MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2018

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the six months ended June 30, 2018 prepared as of August 29, 2018, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2018 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2018 Q2 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2017 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 "forwarding-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; the timing and success of the Company's plan to de-risk the Company's operations; 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 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 Rosario Mine and 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, 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, at pages 12 to 23 of the annual information form (revised) of the Company for the year ended December 31, 2015 dated July 6, 2016 (the "**AIF**"), filed on SEDAR on July 8, 2016. 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 also trades on the Santiago Stock Exchange Venture under the trading symbol "SZCL".

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'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 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 Mining, S.A. de C.V. ("Carrizal"), a private Mexican mining company, whereby the Company will provide Carrizal with certain mine development, metallurgical and geological consulting services as well as administrative services in connection with Carrizal's mining activities. 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 in all mining concessions and assets comprising the Veta Grande Project as well as a 20% working interest in the Zacatecas Properties (collectively "the Properties"). In order to earn its 20% working interest Carrizal is required to fund all expenditures necessary to increase the mining and milling rate at the Veta Grande mine to 750 tpd and in addition must 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. On March 23, 2018 the Company reported that Carrizal had completed the mill expansion to 750 tpd.

Transaction with Contracuña

On June 14, 2017, as revised on December 13, 2017, the Company amended the terms of its prior agreement with Minera Contracuña I, S.A. de C.V. and Vetalinda Compania Minera, S.A. de C.V. (together "Contracuña") (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. On August 24, 2018 the Contracuña Option Agreement was revised.

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

1. $500 paid on December 13, 2017 (paid);
2. $100 on or before October 1, 2018;
3. $100 on or before November 1, 2018;
2. $750 on or before December 13, 2018;
3. $1,400 on or before August 31, 2019;
4. $3,000 on or before December 2, 2019;
5. $3,000 on or before December 2, 2020;
6. $4,000 on or before December 2, 2021; and
7. $4,250 on or before December 2, 2022;

The October 1, and November 1, 2018 payments of $100 relate to amounts included in accounts payable as at June 30, 2018 and accordingly payment of these amounts will be offset by a reduction in trade debt. The August 31, 2019 payment of $1,400 is secured by a promissory note issued by the Company to Contracuña and also relates to the reclassification of certain trade debt owing to Contracuña as at June 30, 2018. All other terms of the Option Agreement remain unchanged including the Company granting to Contracuña a 1% net smelter royalty ("NSR") that commences December 14, 2022. The Company has the right to acquire the NSR at any time by paying Contracuña $1,500.

2018 Second Quarter Highlights

- Selected operating and financial information for the first and second quarter of 2018 and second, third and fourth quarters of 2017 is presented below:

	2018		2017		
	Q2	Q1	Q4	Q3	Q2
Financial					
Revenue – Mining Operations	1,466	753	1,292	1,798	2,641
Revenue – Mining Services	3,569	2,413	3,580	-	-
Gross Profit (Loss) (4)	1,287	(117)	(451)	(1,819)	(1,827)
Debt forgiveness	2,590	-	-	-	-
Impairment	-	-	(8,831)	-	-
Net Income (Loss)	3,297	(806)	(10,012)	(5,899)	(8,485)
Net Income (Loss) Per Share – Basic ($/share)	0.02	(0.00)	(0.06)	(0.04)	(0.05)
Adjusted EBITDA (4)	1,290	(209)	(1,435)	(1,628)	(1,390)
Operating					
Material Processed (tonnes milled)	52,025	48,068	30,974	46,940	57,685
Silver Equivalent Produced (ounces) (1)	174,175	154,175	139,670	231,162	270,659
Silver Equivalent Sold (payable ounces) (2)	116,314	59,648	94,204	166,880	219,226
Production Cost per Tonne (3)	66.12	52.97	86.49	62.91	59.15
Cash Cost per Silver Equivalent ($/oz.) (3)	32.54	45.94	32.38	23.65	21.24
All-in Sustaining Cost per Silver Equivalent ($/oz.) (3)	35.48	55.84	38.53	28.14	24.62
Average Realized Silver Price per Ounce ($/oz.) (3) (5)	16.55	16.78	16.73	16.85	17.17

(1) 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. Silver equivalent ounces produced in 2017 have been calculated using prices of $16.00/oz., $1,150/oz., $1.00/lb. and $1.15/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.

On July 9, 2018 the Company reported on the initial 10 holes of a Phase I drill program at the Company's Veta Grande Project located in Zacatecas, Mexico. Seven drill holes were collared from underground drill stations at the Armados mine where core drilling led to the discovery of three on echelon high grade veins located in the footwall of the Armados vein. The mineral tenure of the three new veins demonstrates much higher lead (up to 11.5%), zinc (up to 19.6%), copper (up to 0.43%), and gold (up to 1.91 g/t) than is seen in the Armados vein where lead and zinc grades are typically less than 0.5% and where gold is typically absent. At the Garcia mine, three drill holes were collared from surface and intersected the mineralized down dip extension of the Veta Grande, La Esperanza and La Flor veins. The three holes completed in the initial area to be tested intersected the targeted structures including wide intervals of quartz vein material. Unfortunately, the assay results did not carry high grade mineralization.

