
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	16.09	20.39	48.32	27.40	32.54
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽³⁾	18.37	23.96	56.19	31.07	36.43
Average Realized Silver Price per Ounce (\$/oz.) ^{(3) (5)}	14.66	15.10	14.40	14.31	16.55

- (1) Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and the Rosario Project. Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb and \$1.35/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and the Rosario Project.
- (2) Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to the payable metal content of the lead and zinc concentrates sold from the Veta Grande Project and Rosario Project.
- (3) The Company reports non-IFRS measures which include Production Cost per Tonne, Cash Cost per Silver Equivalent, All-in Sustaining Cost per Silver Equivalent and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section, below for definitions.
- (4) The Company reports additional non-IFRS measures which include Gross Profit (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "Non-IFRS Measures – Additional Information" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the quarterly financial statements.
- (5) Average realized silver price per ounce is prior to all treatment, smelting and refining charges.

Management Business Overview and Outlook

The Company's focus for the duration of 2019 will be:

- To complete the Carrizal acquisition and integrate their operations with those of Veta Grande and Rosario;
- At the Veta Grande Project to continue increasing operating throughput with a blended mill-feed consisting of in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine while also further optimizing metal recoveries;
- In connection with the Carrizal LOI, continue with the drilling campaign at the Veta Grande Project.
- At the Rosario Project to achieve positive cash flows from operations with mill throughput to be generated from the Membrillo Prospect and other sources;

The decisions to commence the production phase at the Rosario Mine, the Veta Grande Project, the Cinco Estrellas Property, and the Membrillo Prospect were not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with these decisions. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis according to and in accordance with NI 43-101.

Review of Consolidated Operating Results

	2019		2018		
	Q2	Q1	Q4	Q3	Q2
Material Processed (tonnes milled)					
Veta Grande Project	37,156	32,625	36,720	42,011	36,622
Rosario Project	20,789	10,279	16,676	15,965	15,403
Consolidated	57,945	42,904	53,396	57,976	52,025
Silver Equivalent Produced (ounces) ⁽¹⁾					
Veta Grande Project	240,208	202,787	175,488	183,198	84,271
Rosario Project	133,110	54,351	62,054	66,233	89,904
Consolidated	373,318	257,138	237,542	249,431	174,175
Silver Equivalent Sold (payable ounces) ⁽²⁾					
Veta Grande Project	149,898	134,549	70,048	88,462	51,178
Rosario Project	127,850	70,825	36,709	49,372	65,136
Consolidated	277,748	205,374	106,757	137,834	116,314
Cash Cost of Production per Tonne⁽³⁾					
Veta Grande Project	59.59	73.29	74.84	51.68	58.16
Rosario Project	68.55	114.80	123.29	75.79	85.05
Consolidated	62.80	83.23	89.97	58.32	66.12
Cash Cost per Silver Equivalent Ounce⁽³⁾					
Veta Grande Project	17.68	20.71	42.98	26.28	45.33
Rosario Project	14.23	19.78	58.51	29.39	22.49
Consolidated	16.09	20.39	48.32	27.40	32.54
All-in Sustaining Cash Cost per Silver Equivalent Ounce⁽³⁾					
Veta Grande Project	19.70	23.70	51.66	29.62	50.00
Rosario Project	16.81	24.44	64.83	33.68	25.90
Consolidated	18.37	23.96	56.19	31.07	36.43
Average Realized Silver Price per Ounce⁽³⁾					
Veta Grande Project	14.67	15.08	14.49	14.30	16.55
Rosario Project	14.65	15.15	14.22	14.34	16.55
Consolidated	14.66	15.10	14.40	14.31	16.55

⁽¹⁾ Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and the Rosario Project. Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb and \$1.35/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and Rosario Project.

⁽²⁾ Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to the payable metal content of the lead and zinc concentrates sold from the Veta Grande Project and Rosario Project respectively.

⁽³⁾ The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section, below for definitions.

Operations Overview

Silver equivalent production for Q2 2019 increased by 114% to 373,318 ounces as compared to 174,175 ounces in Q2 2018. This increase reflects a 185% increase in production at the Veta Grande Project to 240,208 ounces and a 48% increase in production at the Rosario Project to 133,110 ounces. As compared to total silver equivalent production for Q1 2019, Q2 2019 production increased by 45% reflecting an 18% increase in production at the Veta Grande Project and a 145% increase in production at the Rosario Project.

As referenced earlier in this MD&A management's focus at the Veta Grande Project for 2019 is to continue increasing production to mill capacity with the source of the millfeed being in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine. At the Rosario Project the focus is to achieve and maintain

positive cash flow from operations with mill throughput to be generated from the Membrillo Prospect and other sources.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 5% in Q2 2019 to \$62.80/t as compared to \$66.12/t in Q2 2018. This change in unit costs reflects a 19% decrease in unit costs at the Rosario Project offset by a 2% increase in unit costs at the Veta Grande Project. On a consolidated comparative basis the 2019 Q2 unit costs reflect a 6% increase in cash cost of production offset by an 11% increase in consolidated tonnes milled.

As compared to Q1 2019 the Q2 2019 unit costs decreased 25%. This change in unit costs reflects a 19% decrease in unit costs at the Veta Grande Project and a 40% decrease at the Rosario Project. Operating processes were more efficient as the consolidated cash cost of production increased 2% to \$3,639 compared to a 35% increase in tonnes of mineralized material processed.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 51% in Q2 2019 to \$16.09/oz as compared to \$32.54/oz in Q2 2018. This change in unit costs reflects a 61% decrease in unit cost at the Veta Grande Project and a 37% decrease in unit cost at the Rosario Project. There was a 139% increase in silver equivalent payable ounces sold, offset by an increase in consolidated cash cost of sales for mining operations of 18%.

As compared to Q1 2019 the Q2 2019 unit costs decreased 21%. This change reflects a decrease in unit costs of 15% at the Veta Grande Project and 28% at the Rosario Project. The consolidated cash cost of sales for mining operations increased 7% while the amount of silver equivalent payable ounces sold increased by 35%.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 50% in Q2 2019 to \$18.37/oz as compared to \$36.43/oz in Q2 2018. This change in unit costs reflects a 61% decrease in unit costs at the Veta Grande Project and a 35% decrease in unit costs at the Rosario Project. There was a 139% increase in silver equivalent payable ounces sold offset by an increase in consolidated all-in sustaining cost for mining operations of 22%.

As compared to Q1 2019 the Q2 2019 unit costs decreased 23%. This change reflects a 17% decrease in unit costs at the Veta Grande Project and a 31% decrease at the Rosario Project. The silver equivalent payable ounces sold increased by 35%, offset by a 4% increase in consolidated all-in sustaining cost for mining operations.

Veta Grande Project, Veta Grande, Zacatecas, Mexico

Contracua Agreement and Carrizal LOI

In June 2017, as subsequently amended, the Company entered into the Contracua Option Agreement pursuant to which Santacruz was granted an option to purchase a 100% interest in the Veta Grande Mine and Minillas properties, for aggregate cash consideration of \$15,500 over five years, all as described in detail earlier in this MD&A (see Transaction With Contracua).

The Company also entered into the Carrizal LOI in December 2017 pursuant to which Carrizal had the right to acquire a 20% working interest in all mining concessions and assets comprising the Veta Grande Project as well as a 20% working interest in the Zacatecas Properties. On May 22, 2019, the Company announced that Carrizal had earned a 20% working interest in the Properties pursuant to the terms of the Carrizal LOI.

Veta Grande Project Production and Operating Results

	2019		2018		
	Q2	Q1	Q4	Q3	Q2
Material Processed (tonnes milled)	37,156	32,625	36,720	42,011	36,622
Silver Equivalent Produced (ounces) ⁽¹⁾	240,208	202,787	175,488	183,198	84,271
Silver Equivalent Sold (payable ounces) ⁽²⁾	149,898	134,549	70,048	88,462	51,178
Production - Silver (ounces)	73,004	79,582	58,921	62,250	36,741
- Gold (ounces)	138	97	59	140	59
- Lead (tonnes)	369	218	295	268	111
- Zinc (tonnes)	608	492	398	432	164
Average Grade - Silver (g/t)	101	119	81	77	70
- Gold (g/t)	0.21	0.19	0.19	0.26	0.17
- Lead (%)	1.11	0.77	0.95	0.80	0.41
- Zinc (%)	2.12	1.89	1.90	1.94	1.14
Metal Recovery - Silver (%)	60.4	63.8	61.7	59.9	44.6
- Gold (%)	54.9	49.4	49.8	40.3	29.6
- Lead (%)	89.4	86.3	84.5	80.2	74.7
- Zinc (%)	77.2	80.0	57.2	52.9	39.2
Cash Cost of Production per Tonne ⁽³⁾	59.59	73.29	74.84	51.68	58.16
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	17.68	20.71	42.98	26.28	45.33
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	19.70	23.70	51.66	29.62	50.00
Average Realized Silver Price per Ounce ⁽²⁾	14.67	15.08	14.49	14.30	16.55

⁽¹⁾ Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project. Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb. and \$1.35/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project.

⁽²⁾ Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to the payable metal content of the lead and zinc concentrates sold from the Veta Grande Project.

⁽³⁾ The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section for definitions.

Veta Grande Operations Overview

The focus at the Veta Grande Project during 2018 was to optimize operations with emphasis on increasing the production rate and grade of the mineralized material processed at the milling facility by accessing newly developed headings in the Veta Grande vein, Armados vein, and La Flor vein.

In addition, a technical study by a metallurgical consultant was completed in Q4 at the Veta Grande milling facility that led to reconfiguring certain of the mill circuits and changing the reagents utilized which in turn has resulted in an improvement in metal recoveries during Q1 and Q2 2019, most particularly with respect to the recovery of zinc which increased to approximately 80%, with smaller improvements in the recovery of gold and lead. Further, the cost of reagents consumed in the milling process has decreased as a result of the changes in the types of reagents used as well as the quantities consumed.

In early Q2 2019 the capacity at the milling facility was increased to 570 tpd with plans to bring back online one additional small ball mill by early Q3 to bring the capacity to 650 tpd. Unfortunately, a mechanical problem developed with respect to the largest ball mill leading to it being taken offline for repair. This resulted in an average milling rate of approximately 420 tpd for Q2. This ball mill was brought back online in late July and milling rates have increased since then. One additional ball mill with a capacity of 80 tpd is now scheduled to be refurbished by mid-Q4 which will bring total milling capacity to 650 tpd. Management has determined 650 tpd is presently the optimal milling rate in order maximize metal recoveries. Work is continuing with respect to increasing the milling rate without decreasing the metal recoveries.

The decision to commence the production phase at the Veta Grande Project was not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this decision. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis according to and in accordance with NI 43-101.

Veta Grande Production

Veta Grande Project silver equivalent production increased by 185% to 240,208 ounces in Q2 2019 as compared to 84,271 ounces in Q2 2018. The increased production reflects in part a 177% increase in the silver equivalent head grade processed from 101 g/t to 280 g/t. and in part increased metal recovery of all metals in Q2 2019.

As compared to Q1 2019, silver equivalent production increased by 18% in Q2 2019. The increased production primarily reflects an increase in the head grade of lead and zinc during Q2 2019. Management anticipates continuing gradual increases in tonnage milled, head grade and metal recoveries will continue during 2019.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 2% in Q2 2019 to \$59.59/t as compared to \$58.16/t in Q2 2018. This change reflects an increase in the cash cost of production of 4% offset by a 1% increase in tonnes milled. The increased cash cost of production in Q2 2019 reflects increased mining costs from extracting mineralized material from stopes developed in areas never previously mined as compared to Q2 2018 where the mineralized material processed in the mill came from previously mined areas.

As compared to Q1 2019 the Q2 2019 unit costs decreased 19%. This change reflects a 7% decrease in the cash cost of production while the tonnes of mineralized material processed increased by 14%. The improvement in operating unit costs reflects continuing efforts by management to operate in a more effective and efficient manner.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 61% in Q2 2019 to \$17.68/oz as compared to \$45.33/oz in Q2 2018. This change in unit costs reflects a 193% increase in silver equivalent payable ounces sold during the quarter, offset by a 14% increase in cash cost of sales. The increase in silver equivalent payable ounces sold largely reflects the increase in both the head grade and improved recovery of all metals described earlier.

As compared to Q1 2019 the Q2 2019 unit costs decreased 15%. The cash cost of sales decreased 5% while the amount of silver equivalent payable ounces sold increased 11%.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 61% in Q2 2019 to \$19.70/oz as compared to \$50.00/oz in Q2 2018. The all-in sustaining cash cost of production increased by 15% while the amount of silver equivalent payable ounces sold increased 193%. The increase in silver equivalent payable ounces sold during the quarter arose for the reasons described above in the section titled "Cash Cost per Silver Equivalent Ounce".

As compared to Q1 2019 the Q2 2019 all-in sustaining unit costs decreased 17%. The all-in sustaining cash cost of production decreased by 7% and there was an 11% increase in silver equivalent payable ounces sold.

Rosario Project, Charcas, San Luis Potosi, Mexico

The Rosario Project includes the Rosario Mine, the Cinco Estrellas Property and the Membrillo Prospect, and is located proximate to the Municipality of Charcas in the State of San Luis Potosi, Mexico, 184 kilometres north of the capital city of San Luis Potosi.