- On August 28, 2018 the Company reported that it had reached agreement to amend the repayment terms of the Contracuña Option Agreement such that the total amount of the payments will increase by $1.6 million from $15.5 million to $17.1 million. The $1.6 million is included in the Company's accounts payable as at June 30, 2018. Of this amount, $1.4 million has been secured by a promissory note issued by Santacruz to Contracuña.
- On August 28, 2018 the Company also reported that it had reached agreement to amend the repayment schedule to the US$2.3 million loan held by a private Bolivian mining company (the "Loan"). Pursuant to the amended terms the principal balance of US$2.3 million is now to be repaid October 1, 2018 (previously July 1, 2018). In addition, effective July 1, 2018 the interest rate increases from 9% to 12% per annum. Further, subject to TSX Venture Exchange approval, the Company has agreed to extend to March 6, 2020 the expiry date of 2,000,000 warrants previously issued to the lender. The exercise price of the warrants remains unchanged at $0.16 per share.

Management Business Overview and Outlook

The Company's focus for the duration of 2018 will be:

- At the Veta Grande Project to increase operating throughput to 750 tpd with a blended millfeed consisting of 70% in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine, with the remaining 30% sourced from previously mined mineralized material from the Veta Grande vein ("Chorros") or other sources;
- In connection with the Carrizal LOI, complete a drilling campaign of approximately 20,000 metres at the Veta Grande Project. In this regard the surface drill has recently been moved to a new drill target located 1.5 km from prior drilling along the northerly strike of the Veta Grande vein system and has completed the first hole at the new target. Assays are pending on this most recent hole. The underground drill previously drilling at the Armados vein has recently been located to the Navidad vein system and the initial hole drilled from surface has been completed. Assays are pending.
- At the Rosario Project to increase mill throughput to 400 to 450 tpd to be generated from the Membrillo Prospect and other sources;
- To continue the systematic improvement of mining and milling operations at both the Veta Grande Project and Rosario Project.

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

	2018		2017		
	Q2	**Q1**	**Q4**	**Q3**	**Q2**
Material Processed (tonnes milled)					
Veta Grande Project	36,622	34,928	17,657	27,984	29,718
Rosario Project	15,403	13,140	13,317	18,956	27,967
Consolidated	**52,025**	**48,068**	**30,974**	**46,940**	**57,685**
Silver Equivalent Produced (ounces) (1)					
Veta Grande Project	84,271	71,410	64,987	103,473	145,942
Rosario Project	89,904	82,765	74,683	127,689	124,717
Consolidated	**174,175**	**154,175**	**139,670**	**231,162**	**270,659**
Silver Equivalent Sold (payable ounces) (2)					
Veta Grande Project	51,178	26,056	38,032	73,531	122,680
Rosario Project	65,136	33,592	56,172	93,349	96,546
Consolidated	**116,314**	**59,648**	**94,204**	**166,880**	**219,226**
Cash Cost of Production per Tonne(3)					
Veta Grande Project	58.16	39.94	67.85	59.07	50.07
Rosario Project	85.05	87.60	111.21	68.58	68.80
Consolidated	**66.12**	**52.97**	**86.49**	**62.91**	**59.15**
Cash Cost per Silver Equivalent Ounce(3)					
Veta Grande Project	45.33	56.34	36.18	27.77	18.57
Rosario Project	22.49	37.87	29.80	20.40	24.64
Consolidated	**32.54**	**45.94**	**32.38**	**23.65**	**21.24**
All-in Sustaining Cash Cost per Silver Equivalent Ounce(3)					
Veta Grande Project	48.85	68.39	41.89	32.98	21.42
Rosario Project	24.98	46.11	35.09	24.33	28.69
Consolidated	**35.48**	**55.84**	**38.53**	**27.14**	**24.62**
Average Realized Silver Price per Ounce(3)					
Veta Grande Project	16.55	16.81	16.67	16.85	17.24
Rosario Project	16.55	16.76	16.77	16.84	17.08
Consolidated	**16.55**	**16.78**	**16.73**	**16.85**	**17.17**

(1) 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. Silver equivalent ounces produced in 2017 have been calculated using prices of $16.00/oz., $1,150/oz., $1.00/lb. and $1.15/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 2018 decreased by 36% to 174,175 ounces as compared to 270,659 ounces in 2017. This decrease is due to a 42% decrease in production at the Veta Grande Project to 84,271 ounces and a 28% decrease in production at the Rosario Project. As compared to total silver equivalent production for Q1 2018, Q2 2018 production increased by 13% reflecting an 18% increase in production at the Veta Grande Project and a 9% increase in production at the Rosario Project.

As referenced earlier in this MD&A management's focus at the Veta Grande Project for 2018 is to increase production to 750 tpd with the source of the mill feed being 70% from in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine and 30% from Chorros and other sources.

Similarly, at the Rosario Project the focus is to increase production to 400 to 450 tpd sourced as to 200 to 250 tpd from the Membrillo Prospect and the residual balance of millfeed to come from other sources.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 12% in Q2 2018 to $66.12/t as compared to $59.15/t in Q2 2017. This change in unit costs reflects a 16% increase in unit costs at the Veta Grande Project and a 24% increase in unit costs at the Rosario Project. The consolidated cash cost of production increased 1% combined with a 10% decrease in tonnes of mineralized material processed.

As compared to Q1 2018 the Q2 2018 unit costs increased 25%. Virtually all of this change is with respect to the 46% increase in unit costs at the Veta Grande Project. The consolidated cash cost of production increased by 35% with a 8% increase in tonnes of mineralized material processed.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 53% in Q2 2018 to $32.54/oz as compared to $24.62/oz in Q2 2017. This change in unit costs reflects a 144% increase in unit cost at the Veta Grande Project offset by a 9% decrease in unit cost at the Rosario Project. The consolidated cash cost of sales for mining operations decreased by 19% offset by a 47% decrease in silver equivalent payable ounces sold.