Rosario Mine

The mineral property that forms the Rosario Mine comprises the Rey David and San Rafael mining concessions. The concessions cover 500 hectares. The Company has no further vendor payments to make on the concessions except for certain NSR obligations and an annual fee of \$40. The property is subject to a 0.4% NSR. The NSR increases by 0.1% per year, until it reaches a maximum of 1%. The payments were due to start on December 31, 2015, but have been deferred for the time being and are being accrued for by the Company. Currently there is no mining activity at the Rosario Mine.

Cinco Estrellas Property

Pursuant to an option agreement dated September 7, 2016, the Company was granted an option to acquire a 100% interest in the Cinco Estrellas property located in Charcas, San Luis Potosí, Mexico for the sum of \$130 (paid). The property is subject to a 2.5% NSR. Operations at the Cinco Estrellas property were suspended in Q4 2017.

Membrillo Prospect

Pursuant to the Membrillo Agreement dated May 29, 2017, the Company has acquired from Grupo Mexico the Exclusive Mining Right for five years to explore, develop and mine the Membrillo Prospect situated approximately four km from the Company's Rosario Project mill facility located near Charcas, San Luis Potosi, Mexico. The Exclusive Mining Right covers an area of approximately 500 hectares that is situated within the San Rafael concession and brings the total of the Company's exploration and exploitation rights to 958 hectares of the 2912 hectares comprising the San Rafael concession.

As consideration for being granted the Exclusive Mining Right, the Company agreed to pay an annual fee of \$60 to the property vendor plus has granted to them a 2.5% net smelter returns royalty on any mineralized material from the Membrillo Prospect that is mined and milled or otherwise treated for the eventual sale of the contained metal.

Rosario Project Production and Operating Results

	2019		2018		
	Q2	Q1	Q4	Q3	Q2
Material Processed (tonnes milled)	20,789	10,279	16,676	15,965	15,403
Silver Equivalent Produced (ounces) ⁽¹⁾	133,110	54,351	62,054	66,233	89,904
Silver Equivalent Sold (payable ounces) ⁽²⁾	127,850	70,825	36,709	49,372	65,136
Production - Silver (ounces)	46,126	13,991	18,927	18,361	19,381
- Gold (ounces)	116	61	186	85	84
- Lead (tonnes)	87	27	23	33	31
- Zinc (tonnes)	377	182	249	212	344
Average Grade - Silver (g/t)	74	47	53	41	44
- Gold (g/t)	0.28	0.29	0.60	0.26	0.26
- Lead (%)	0.44	0.29	0.24	0.23	0.23
- Zinc (%)	2.13	2.09	2.10	1.58	2.54
Metal Recovery - Silver (%)	93.4	89.6	81.7	87.3	88.8
- Gold (%)	62.9	64.2	72.6	63.1	65.0
- Lead (%)	94.1	87.0	73.6	88.5	86.2
- Zinc (%)	85.1	79.4	89.2	84.3	87.8
Cash Cost of Production per Tonne ⁽³⁾	68.55	114.80	123.29	75.79	85.05
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	14.23	19.78	58.51	29.39	22.49
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	16.81	24.44	64.83	33.68	25.90
Average Realized Silver Price per Ounce (\$/oz) ⁽²⁾	14.65	15.15	14.22	14.34	16.55

⁽¹⁾ Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project. Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb. and \$1.35/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project.

⁽²⁾ Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project.

⁽³⁾ The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section, below for definitions.

Rosario Operations Overview

Operations at the Rosario Project in Q2 2019 showed significant improvement over prior quarters and reflect mine development and operational improvements that management undertook in those prior periods. Importantly, the Rosario Project generated positive cash flow of \$54 during Q2 2019 and management anticipates that this trend will continue for the coming quarters.

The decision to commence production at the Rosario Mine, Cinco Estrellas Property and Membrillo Prospect were not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with this decision. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis according to and in accordance with NI 43-101.

Rosario Production

Silver equivalent production in Q2 2019 from the Rosario Project increased by 48% to 133,110 ounces as compared to 89,904 in Q2 2018. This increase reflects a 35% increase in tonnes milled and a 9% increase in silver equivalent head grade. These increases reflect in large part the impact of the mine development work that has been ongoing at the Membrillo Prospect throughout the latter half of 2018 and into Q2 2019.

As compared to Q1 2019 silver equivalent production increased by 145% reflecting a 102% increase in tonnes milled and a 18% increase in the silver equivalent head grade.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 19% in Q2 2019 to \$68.55/t as compared to \$85.05t in Q2 2018. This is mainly due to the 35% increase in tonnes milled during the quarter, offset by an 9% increase in cash costs of sales.

As compared to Q1 2019, the Q2 2019 unit costs decreased by 40%. This change reflects a 102% increase in tonnes processed offset by a 21% increase in cash cost of production.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 37% in Q2 2019 to \$14.23/oz as compared to \$22.49/oz in Q2 2018. This change in unit costs reflects a 96% increase in silver equivalent payable ounces sold offset by an 24% increase in cash cost of sales.

As compared to Q1 2019 the Q2 2019 unit costs decreased 28%. The amount of silver equivalent payable ounces sold increased by 81%, offset by an increase in cash cost of sales of 30%.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 35% in Q2 2019 to \$16.81/oz as compared to \$25.90/t in Q2 2018. This change in unit costs occurred largely for the same reasons as the cash cost of production per silver equivalent ounce sold decrease as described above.

As compared to Q1 2019 the Q2 2019 the all-in sustaining unit costs decreased 31%. This change in unit costs occurred largely for the same reasons as for decrease in the cash cost of production per silver equivalent ounce sold described above.

Resource and Exploration Properties

On August 29, 2019 the Company filed on SEDAR a technical report titled “Technical Report, Veta Grande Project, Zacatecas State, Mexico” dated effective August 20, 2019 (the “Technical Report”) containing an updated mineral resource estimate, under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI 43-101”). The Technical Report supersedes all previous technical reports prepared for the Company relating to the Veta Grande Project.

Summary of the Technical Report

Location, Exploration and Drilling

The Veta Grande Project consists of 184 mining concessions covering an area of 8,944 hectares (22,102 acres) in the Zacatecas Mining District, Mexico. The Veta Grande Project is divided into three concession groups, described as the Veta Grande properties, Minillas property and Zacatecas properties. Although the concession groups are mostly contiguous and have the possibility of sharing the same infrastructure, the nature of Santacruz’s initial ownership of each concession group are materially different. For this reason, the Technical Report describes the three groups as individual properties within one project area.

Santacruz has collected 472 surface rock samples (channel, chip and grab samples) on various vein exposures within the project area. From underground workings, a total of 2,808 underground channel samples have been collected from at least five veins (La Cantera, Veta Grande, Armados, San Jose, and La Flor) from five underground workings (Armados, Garcia, Guadalupana, La Mecha and Cigarrero).

In August of 2016 Santacruz collected 41 chip samples across the width of the Panuco NW, Panuco Central and Tres Cruces veins. No other exploration activities have been conducted by Santacruz and the Company has not performed drilling on the Panuco deposit.