As compared to Q1 2018 the Q2 2018 unit costs decreased 29%. This change reflects respective decreases in unit costs of 20% and 41% at the Veta Grande Project and Rosario Project. The consolidated cash cost of sales for mining operations increased by 38% offset by a 95% increase in silver equivalent payable ounces sold.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 44% in Q2 2018 to $35.48/oz as compared to $24.62/oz in Q2 2017. This change in unit costs reflects a 128% increase in unit costs at the Veta Grande Project offset by a 13% decrease in unit costs at the Rosario Project. The consolidated all-in sustaining cost for mining operations decreased by 24% offset by a 47% decrease in silver equivalent payable ounces sold.

As compared to Q1 2018 the Q2 2018 unit costs decreased 36%. This change reflects respective decreases in unit costs of 29% and 46% at the Veta Grande Project and Rosario Project. The consolidated all-in sustaining cost for mining operations decreased by 24% combined with a 95% increase in silver equivalent payable ounces sold.

Veta Grande Project, Veta Grande, Zacatecas, Mexico

Contracuña Agreement and Carrizal LOI

In December 2017 the Company entered into the Contracuña Option Agreement pursuant to which Santacruz was granted an option to purchase a 100% interest in the Veta Grande and Minillas properties, for aggregate cash consideration of $15,500 over five years. On August 24, 2018 the Contracuña Option Agreementwas amended to increase the aggregate consideration to $17,100 with all of the $1,600 of additional payments being applied to current trade debt owing to Contracuña.

In addition, on the date that Santacruz makes the final payment it must grant to Contracuña a 1% NSR that the Company may buy back for $1,500 at any time.

The Company also entered into the Carrizal LOI in December pursuant to which Carrizal has 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 March 23, 2018 the Company reported that Carrizal had completed the mill expansion to 750 tpd.

Veta Grande Project Production and Operating Results

	2018		2017		
	Q2	**Q1**	**Q4**	**Q3**	**Q2**
Material Processed (tonnes milled)	36,622	34,928	17,657	27,984	29,718
Silver Equivalent Produced (ounces) [(1)]	84,271	71,410	64,987	103,473	145,942
Silver Equivalent Sold (payable ounces) [(2)]	51,178	26,056	38,032	73,531	122,680
Production - Silver (ounces)	36,741	32,413	25,665	61,960	56,062
- Gold (ounces)	59	56	53	66	174
- Lead (tonnes)	111	109	70	99	198
- Zinc (tonnes)	164	118	163	146	317
Average Grade – Silver (g/t)	70	62	78	107	102
– Gold (g/t)	0.17	0.15	0.18	0.17	0.26
– Lead (%)	0.41	0.46	0.55	0.51	0.78
– Zinc (%)	1.14	0.94	1.44	0.77	1.30
Metal Recovery – Silver (%)	44.6	46.7	58.1	64.5	63.8
– Gold (%)	29.6	33.7	52.6	43.5	81.8
– Lead (%)	74.7	67.9	72.5	69.8	87.2
– Zinc (%)	39.2	36.2	64.1	67.4	76.7
Cash Cost of Production per Tonne[(3)]	58.16	39.94	67.85	59.07	50.07
Cash Cost per Silver Equivalent ($/oz.) [(3)]	45.33	56.34	36.18	27.77	18.57
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) [(3)]	48.85	68.39	43.62	32.98	21.42
Average Realized Silver Price per Ounce ($/oz) [(2)]	16.55	16.81	16.67	16.85	17.24

(1) Silver equivalent ounces produced in 2018 have been calculated using price,s 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. Silver equivalent ounces produced in 2017 have been calculated using prices of $16.00/oz., $1,150/oz., $1.00/lb. and $1.15/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 for 2018 is to increase production to 750 tpd with the source of the mill feed being 70% from in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine and 30% from Chorros and other sources. Management is confident that by achieving a consistent throughput tonnage of 750 tpd the Company will achieve economies of scale that will decrease unit production costs on a cost/t basis. Further, by changing the source of mill feed from 90% Chorros and 10% in situ vein material as was the case throughout much of 2017 management expects that the average head grade of material processed will increase which in combination with the expected lower production cost/t will result in lower production costs/Ag equivalent ounce and positive cash flow from operations

In order to achieve its 2018 production objective management took the decision early in Q1 2018 to initially deploy all of its underground production equipment to developing production stopes on the Veta Grande vein and Armados vein. This work included driving the respective access ramps to the Veta Grande vein and Armados vein to lower levels and completing level development work on both vein systems. During Q2 2018 initial development work on the Navidad vein started with refurbishing of the historical access adit and commencement of an access ramp to Level 2 of the M

As a result of the focus on mine development, the source of mineralized material processed at the milling facility was largely development muck or lower grade oxidized material. This in turn led to low metal recoveries as detailed in the table above. Management anticipates that this short-term strategy will continue through into Q3 2018 with a gradual improvement in head grade and metal recoveries during Q3 2018.

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 Drilling Campaign

In connection with the Carrizal LOI, a diamond drilling campaign is underway on the Veta Grande Project. To date four surface drill holes totaling 2,500 metres have been completed on the Veta Grande vein system. The first three drill holes were collared from surface and intersected the mineralized down dip extension of the Veta Grande, La Esperanza and La Flor veins. The Company elected to initially target the Veta Grande vein near the southern border of the property based upon its proximity to historic underground workings and published drill results from the adjoining property that indicated potential for high grade material. The three holes completed in this area intersected the targeted structures including wide intervals of quartz vein material but the assay results associated with these wide quartz vein intercepts did not carry high grade mineralization.