Between January 24, 2018 and March 26, 2019 Santacruz completed 43 diamond drill holes totaling 13,665.60 m. The work was designed to test for mineralization in proximity to and below the lowest known levels of the Armados, Garcia and Navidad underground workings. Significant mineralized intersections were encountered at the Veta Grande vein to the northwest and below the Garcia mine workings. At this location, assay results range from no significant intersections in VG18-009 to 280.10 g/t Ag over 1.59 m in drill hole VG19-014A. Drilling within the Armados mine from the general ramp below Level-4 resulted in several significant intersections of the Armados vein that range between 129.67 g/t Ag to 235.69 g/t Ag over widths that range between 1.00 m to 3.76 m. Intersections into the Navidad vein intersected grades ranging between trace Ag up to 668.64 g/t Ag over 1.95 m in NA18-006. The Phase 1 drill program was successful at identifying additional mineralization below the known workings in each mine area tested. Intersections are reported in approximated true thickness.

The Veta Grande Project is located near the southeastern boundary of the Sierra Madre Occidental physiographic province in north-central Mexico, within the State of Zacatecas and constitutes a portion of the Zacatecas Mining District and Mexican Silver Belt. The Zacatecas Mining District is comprised of three Mesozoic formations that were subsequently covered by Paleocene volcanic rocks and Quaternary cover.

The project concession boundaries contain a number of northwest-southeast striking, southwest dipping, low-sulphidation epithermal silver (+gold+lead+zinc) vein systems including Veta Grande, La Cantera and Panuco, among others. In surface outcrop, the veins can be traced over a distance of 2.4-3.0 km. Veins range from less than 1 m to over 30 m in thickness and consist of quartz, chalcedony, calcite and pyrite, often showing banded, colloform, crustiform, vuggy and/or brecciated textures. The dominant sulfide minerals include sphalerite and galena along with argentite and native silver, and they occur as disseminations, bands, or zones of massive sulfide. Weak to moderate pervasive silicification and narrow zones (1-5 m) of weak argillic and propylitic alteration immediately surround the veins. Locally, the veins are generally hosted within mafic to intermediate intrusives, intermediate volcanosedimentary rocks, and clastic sediments. These units were subsequently cut by younger diorite to quartz-diorite dykes.

Panuco Deposit Mineral Resource

The Panuco deposit is the only mineral resource estimate calculated and reported for the Veta Grande project. The mineral resource in the Technical Report has an effective date of July 12, 2019 and has been changed since the previous technical report (with effective date of January 31, 2017) due to improvements in the geometric modelling process applied to develop the geometry of the veins and the consequent changes to the sample selections and compositing for the estimation.

The wireframe models representing the mineralized solids were filled using rotated block models with blocks measuring 20 m along strike and dip, and 1 m across strike. Sub-cells were used to fill the models to represent accurate volumes. A different rotation was applied to the block model for each vein to provide a best-fit for each particular vein strike and dip. Average bulk density of 2.74 was applied to the vein portions of blocks while a value of 2.68 was assigned to the waste portions. Grades for gold, silver, lead and zinc were interpolated into blocks containing some percentage of veins by Ordinary Kriging (OK), in the case of the Panuco Central vein, and Inverse Distance Squared, in the case of Panuco NW and Tres Cruces vein. Each vein was estimated separately using only composites from the corresponding vein. Due to the sparsity of drill hole data both drill hole and surface trench composites were used for estimation. A comparison was made between the vein composites and the estimated blocks. The results show reasonable agreement with no significant bias. The relatively sparse data for all three veins has led to classifying all estimated blocks as Inferred.

An economic assessment or similar study has not been completed for the Panuco deposit and an economic cut-off value has not been estimated. The authors of the Technical Report are of the opinion that based on the mineralization characteristics, grade, location and other factors, the Panuco deposit has similarities to the Veta Grande vein system, which is located five km south of the Panuco deposit. Mining operations are currently conducted at a cut-off value of 100 g/t Ag at the Veta Grande.

Applying a nominal cut-off value of 100.0 g/t AgEq for the Panuco deposit, the inferred mineral resource estimate is 3,954,729 tonnes grading 136.00 g/t Ag, 0.14 g/t Au, 0.012% Pb and 0.110% Zn or 153.20 g/t AgEq. This represents 19,472,901 ounces of AgEq as shown in the table below.

Resource classed as Inferred within all mineralized Veins

Cut Off AgEq (g/t)	Tonnes > Cut-off t (m)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	AgEq (Ozs)
70	5,633,142	117.66	0.13	0.010	0.088	133.0	24,079,401
75	5,405,259	119.98	0.13	0.010	0.090	135.5	23,548,065
80	5,142,065	122.60	0.14	0.011	0.094	138.5	22,892,412
90	4,477,091	129.62	0.14	0.011	0.102	146.4	21,069,521
100	3,954,729	136.00	0.14	0.012	0.110	153.2	19,472,901
115	3,196,451	145.94	0.15	0.012	0.118	163.9	16,847,056
125	2,512,119	156.72	0.15	0.013	0.126	175.8	14,199,767
140	1,921,356	169.60	0.16	0.014	0.126	189.3	11,696,524
150	1,505,278	181.28	0.17	0.014	0.124	201.5	9,753,081
175	915,428	207.87	0.18	0.014	0.108	228.2	6,715,702

Recoveries are based on actual recoveries from the Veta Grande mineral processing facility which is currently processing material from the nearby Veta Grande vein system.

The metal prices used in the silver equivalent estimate are listed below.

Gold price \$1,350/oz	Recovery - 52.2 %	Factor = Au *Rec*Price/31.1035 = 22.66
Silver price \$16.00/oz	Recovery - 62.1 %	Factor = Ag *Rec*Price/31.1035 = 0.32
Lead price \$0.90/lb	Recovery - 87.9 %	Factor = Pb% * 22.046223 * Rec * Price = 17.44
Zinc price \$1.10/lb	Recovery - 78.6 %	Factor = Zn% * 22.046223 * Rec * Price = 19.06

$$GMV = (Au * Rec * Price / 31.1035) + (Pb\% * 22.0462 * Rec * Price) + (Ag * Rec * Price / 31.1035) + (Zn\% * 22.0462 * Rec * Price)$$

$$AgEq = GMV / Ag Factor = GMV / 0.32$$

The resources were estimated by Michael F. O'Brien, P.Geo., of RockRidge Partnership & Associates, who is independent of the Company and a qualified person, pursuant to the meaning of such terms in NI 43-101.