The fourth drill hole was collared proximate to an inclined shaft that had been completed by previous mine owners but never operated. This location is approximately 0.5 km from the initial target area along the northerly strike of the Veta Grande vein. The hole has been completed (750 metres) and assays are pending. The Company will drill two more drill holes from this location and subsequent drilling will be determined pending the assay results of these three holes. Prior to drilling this hole, all exploration work to date at both the Garcia and Armados mines has been focused on the southernmost 500 metres strike length of the Veta Grande vein system with no systematic exploration having been undertaken on the northern extension of the vein systems.

Eight drill holes were collared from underground drill stations at the Armados mine where core drilling has led to the discovery of three on echelon high grade veins (named San Abraham, San Patricio and Sistema Santacruz) that are located in the footwall of the Armados vein. The mineral tenure of the three new veins demonstrates much higher lead (up to 11.5%), zinc (up to 19.6%), copper (up to 0.43%), and gold (up to 1.91 g/t) than is seen in the Armados vein where lead and zinc grades are typically less than 0.5% and where gold is typically absent. Assay results have been received from the first five holes with the assays from the remaining three holes pending. Additional core drilling is required to adequately characterize these new veins. With the present information, management believes the new veins may represent a separate mineralizing event than that associated with the Armados vein.

Following completion of the initial eight underground drill holes on the Armados vein the drill rig was moved to the Navidad mine and five 100-metre surface drill holes have been completed there as part of a current plan to complete 12 drill holes. Assays are pending on these holes.

Veta Grande Production

Silver equivalent production in Q2 2018 from the Veta Grande Project decreased by 42% to 84,271 ounces as compared to 145,942 ounces in Q2 2017. The decrease reflects a 24% decrease in the average silver equivalent head grade as well as decreased metal recoveries which occurred as a result of management's decision early in the year to focus on mine development. This has led in the short term to the mill processing largely development muck or lower grade oxidized material with resultant lower metal recoveries as detailed in the table above. Management anticipates that this short-term strategy will continue through into Q3 2018 with a gradual improvement in head grade and metal recoveries during Q3 2018.

As compared to Q1 2018 production increased by 18% as the result of a 5% increase in tonnes milled combined with a 13% increase in the average silver equivalent head grade.

Cash Cost per Tonne
Cash cost of production per tonne of mineralized material processed increased by 16% in Q2 2018 to $58.16/t as compared to $50.07/t in Q2 2017. This change reflects a 23% increase in tonnes milled offset by a 43% increase in cash cost of production. Cash cost of production was higher due to the increased tonnage milled and because certain development costs have been expensed to operations. The increase in tonnes milled reflects the beginning of anticipated ongoing increased daily production until the targeted 750 tpd rate is consistently achieved.

As compared to Q1 2018 the Q2 2018 unit costs increased 46%. This change reflects a 53% increase in the cash cost of production offset in part by a 5% increase in tonnes of mineralized material processed. Cash cost of production was higher primarily as a result of transitioning away from using mostly stockpiled oxide mineralized material as millfeed as was the case in Q1 2018.

Cash Cost per Silver Equivalent Ounce
Cash cost of production per silver equivalent ounce sold increased by 144% in Q2 2018 to $45.33/oz as compared to $18.57/oz in Q2 2017. This change in unit costs reflects a 29% increase in cash cost of sales combined with a 58% decrease in silver equivalent payable ounces sold during the quarter. The decrease in silver equivalent payable ounces sold occurred for the reasons referenced above with respect to management's decision early in the year to focus on mine development. This has led in the short term to the mill processing largely development muck or lower grade oxidized material with resultant lower metal recoveries as detailed in the table above.

As compared to Q1 2018 the Q2 2018 unit costs decreased 20%. The cash cost of sales increased by 54% offset by a 96% increase in silver equivalent payable ounces sold. The increase in cash cost of sales arose from an increase in tonnes milled and from the transition away from using mostly stockpiled oxide mineralized material as millfeed as was the case in Q1 2018. The increase in silver equivalent payable ounces sold reflects increases in tonnes milled, head grades and recoveries on a comparative basis.

All-In Sustaining Cash Cost per Silver Equivalent Ounce
All-in sustaining cash cost of production per silver equivalent ounce sold increased by 128% in Q2 2018 to $48.85/oz as compared to $21.42/oz in Q2 2017. This change in unit costs arose largely because of the 58% decrease in silver equivalent payable ounces sold during the quarter that occurred for the reasons described above with respect to the increase in cash cost per silver equivalent ounce sold.

As compared to Q1 2018 the Q2 2018 the all-in sustaining unit costs decreased 29%. The all-in sustaining cash cost of sales increased by 40% offset by a 96% increase in silver equivalent payable ounces sold. The all-in sustaining cash cost of sales increased largely for the reasons described above with respect to the decrease in cash cost per silver equivalent ounce sold.

Rosario Project, Charcas, San Luis Potosi, Mexico
The Rosario Project currently 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.

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.

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

	2018		2017		
	Q2	Q1	Q4	Q3	Q2
Material Processed (tonnes milled)	15,403	13,140	13,317	18,956	27,967
Silver Equivalent Produced (ounces) (1)	89,904	82,765	74,683	127,689	124,717
Silver Equivalent Sold (payable ounces) (2)	65,136	33,592	56,172	93,349	96,546
Production - Silver (ounces)	19,381	15,689	18,652	26,274	33,181
- Gold (ounces)	84	79	186	328	298
- Lead (tonnes)	31	25	23	49	40
- Zinc (tonnes)	344	331	249	449	408
Average Grade – Silver (g/t)	44	43	53	51	42
– Gold (g/t)	0.26	0.28	0.60	0.67	0.43
– Lead (%)	0.23	0.22	0.24	0.31	0.18
– Zinc (%)	2.54	2.91	2.10	2.61	1.76
Metal Recovery – Silver (%)	88.8	85.4	81.7	85.0	87.3
– Gold (%)	65.0	66.1	72.6	79.7	77.1
– Lead (%)	86.2	84.6	73.6	83.2	80.2
– Zinc (%)	87.8	86.6	89.2	90.7	82.9
Cash Cost of Production per Tonne(3)	85.05	87.60	111.21	68.58	68.80
Cash Cost per Silver Equivalent ($/oz.) (3)	22.49	37.87	29.80	20.40	24.64
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) (3)	24.98	46.11	35.09	24.33	28.69
Average Realized Silver Price per Ounce ($/oz) (2)	16.55	16.76	16.77	16.84	17.08