Data Verification and Site Visit

During a site visit between July 9-10, 2019, Van Phu Bui, P. Geo of ARC Geoscience Group (“ARC”) reviewed drill collar locations and mineralized drill core intersections for the 2018/2019 Phase 1 drill program completed at the Garcia, Armados and Navidad mine areas. ARC collected five quarter-core samples to verify the presence of mineralization. The five verification samples returned analytical results that include silver concentrations ranging between 10.20 g/t Ag to 575.30 g/t Ag. ARC performed a 10% quality control check on collar locations, mineralized

drill core sample intervals, and geological descriptions. No material discrepancies were identified and ARC has no reason to doubt the authenticity and quality of the information. During the same site visit, ARC confirmed that no additional work has been performed on the Panuco deposit since the initial surface sampling program completed by Santacruz in 2016 and ARC's site visit on August 16-19, 2016. With respect to the preparation of the Panuco deposit mineral resources estimate, Michael F. O'Brien has not visited the Panuco deposit but has relied on the geological data and information verified by ARC.

Sampling and Laboratory

For the Pamuco deposit, half-core samples and chip samples from surface trenches were submitted to ALS Chemex in Zacatecas, Mexico, and were assayed at ALS Chemex in Vancouver, Canada. ALS Chemex, now ALS Mineral, is an ISO accredited and certified laboratory service. All samples were prepared by crushing 70% to <2 mm (CRU-31). The fines are rifle split and further pulverized 85% to <75 microns (PUL-31). Pulps were then analyzed by 33 element four acid ICP-AES (0.25 g by ME-ICP61) and fire assay with an AA finish for gold (50g by Au-AA24). Samples with gold results above 10 g/t using Au-AA24 were rerun using fire assay with a gravimetric finish (50g by Au-GRA22). Samples with silver above 100 g/t using ME-ICP61 were rerun using fire assay with gravimetric finish (30g by Ag-GRA21). Over-limit for copper, lead and zinc using ME-ICP61 were rerun by an aqua regia digestion with an ICP-AES finish (ME-OG62).

For the Phase 1 drill program, drill core was logged, photographed and cut in half with a diamond saw. Half-core samples were sent to SGS Minerals Services in Durango, Mexico (17025 accredited), for preparation and analysis. Drill core samples were analyzed for 33 elements by four-acid digestion of a 0.5-gram sample followed by an ICP-AES (inductively coupled plasma atomic emission spectroscopy) finish. Over-limit for Pb, Zn and Cu were further analyzed by sodium peroxide fusion of a 0.5-gram sample followed by ICP-AES finish. Au and Ag was also analyzed by fire assay of a 30-gram sample followed by AAS (atomic absorption spectroscopy) finish for Au and gravimetric finish for Ag. As part of the company's quality assurance/quality control (QA/QC) program, independently certified control samples (standard and blank pulp samples) were inserted in each analytical batch. Field duplicate samples were also submitted for analysis. The control and duplicate sample results were then checked to ensure proper QA/QC.

Qualified Persons

All technical information included in this MD&A has been reviewed and approved by Van Phu Bui, P.Geol. of ARC Geoscience Group, who is independent of the Company and a qualified person, pursuant to the meaning of such terms in NI 43-101.

A copy of the Technical Report is available on SEDAR or on the Company's website, www.santacruzsilver.com.

Financial Results

Review of Operations

	2019		2018
	Q2	Q1	Q2
Revenue			
Mining operations	3,247	2,490	1,466
Mining services	888	790	3,569
	4,135	3,280	5,035
Cost of sales			
Cash cost of sales - mining operations	3,644	3,575	3,326
Cash cost of sales - mining services	-	-	117
Depletion and amortization	240	219	305
	3,884	3,794	3,748
Gross profit (loss)	251	(514)	1,287
Operating expenses			
Administrative	(192)	(209)	13
Management and consulting fees	(120)	(116)	(159)
Professional fees	(226)	(242)	(122)
Other	(67)	(60)	(22)
	(605)	(627)	(290)
Debt forgiveness	-	-	2,590
Interest earned and other finance income			
Foreign exchange gain	-	-	13
	-	-	13
Interest expense and other finance expenses			
Accretion of decommissioning and restoration provision	(11)	(17)	(9)
Foreign exchange loss	(410)	(496)	-
Carrying charges and finance charges on loans payable	(183)	(15)	(96)
Interest expense on loans payable	(87)	(82)	(89)
Other interest expense	(1)	-	(8)
Financing charge on leases	(9)	(10)	-
	(701)	(620)	(202)
Income tax expense	(82)	(85)	(101)
Net (loss) income for the period	(1,137)	(1,846)	3,297

Three months ended June 30, 2019

The Company recorded a net loss of \$1,137 (\$0.01 loss per share) for the three months ended June 30, 2019 compared to a net income of \$3,297 (\$0.02 earnings per share) for the three months ended June 30, 2018.

The gross margin from the Mining Services contract amounted to a profit of \$888 (2018 - \$3,452) while the gross margin from mining operations was a loss of \$637 (2018 – loss of \$2,165).

Revenues in Q2 2019 of \$4,135 include mining operations of \$3,247 (Q2 2018 - \$1,466) and mining services of \$888 (Q2 2018 - \$3,569). As noted earlier in this MD&A the mining services revenue is in connection with the Mining Services contract with Carrizal.

The Q2 2019 mining operations revenue was generated from the Veta Grande Project as to 47% and the Rosario Project as to 53% whereas in Q2 2018 mining operations revenue was generated from the Veta Grande Project as to 44% and the Rosario Project as to 56%. The revenue increase was a result of a 139% increase in the silver equivalent ounces sold in Q2 2019 offset by an 11% decrease in the average realized price per ounce of silver sold.

Cash cost of sales in Q2 2019 includes mining operations of \$3,644 (Q2 2018 - \$3,326) and mining services of \$nil (Q2 2018 - \$117). The increase in mining operations cost of sales is largely a result of an 11% increase in total tonnes milled at both mines.

During the three months ended June 30, 2019 the Company recorded operating expenses of \$605 (2018 - \$290). Operating expenses increased in Q2 2019 as compared to Q2 2018 in part because the 2019 professional fees include an adjustment to true up service obligations from prior periods and in part because the 2018 administration balance includes a settlement amount with a former officer of the Company that was \$120 less than previously provided.

As detailed in Note 16(b) to the Q2 2019 Financial Statements, interest expense and other finance expenses in Q2 2019 amounted to \$701 (Q2 2018 - \$202). The 2019 balance arises largely from a foreign exchange loss of \$410 (2018 - \$nil) as well as from an increase in carrying charges and finance charges on various loans payable.

During the three months ended June 30, 2018 the Company reached an agreement with Carrizal whereby Carrizal agreed to forgive \$2,590 of debt owing under the terms of the Mine Services Agreement related to the cost of sales pertaining to the Mine Services Agreement during 2017.

Six months ended June 30, 2019

The Company recorded a net loss of \$2,983 (\$0.02 loss per share) for the six months ended June 30, 2019, compared to net income of \$2,491 (\$0.01 earnings per share) for the six months ended June 30, 2018.