(1) 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. Silver equivalent ounces produced in 2017 have been calculated using prices of $16.00/oz., $1,150/oz., $1.00/lb. and $1.15/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 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

As previously disclosed by the Company, during Q4 2017 management took the decision to suspend operations at both the Rosario Mine and Cinco Estrellas Property so as to focus all current mining activity on the Membrillo Prospect. Management is confident that additional mineral resources exist at the Rosario Mine that will be mined in the future but an exploration program primarily consisting of a surface drilling program needs to be completed and a mine plan developed before production will commence.

Similarly the Cinco Estrellas Property requires capital to further delineate mineral resources. As with the Rosario Mine, capital constraints are dictating that the recommencement of mining activity is not likely to occur for the immediate future.

At the Membrillo Prospect the Company has completed access to Levels 1, 2 and 3 on the main Membrillo vein as well as on the San Rafael vein. Production stopes are being prepared at a newly accessed section of the Membrillo vein with the expectation that production from this mineralized zone will be about 200 tpd by end of Q3 2018.

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 2018 from the Rosario Project decreased by 39% to 89,904 ounces as compared to 124,717 in Q2 2017. This decrease reflects a 42% decrease in tonnes milled which occurred as a result of the suspension of operations at both the Rosario Mine and Cinco Estrellas Property as referenced above.

As compared to Q1 2018 silver equivalent production increased 9% to 89,904 ounces in Q2 2018 reflecting a 17% increase in tonnes processed offset by a 9% decrease in the average silver equivalent head grade. This result arose from increased development much being processed at the mill as mine development nears the target zone to be mined.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 24% in Q2 2018 to $85.05/t as compared to $68.80/t in Q2 2017. This is mainly due to the 45% decrease in tonnes milled during the quarter combined with the 36% decrease in cash costs of production. As referenced above, the decrease in tonnes milled reflects the suspension of operations at both the Rosario Mine and Cinco Estrellas Property.

As compared to Q1 2018 the Q2 2018 unit costs were essentially unchanged with increased tonnes processed in Q2 being offset by a commensurate increase in cash costs of production.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 9% in Q2 2018 to $22.49/oz as compared to $24.64/oz in Q2 2017. This change in unit costs reflects in part a 36% decrease in cash cost of sales decrease offset by a 33% decrease in silver equivalent payable ounces sold. Both of these variances reflect the fact that during Q2 2018 the amount of mineralized material processed through the mill decreased by 45%.

As compared to Q1 2018 the Q2 2018 unit costs decreased 41%. The cash cost of sales increased by 15% due to increased tonnage of mineralized material processed offset by a 94% increase in silver equivalent payable ounces sold. The increase in cash cost of sales reflects a 17% increase in tonnes of mineralized material processed while the increase in silver equivalent payable ounces sold reflects the additional metal recovered from this increment in processed material processed as well as increased head grade material and improved recoveries.

All-In Sustaining Cash Cost per Silver Equivalent Ounce
All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 13% in Q2 2018 to $24.98/oz as compared to $28.69/t in Q2 2017. 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 2018 the Q2 2018 the all-in sustaining unit costs decreased 46%. 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

Zacatecas Properties, Zacatecas City, Zacatecas, Mexico
On May 2, 2016 the Company entered into an option agreement to acquire from Golden Minerals the Zacatecas Properties.

The Zacatecas Mining District is located in the central part of Mexico, in the main Mexico Silver Belt. The Zacatecas Properties are located at the periphery of the Zacatecas, Veta Grande, Guadalupe, Pánuco, and Morelos municipalities in the state of Zacatecas, Mexico and consist of 149 concessions covering approximately 7,800 hectares and is part of the Veta Grande Project.

In order to acquire the Zacatecas Properties the Company is required to pay to Golden Minerals the sum of $1,500 including an initial payment of $200 on signing the agreement (paid) plus additional payments as follows: $200 on or before November 2, 2016 (paid); $300 on or before May 2, 2017 (paid); $150 on or before November 2, 2017 (paid); $24 on February 8, 2018 (paid); $225 on or before March 15, 2018 (paid); $225 on or before Ju 15, 2018 (paid); and $225 on or before September 15, 2018. A 1% NSR exists with the original property vendors on some of the claims included in the Zacatecas Properties.

When combined with the Company's existing exploration and mining rights acquired under the agreement with Contracuña the Company now controls approximately 8,900 hectares in the historic and prolific silver mining belt of Zacatecas.

On November 17, 2016 the Company filed on SEDAR the Panuco Report, and subsequently filed the Expanded Zacatecas Report and the Amended Zacatecas Report on February 15 and February 28, 2017, respectively. Copies of these reports are available on SEDAR or on the Company's website, www.santacruzsilver.com.

Manillas Property, Genaro Cidina, Zacatecas, Mexico
The Minillas Property covers approximately 178 hectares and is located in the Zacatecas State about 25 kilometers southeast of the Zacatecas City in the municipality of Genaro Codina. Access is by paved highway toward Santa Teresa and from there 6 kilometers to the village of Minillas. The Minillas Property is part of the Veta Grande Project.