The Company recorded revenues of \$7,415 (2018 - \$8,201), mining operation cash cost of sales of \$7,219 (2018 - \$5,818), mining services cash cost of sales of \$nil (2018 - \$518), and amortization and depletion expenses of \$459 (2018 - \$695) for the six months ended June 30, 2019 resulting in a gross loss of \$263 (2018 – gross profit of \$1,170). The net income in the 2018 prior year period arose as a result of the mining services gross profit of \$5,464 during the period as well as \$2,590 debt forgiveness referenced earlier in this MD&A.

Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
	\$	\$	\$	\$
Revenues – Mining operations	3,247	2,490	1,258	1,657
Revenues – Mining services	888	790	1,466	569
Cost of sales – Mining operations	3,884	3,794	4,880	3,842
Cost of sales – Mining services	-	-	-	541
Administrative expenses	605	627	406	376
Net loss ⁽³⁾	(1,137)	(1,846)	(4,240)	(2,888)
Net loss per share ⁽¹⁾	(0.01)	(0.01)	(0.03)	(0.02)
	THREE MONTHS ENDED			
	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Revenues – Mining operations	1,466	753	1,292	1,798
Revenues – Mining services	3,569	2,413	3,580	-
Cost of sales – Mining operations	3,631	2,882	2,766	3,617
Cost of sales – Mining services	117	401	2,724	-
Administrative expenses	290	494	402	500
Net income (loss) ⁽⁴⁾⁽⁵⁾	3,297	(806)	(10,012)	(5,899)
Net income (loss) per share ⁽¹⁾	0.02	(0.00)	(0.06)	(0.04)

⁽¹⁾ The basic and fully diluted calculations result in the same value due to the anti-dilutive effect of outstanding stock options and warrants for all quarters.

⁽²⁾ The Q4 2018 net loss includes an impairment of the Rosario Project of \$1,486.

⁽³⁾ The Q2 2018 net income arose from the gross profit earned from the mining services agreement.

⁽⁴⁾ The Q4 2017 net loss includes an impairment of the Rosario Project of \$10,445.

⁽⁵⁾ The Q3 2017 net loss includes an impairment of the Rosario Project of \$4,350.

Non-IFRS Measures

The Company has included certain non-IFRS performance measures throughout this MD&A, including cash cost per silver ounce, production cost per tonne, and average realized silver price per ounce, each as defined in this section. These performance measures are employed by the Company to measure its operating and financial performance internally, to assist in business decision-making, and provide key performance information to senior management. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors and other stakeholders also use these non-IFRS measures as information to evaluate the Company's operating and financial performance. As there are no standardized methods of calculating these non-IFRS measures, the Company's methods may differ from those used by others and, accordingly, the Company's use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

The non-IFRS measures of cash cost per silver equivalent ounce and cash cost of production per tonne are used by the Company to manage and evaluate operating performance at the Veta Grande Project and the Rosario Project and are widely reported in the silver mining industry as benchmarks for performance, but do not have a standardized meaning. Cash costs are calculated based on the cash operating costs at the Veta Grande Project and the Rosario

Project and, in the case of cash cost per silver ounce, also include the third party concentrate treatment, smelting and refining cost.

Management of the Company believes that the Company's ability to control the cash cost per silver equivalent ounce produced and cash cost of production per tonne are two of its key performance drivers impacting both the Company's financial condition and results of operations. Having a low cash cost of production per tonne, when taken in connection with effective management of mining dilution, will improve the cost per silver equivalent ounce produced. Having a low-cost base per silver equivalent ounce of production allows the Company to continue operating during times of declining commodity prices and provides more flexibility in responding to changing market conditions. In addition, low cost operations offer a better opportunity to generate positive cash-flows, which improves the Company's financial condition. The Company believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and are relevant metrics used to understand the Company's operating profitability and ability to generate cash-flow.

To facilitate a better understanding of these measures as calculated by the Company, the following table provides a detailed reconciliation between the cash cost of production per tonne, cash cost per silver equivalent ounce, and the Company's operating expenses as reported in the Company's Condensed Interim Consolidated Statements of Loss and Comprehensive Loss contained in the respective financial statements for the referenced periods.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Cash cost of sales	2,218	2,388	2,824	2,123	2,118
Inventory change	(4)	3	(76)	48	12
Cash Cost of Production (A)	2,214	2,391	2,748	2,171	2,130
Cash cost of sales	2,218	2,388	2,824	2,123	2,118
Concentrate treatment, smelting and refining cost	432	398	187	202	202
Cash Cost of Silver Equivalent Sold (B)	2,650	2,786	3,011	2,325	2,320
Material processed (tonnes milled) (C)	37,156	32,625	36,720	42,011	36,622
Cash Cost of Production per Tonne (A/C)	59.59	73.29	74.84	51.68	58.16
Silver Equivalent Sold (payable ounces) (D)	149,898	134,549	70,048	88,462	51,178
Cash Cost per Silver Equivalent Ounce (B/D)	17.68	20.71	42.98	26.28	45.33

Rosario Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Cash cost of sales	1,426	1,187	2,056	1,337	1,208
Inventory change	(1)	(7)	-	(127)	102
Cash Cost of Production (A)	1,425	1,180	2,056	1,210	1,310
Cash cost of sales	1,426	1,187	2,056	1,337	1,208
Concentrate treatment, smelting and refining cost	393	214	92	114	257
Cash Cost of Silver Equivalent Sold (B)	1,819	1,401	2,148	1,451	1,465
Material processed (tonnes milled) (C)	20,789	10,279	16,676	15,965	15,403
Cash Cost of Production per Tonne (A/C)	68.55	114.80	123.29	75.79	85.05
Silver Equivalent Sold (payable ounces) (D)	127,850	70,825	36,709	49,372	65,136
Cash Cost per Silver Equivalent Ounce (B/D)	14.23	19.78	58.51	29.39	22.49

All-in Sustaining Cost per Ounce ("AISC")

AISC is a non-IFRS measure and was calculated based on guidance provided by the World Gold Council ("WGC") in September 2013. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures.

AISC is a more comprehensive measure than cash cost per ounce for the Company's operating performance by providing greater visibility, comparability and representation of the total costs associated with producing silver from its Rosario Project and Veta Grande Project.

The Company defines sustaining capital expenditures as, “costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements. Sustaining capital expenditures exclude all expenditures at the Zacatecas Properties as well as certain expenditures at the Rosario Project which are deemed expansionary in nature.”

AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures, corporate general and administrative expense, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total sustainable costs of producing silver from current operations and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

The following tables provide a detailed reconciliation of these measures to our operating expenses, as reported in our respective condensed interim consolidated financial statements for the referenced periods.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Cash cost of sales	2,218	2,388	2,824	2,123	2,118
Concentrate treatment, smelting and refining cost	432	398	187	202	202
Deferred ramp expenditures	-	89	405	107	94
General and administrative expenses	303	314	203	188	145
All-in Sustaining Cost	2,953	3,189	3,619	2,620	2,559
Silver Equivalent Sold (payable ounces)	149,898	134,549	70,048	88,462	51,178
All-in Sustaining Cost per Silver Equivalent Ounce Sold	19.70	23.70	51.66	29.62	50.00

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Cash cost of sales	1,426	1,187	2,056	1,337	1,208
Concentrate treatment, smelting and refining cost	393	214	92	114	257
Deferred ramp expenditures	-	-	20	16	68
General and administrative expenses	302	313	203	188	145
Accretion of decommissioning and restoration provision	28	17	9	8	9
All-in Sustaining Cost	2,149	1,731	2,380	1,663	1,687
Silver Equivalent Sold (payable ounces)	127,850	70,825	36,709	49,372	65,136
All-in Sustaining Cost per Silver Equivalent Ounce Sold	16.81	24.44	64.83	33.68	25.90

Average Realized Silver Price per Ounce

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

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

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenues	1,767	1,631	828	1,063	645
Add back: Treatment, smelting and refining charges	432	398	187	202	202
Gross Revenues	2,199	2,029	1,015	1,265	847
Silver Equivalent Sold (ounces)	149,898	134,549	70,048	88,462	51,178
Avg Realized Price per Ounce of Silver Equivalent Sold	14.67	15.08	14.49	14.30	16.55
Avg Market Price per Ounce of Silver per London Silver Fix	14.89	15.58	14.54	15.02	16.65

⁽¹⁾ Average realized price per ounce of silver sold in each reporting period is affected by mark-to-market adjustments and final settlements on concentrate shipments in prior periods. Concentrates sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time.

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenues	1,480	859	430	594	821
Add back: Treatment, smelting and refining charges	393	214	92	114	257
Gross Revenues	1,873	1,073	522	708	1,078
Silver Equivalent Sold (ounces)	127,850	70,825	36,709	49,372	65,136
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	14.65	15.15	14.22	14.34	16.55
Avg Market Price per Ounce of Silver per London Silver Fix	14.89	15.58	14.54	15.02	16.65

⁽¹⁾ Average realized price per ounce of silver sold in each reporting period is affected by mark-to-market adjustments and final settlements on concentrate shipments in prior periods. Concentrates sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time.

Non-IFRS Measures – Additional Information

The Company uses additional non-IFRS measures which include Mine Operations Income (Loss) and EBITDA. These additional financial disclosure measures are intended to provide additional information.

Mine Operations Income (Loss)

Mine operations income (loss) represents the difference between revenues and mine operating expenses, less depletion, depreciation and amortization expenses. Management believes that mine operations income (loss) provides useful information to investors for evaluating the Company's mining performance.

EBITDA and Adjusted EBITDA

EBITDA is a non-IFRS measure that provides an indication of whether the Company's operations are generating sufficient operating cash flow to fund working capital needs and to fund capital expenditures. EBITDA comprises revenue less operating expenses before interest expense, interest income, amortization and depletion, impairment charges, and income taxes.

Adjusted EBITDA is a non-IFRS measure in which standard EBITDA (earnings before interest expense, interest income, taxes, amortization and depletion, and impairment charges) is adjusted for share-based payments expense, foreign exchange gains or losses, and non-recurring items. Foreign exchange gains or losses may consist of both realized and unrealized losses. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments can involve a significant accrual of amounts that will not be settled in cash but are settled by the issuance of shares in exchange. The Company discloses adjusted

EBITDA to aid in understanding of the results of the Company and is meant to provide further information about the Company's financial results to investors.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA for the 2018 Q1, Q2, Q3 and Q4 periods and 2019 Q1 period to the respective financial statements.

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net (loss) income for the period as reported	(1,137)	(1,846)	(4,240)	(2,888)	3,297
Income tax expense (recovery)	82	85	120	97	101
Interest earned and other finance income and gain on the settlement of debt	-	-	-	(16)	-
Interest expense and other finance expenses	10	10	131	-	8
Carrying charges and finance charges on loan payable	183	15	14	30	96
Interest expense on loan payable	87	82	166	96	89
Accretion expense	11	17	9	8	9
Amortization and depletion of mineral properties, plant and equipment	241	220	917	382	293
EBITDA	(523)	(1,417)	(2,883)	(2,291)	3,893
Impairment of exploration and evaluation properties	-	-	1,486	-	-
Foreign exchange	410	496	(873)	140	(13)
Debt forgiveness	-	-	(134)	-	(2,590)
Adjusted EBITDA	(113)	(921)	(2,404)	(2,151)	1,290

Trafigura Credit Facility

On July 11, 2019, the Company entered into a short-term credit facility (the "Credit Facility") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the amount of \$1,500. The funds were advanced to the Company on May 31, 2019 and June 19, 2019. The principal is to be repaid on October 11, 2019. As part of the terms of the Credit Facility, the Company is obligated to pay \$100,000 in finance charges related to the structuring of the loan on the October 11, 2019. The loan is secured on certain mine equipment of the Company.

Trafigura Loan

On December 22, 2015, the Company entered into a short-term loan facility (the "Loan") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the principal amount of \$725. Subsequently, the Loan terms were amended at various dates in 2016 and 2017 pursuant to which the Company at various times repaid a portion of the Loan and at other times received new advances under the Loan such that as at December 22, 2017, the date of the most recent amendment (the "Amended Loan") the outstanding principal balance of the Amended Loan was \$731. Pursuant to the terms of the Amended Loan, Trafigura advanced on February 15, 2018 an additional \$580 bringing the balance of the Amended Loan to \$1,311. The Amended Loan bears interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in twelve monthly installments commencing April 30, 2018 and an original termination date of March 31, 2019. As at June 30, 2019, the outstanding balance of the Amended Loan was \$89. Trafigura agreed to defer payment of this balance until October 11, 2019. The Amended Loan is secured by certain of the Company's machinery and equipment.

MineCo Loan

On March 6, 2018 the Company entered into a loan agreement (the "MineCo Loan") with a private Bolivian mining company ("MineCo"), for \$2,300. The MineCo Loan bore interest at 9% per annum and was repayable July 1, 2018. In connection with the MineCo Loan the Company issued MineCo 2,000,000 warrants (the "Warrants") exercisable until March 6, 2019, at \$0.16 per share.

On July 2, 2018, the Company reached an agreement with MineCo to extend the repayment date of the MineCo Loan to October 1, 2018. As consideration for receiving the debt repayment date extension, the Company agreed

to increase the interest rate to 12% effective July 1, 2018. In addition, the Company agreed to increase the number of Warrants to 2,500,000 and to extend the expiry date to March 6, 2020.

On October 2, 2018, the Company and MineCo agreed to further extend the repayment date of the MineCo Loan to January 30, 2020. The MineCo Loan is unsecured.