A number of historic workings surround the village including mine shafts and developments related to exploration activities by small British and American mining companies during the 1800´s.

The Company has not completed any work on this property to date.

Financial Results

Review of Operations

	2018		2017
	Q2	**Q1**	**Q2**
Revenue			
Mining operations	1,466	753	2,641
Mining services	3,569	2,413	-
	5,035	**3,166**	**2,641**
Cost of sales			
Cash cost of sales - mining operations	3,326	2,492	3,534
Cash cost of sales - mining services	117	401	-
Depletion and amortization	305	390	934
	3,748	**3,283**	**4,468**
Gross Profit (loss)	**1,287**	**(117)**	**(1,827)**
Operating expenses			
Administrative	13	(141)	(97)
Management and consulting fees	(159)	(158)	(99)
Professional fees	(122)	(92)	(184)
Other	(22)	(103)	(117)
	(290)	**(494)**	**(497)**
Debt forgiveness	**2,590**	**-**	**-**
Impairment	**-**	**-**	**(5,284)**
Interest earned and other finance income			
Interest earned	-	-	1
IVA recovery inflationary gain	-	-	20
Change in fair value of derivative assets	-	-	459
Foreign exchange gain	13	174	-
	13	**174**	**480**
Interest Expense and Other Finance Expenses			
Accretion of decommissioning and restoration provision	(9)	(8)	(9)
Foreign exchange loss	-	-	(1,232)
Carrying charges	(96)	(237)	-
Interest expense on loans payable	(89)	(35)	(17)
Interest expense and loss on settlement of JMET note	(8)	-	(47)
	(202)	**(280)**	**(1,305)**
Income tax expense	(101)	(89)	(52)
Net income (loss) for the period	**3,297**	**(806)**	**(8,485)**

Three months ended June 30, 2018

The Company recorded a net income of $3,297 ($0.02 per share) for the three months ended June 30, 2018 compared to a net loss of $8,485 ($0.05 per share) for the three months ended June 30, 2017. The three months ended June 30, 2018 financial results include revenues and cost of sales relating to the Mining Services contract with Carrizal.

The gross margin from the Mining Services contract amounted to a profit of $3,452 while the gross margin from mining operations was a loss of $2,165 (2017 – loss of $1,827). The net income recorded in the quarter ended June 30, 2018 arose primarily from the gross profit from the mining services as well as debt forgiveness in the amount of $2,590.

Revenues in Q2 2018 of $5,035 include mining operations of $1,466 (Q2 2017 - $2,641) and mining services of $3,569 (Q2 2017 - $nil). As noted above the mining services revenue is in connection with the Mining Services contract with Carrizal. Based on projected contracted mining services, management anticipates that this revenue will be approximately $800 to $1,000 per month for the rest of 2018.

The Q2 2018 mining operations revenue was generated from the Veta Grande Project (44%) and Rosario Project (56%) whereas in Q2 2017 mining operations revenue was generated from the Veta Grande Project (56%) and Rosario Project (44%). With respect to the Veta Grande Project, revenues were lower as a result of the Company's focus on mine development during the current quarter with the result that the source of mineralized material processed at the milling facility was largely development muck or lower grade oxidized material. The decreased Rosario Project revenue is primarily the result of less tonnes milled. As noted elsewhere in this MD&A management took the decision to suspend mining operations at the Cinco Estrellas Property and Rosario Mine in Q4 2017 and is focusing ongoing mining activity at the Rosario Project on the Membrillo Prospect.

Cash cost of sales in Q2 2018 includes mining operations of $3,326 (Q2 2017 - $3,534) and mining services of $117(Q2 2017 - $nil). The decrease in mining operations cost of sales is largely a result of a decrease in tonnes processed of 10%.

The operations for the three months ended June 30, 2018 resulted in a gross profit of $1,287 (Q2 2017 – gross loss of $1,827). This increase in income is largely the result of the addition of the mining services revenue offset by the decreased mining operations revenue during the current year for the reasons referenced above.

During the three months ended June 30, 2018 the Company recorded operating expenses of $290 (2017 - $497). Operating expenses were $207 less in Q2 2018 than in Q2 2017 largely because the accounts for the current period include a settlement amount with a former officer of the Company is $120K less than previously provided.

As detailed in Note 19(a) to the Q2 2018 Financial Statements, interest earned and other finance income decreased by $467 for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to the Q2 2017 quarter including a change in fair value of derivative liabilities of $459 (2018 - $nil) that was related to the settlement of certain forward exchange contracts during 2017.

As detailed in Note 19(b) to the Q2 2018 Financial Statements, interest expense and other finance expenses in Q2 2018 amounted to $202 (Q2 2017 - $1,305) and decreased due to a foreign exchange loss of $1,232 recorded during Q2 2017 (2018 – gain of $38), offset by the carrying charges and interest expense recorded in 2018 related to the loans payable of $96 and $89 respectively (Q2 2017 - $nil).

Six Months Ended June 30, 2018

The Company recorded a net profit of $2,491 ($0.01 per share) for the six months ended June 30, 2018, compared to the net loss of $6,995 ($0.04 per share) for the six months ended June 30, 2017.

The Company recorded revenues of $8,201 (2017 - $4,726), mining operation cash cost of sales of $5,818 (2017 - $5,985), mining services cash cost of sales of $518 (2017 - $nil), and amortization and depletion expenses of $695 (2017 - $1,627) for the six months ended June 30, 2018 resulting in a gross profit of $1,170 (2017 –gross loss of $2,886). The profit in 2018 is mostly due to the mining services gross profit of $5,464 during the period as well as the $2,590 debt forgiveness, offset by the $4,294 in mining operating gross loss.