Banco Base loan

On August 15, 2018, the Company entered into a short-term loan with Banco Base (“Banco Base Loan”). Funds may be drawn down under the Banco Base Loan in either in US dollars or Mexican pesos.

Funds drawn down must be repaid within a maximum of 15 business days following the drawdown date. Funds drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of \$600 or the equivalent amount in Mexican pesos. Upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Banco Base Loan. The Banco Base Loan is unsecured and the imputed carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates were approximately 15% per annum.

Credit facility

On November 30, 2017, the Company entered into a credit facility (the “Credit Facility”) with a private Mexican financial institution. Funds could be drawn down under the Credit Facility either in US dollars or Mexican pesos. Funds drawn down had to be repaid within 10 to 12 business days following the drawdown date. Funds drawn down in US dollars had to be repaid in Mexican pesos and vice-versa. Drawdown amounts were limited to a maximum of \$200 or the equivalent amount in Mexican pesos but could be increased at the discretion of the lender. Upon repayment of any particular draw down amount the Company could borrow the same amount immediately as a new draw under the Credit Facility. The Credit Facility was unsecured and the implied carrying charges that were tied to the spread between the US dollar and Mexican peso foreign exchange rates was approximately 190% per annum. The Credit Facility was repaid in full during the year ended December 31, 2018 and management does not expect to utilize this facility in the future.

Capital Expenditures

The Company incurred expenditures of \$641 on its mineral properties during the six months ended June 30, 2019. The Company currently has one mineral property option agreement outstanding being the agreement with Contracuña for the Veta Grande Project.

The Company has no capital commitments aside from its mineral property option agreement.

Liquidity and Capital Resources and Going Concern

As at June 30, 2019, the Company had cash of \$114 (December 31, 2018 – \$18) and a working capital deficiency of \$17,450 (December 31, 2018 – \$11,812). During the six months ended June 30, 2019, net cash used in operating activities was \$508, net cash used in investing activities was \$710 including costs relating to the exploration activities on its mineral properties and related change in accounts payable related to these costs; and net cash provided by financing activities was \$1,314 arising from the loans payable.

The Company has made no dividend payments, and currently has no plans to declare any dividends.

At June 30, 2019, the Company had a working capital deficiency of \$17,450 (December 31, 2018 - \$11,812), a loss for the period of \$2,983 (year ended December 31, 2018 - \$4,637), negative operating cash flows before changes in working capital items of \$1,220 (year ended December 31, 2018 - \$4,224) and had an accumulated deficit of \$107,298 (December 31, 2018 - \$104,315). The working capital deficiency and accumulated deficit indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal

course of business. The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows from operations, and/or to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Transactions with Related Parties

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

- Larry M. Okada Inc., a company owned by Larry Okada, a director of the Company
- Carrizal Mining S.A. de C.V., a company 50% owned by Carlos Silva, the Chief Operating Officer

During the three months and six months ended June 30, 2019 and 2018, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
	\$	\$	\$	\$
Mining Services				
Revenues	888	3,569	1,678	5,982
Cost of sales	-	117	-	518
	888	3,452	1,678	5,464
Expenses				
Accounting and corporate secretarial fees	-	46	-	69
Directors' fees	17	13	34	27
Management fees	90	107	180	213

At June 30, 2019, directors and officers or their related companies were owed \$259 (December 31, 2018 – \$220) in respect of the services rendered. These are non-interest bearing with standard payment terms.

The Company entered into certain mining equipment leases expiring between 2017 and 2020 with an interest rate between 6.5% and 10.5% per annum. \$51 of lease payments were paid during the six months ended June 30, 2019 (2018 - \$209) and \$1,169 of the leases payable outstanding at June 30, 2019 were owed to a company owned by the CEO of the Company (December 31, 2018 - \$1,210).

The Company entered into the Mine Services Agreement (Note 14) as well as the Carrizal LOI (Note 7) with a related company with common directors during the year ended December 31, 2017. As at June 30, 2019, \$nil was owing from Carrizal (December 31, 2018 - \$nil). The costs included in the Mine Services Agreement are only labour and other costs incurred by Santacruz in performing services. Costs for equipment and supplies incurred by Carrizal are not included as these are not billed to Santacruz.

Key management includes directors and executive officers of the Company. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

Fair value and Classification of Financial Instruments

The Company's financial instruments consists of cash, trade and other receivables, accounts payable and accrued liabilities, and the loans payable. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost. The carrying values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and the loans payable approximate fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Change in Accounting Policies

In the preparation of these condensed interim consolidated financial statements, the Company has used the same accounting policies and methods of computation as in the most recent audited annual financial statements for the Company for the year ended December 31, 2018, except as outlined below:

a) Changes in accounting policies – IFRS 16

The Company adopted all of the requirements of IFRS 16 *Leases* as of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance.

The Company analyzed its contracts to identify whether they contain a lease arrangement for the application of IFRS 16. No such contracts were identified, and as a result, the adoption of IFRS 16 resulted in no impact to the opening retained earnings on January 1, 2019.

The following is the Company's new accounting policy for financial instruments under IFRS 16:

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any

remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of August 29, 2019 in the following table.

Issued and Outstanding Common Shares				174,670,984
	Expiry Date	Exercise Price (CDN\$)		
Options	February 10, 2021	0.15	3,250,000	11,750,000
	August 6, 2024	0.18	8,500,000	
Warrants	January 28, 2020	0.28	4,675,000	
	February 21, 2020	0.28	200,000	
	March 6, 2020	0.16	2,500,000	7,375,000
Fully Diluted				193,795,984

Disclosure Controls and Procedures and Internal Control 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 2019 Q2 Financial Statements 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 with the Annual Filings on SEDAR at www.sedar.com.

Risks and Uncertainties

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental laws and regulations, the Company may have difficulty in hiring and retaining skilled employees and contractors, environmental hazards (including discharge of pollutants or hazardous chemicals), industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication

systems, poor water condition, interruptions to gas and electricity supplies, human error and adverse weather conditions, there is no assurance that the Company will acquire additional mineral properties and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties, access to capital and hiring of skilled personnel. The Company continuously monitors and responds to changes in these factors and seeks to adhere to all regulations governing its operations.

Financial risks include commodity prices, interest rates and fluctuating foreign exchange rates, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital to continue funding its operations.

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

Additional Disclosure for Venture Issuers without Significant Revenue

The Company provides disclosure related to capitalized or expensed exploration and development costs in the notes to the financial statements and disclosure related to general and administration expenses in the statements of loss and comprehensive loss. The Company has no expensed research and development costs.

Qualified Persons

Technical disclosure contained in this MD&A was reviewed and approved by Van Phu Bui, B.Sc., P. Geo., who is independent of the Company and a "qualified person" under NI 43-101.

Other Information

Additional information related to the Company, including the Company's annual information form, is available on SEDAR at www.sedar.com and on the Company's website, www.santacruzsilver.com.