Summary of Quarterly Results

	THREE MONTHS ENDED			
(Expressed in thousands of US Dollars except per share amounts)	**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)(2)(3)(4)	3,297	(806)	(10,012)	(5,899)
Net income (loss) per share(1)	0.02	(0.00)	(0.06)	(0.04)
	THREE MONTHS ENDED			
	Jun 30, 2017	**Mar 31, 2017**	**Dec 31, 2016**	**Sep 30, 2016**
Revenues – Mining operations	2,641	2,085	1,874	3,026
Cost of sales – Mining operations	4,468	3,144	3,770	2,240
Administrative expenses	497	483	323	512
Net (loss) income(5)(6)	(8,485)	1,490	(3,646)	(11,064)
Net (loss) income per share(1)	(0.05)	0.01	(0.02)	(0.08)

(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 Q2 2018 net income arose from the gross profit earned from the mining services agreement.
(3) The Q4 2017 net loss includes an impairment of the Rosario Project of $10,445.
(4) The Q3 2017 net loss includes an impairment of the Rosario Project of $4,350.
(5) The Q1 2017 net income arose from a decrease in derivative liabilities of $3,308 recorded in the period.
(6) The Q3 2016 net loss includes an impairment of the San Felipe Project of $15,615 and a gain on settlement of debt of $6,377.

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)	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**
Cash cost of sales	2,118	1,373	1,225	1,644	1,638
Inventory change	12	22	(27)	9	(150)
Cash Cost of Production (A)	2,130	1,395	1,198	1,653	1,488
Cash cost of sales	2,118	1,373	1,225	1,644	1,638
Concentrate treatment, smelting and refining cost	202	95	151	398	640
Cash Cost of Silver Equivalent Sold (B)	2,320	1,468	1,376	2,042	2,278
Material processed (tonnes milled) (C)	36,622	34,928	17,657	27,984	29,718
Cash Cost of Production per Tonne (A/C)	58.16	39.94	67.85	59.07	50.07
Silver Equivalent Sold (payable ounces) (D)	51,178	26,056	38,032	73,531	122,680
Cash Cost per Silver Equivalent Ounce (B/D)	45.33	56.34	36.18	27.77	18.57

Rosario Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**
Cash cost of sales	1,208	1,119	1,541	1,289	1,896
Inventory change	102	32	(60)	11	28
Cash Cost of Production (A)	1,310	1,151	1,481	1,300	1,924
Cash cost of sales	1,208	1,119	1,541	1,289	1,896
Concentrate treatment, smelting and refining cost	257	153	133	615	483
Cash Cost of Silver Equivalent Sold (B)	1,465	1,272	1,674	1,904	2,379
Material processed (tonnes milled) (C)	15,403	13,140	13,317	18,956	27,967
Cash Cost of Production per Tonne (A/C)	85.05	87.60	111.21	68.58	68.80
Silver Equivalent Sold (payable ounces) (D)	65,136	33,592	56,172	93,349	96,546
Cash Cost per Silver Equivalent Ounce (B/D)	22.49	37.87	29.8	20.40	24.64

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 June 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 Gavilanes Property and Zacatecas Properties, and the Veta Grande Project prior to October 1, 2016, 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 condensed interim consolidated financial statements.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Cash cost of sales	2,118	1,373	1,225	1,644	1,638
Concentrate treatment, smelting and refining cost	202	95	151	398	640
Sustaining capital expenditures	-	-	-	-	16
Deferred ramp expenditures	94	67	66	133	86
General and administrative expenses	86	247	217	250	248
All-in Sustaining Cost	2,500	1,782	1,659	2,425	2,628
Silver Equivalent Sold (payable ounces)	51,178	26,056	38,032	73,531	122,680
All-in Sustaining Cost per Silver Equivalent Ounce Sold	48.85	68.39	43.62	32.98	21.42

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Cash cost of sales	1,208	1,119	1,545	1,289	1,896
Concentrate treatment, smelting and refining cost	257	153	133	615	483
Sustaining capital expenditures	-	-	-	-	42
Deferred ramp expenditures	68	22	72	109	91
General and administrative expenses	85	247	216	250	249
Accretion of decommissioning and restoration provision	9	8	9	8	9
All-in Sustaining Cost	1,627	1,549	1,971	2,271	2,770
Silver Equivalent Sold (payable ounces)	65,136	33,592	56,172	93,349	96,546
All-in Sustaining Cost per Silver Equivalent Ounce Sold	24.98	46.11	35.09	24.33	28.69

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 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Revenues	645	343	483	841	1,475
Add back: Treatment, smelting and refining charges	202	95	151	398	640
Gross Revenues	847	438	634	1,239	2,115
Silver Equivalent Sold (ounces)	51,178	26,056	38,032	73,531	122,680
Avg Realized Price per Ounce of Silver Equivalent Sold	16.55	16.81	16.67	16.85	17.24
Avg Market Price per Ounce of Silver per London Silver Fix	16.65	16.85	16.70	16.83	17.26

(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 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Revenues	821	410	809	957	1,166
Add back: Treatment, smelting and refining charges	257	153	133	615	483
Gross Revenues	1,078	563	942	1,572	1,649
Silver Equivalent Sold (ounces)	65,136	33,592	56,172	93,349	96,546
Avg Realized Price per Ounce of Silver Equivalent Sold(1)	16.55	16.76	16.77	16.84	17.08
Avg Market Price per Ounce of Silver per London Silver Fix	16.65	16.85	16.70	16.83	17.26

(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 2017 Q2, Q3, and Q4 periods and 2018 Q1 and Q2 periods to the respective financial statements.

	Q2 2018	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Net income (loss) for the period as reported	3,297	(806)	(10,012)	(5,899)	(8,485)
Income tax expense (recovery)	101	89	(1,554)	37	52
Interest earned and other finance income and gain on the settlement of debt	-	-	(19)	(56)	(480)
Interest expense and other finance expenses	104	237	147	-	-
Interest expense on JMET note	-	-	-	175	47
Interest expense on loan payable	89	35	33	-	17
Accretion expense	9	8	9	8	9
Amortization and depletion of mineral properties, plant and equipment	293	402	(167)	691	934
EBITDA	3,893	(35)	(11,563)	(5,044)	(7,906)
Impairment of exploration and evaluation properties	-	-	10,445	4,350	5,284
Foreign exchange	(13)	(174)	(317)	(934)	1,232
Share-based payments	-	-	-	-	-
Debt forgiveness	(2,590)				
Adjusted EBITDA	1,290	(209)	(1,435)	(1,628)	(1,390)

Pre-paid Silver Purchase

On July 14, 2016, the Company completed the restructuring (the “Restructuring”) of the Prepaid Silver Purchase Agreement with JMET, LLC (“JMET”) such that the Company no longer had any metal delivery obligations to JMET. In addition, among other things, pursuant to the Restructuring the Company issued JMET a new secured note in the amount of $4,890 (the “JMET Note”) and issued 3,750,000 warrants to JMET (the “JMET Warrants”). Each JMET Warrant was exercisable to acquire one common share of the Company at a price of CAD$0.55 per share and was to expire on December 31, 2018. The Company incurred transaction costs of $100 in relation to the Restructuring.

The Company also agreed to pay JMET $1,500 of restructuring and finance fees, which fees would be payable in 2019 and were secured by all of the assets of the Company. During the year ended December 31, 2017, the amount outstanding on the JMET Note was repaid in full. In addition, pursuant to an early repayment agreement dated July 19, 2017, the Company paid $1,200 to JMET which was applied toward settling all remaining outstanding debt owing to JMET. JMET released and discharged all of its security and registrations over the Company's assets and the 3,750,000 JMET Warrants were cancelled.

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. The Loan bore interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in six equal monthly installments commencing January 31, 2016. The Loan was secured by certain personal assets of the CEO of the Company. 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 terminating on March 31, 2019. The monthly installment amounts will be the greater of $109 and 10% of the net concentrate sales amount for the respective month. On July 31, 2018 the Company repaid $109. The Amended Loan is secured by certain personal assets of the CEO of the Company and by a first charge on the Rosario Project mineral concessions.

Credit facility

On November 30, 2017, the Company entered into a credit facility (the "Credit Facility") with a private Mexican financial institution. Funds may be drawn down under the Credit Facility either in US dollars or Mexican pesos. Funds drawn down must be repaid within 10 to 12 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 $200 or the equivalent amount in Mexican pesos but can be increased at the discretion of the lender. Upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Credit Facility. The Credit Facility is unsecured and the implied carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates is approximately 190% per annum. Management expects to repay the facility in full by the end of the Q2 2018.

Short-term loan

On March 6, 2018 the Company entered into the Short-term Loan (the "Short-term Loan") with a private Bolivian mining company, for $2,300. The Short-term Loan bears interest at 9% per annum, is repayable July 1st, 2018, and is unsecured. In connection with the terms of the Short-term Loan the Company issued the lender 2,000,000 warrants (the"Warrants") exercisable until March 6, 2019, at $0.16 per share. On July 1, 2018, the Company reached agreement to extend the repayment date of the Short-term Loan to October 1, 2018. As consideration for receiving the repayment date extension the Company agreed to an increase in the interest rate to 12% effective July 1, 2018. In addition, the Company agreed to extend the expiry date of the Warrants to March 6, 2020, subject to the approval of the TSX-V.

Use of Proceeds from Financings

The Company used the net proceeds of $737 (CDN$895) from the July 28, 2017 public offering of units for general working capital and corporate purposes.

Capital Expenditures

The Company incurred expenditures of $668 on its mineral properties during the six months ended June 30, 2018. The Company currently has two mineral property option agreements that are outstanding being the agreement with Golden Minerals for the Zacatecas Properties and the agreement with Contracuña for the Veta Grande Project

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

Liquidity and Capital Resources and Going Concern

As at June 30, 2018, the Company had cash and cash equivalents of $1,672 (December 31, 2017 – $35) and a working capital deficiency of $10,966 (December 31, 2017 – $12,367). During the six months ended June 30, 2018, net cash provided by operating activities was $1,013, net cash used for investing activities was $1,310 including costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities was $1,921 arising from the issuance of the Short-term Loan.

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

At June 30, 2018 in addition to the working capital deficiency referenced above, the Company had accumulated an inception to date deficit of $97,187. 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:

- Malaspina Consultants Inc., a company owned by Robert McMorran, the Chief Financial Officer
- 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 and six months ended June 30, 2018 and 2017, 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 June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Mining Services				
Revenues	3,569	-	5,982	-
Cost of sales	117	-	518	-
	3,452	-	5,464	-
Expenses				
Accounting and corporate secretarial fees	46	56	69	115
Directors' fees	13	13	27	26
Management fees	107	46	213	92

At June 30, 2018, directors and officers or their related companies were owed $251 (December 31, 2017 – $266) 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. $209 of lease payments were paid during the six months ended June 30, 2018 (2017 - $234) and $789 of the leases payable outstanding at June 30, 2018 were owed to a company owned by the CEO of the Company (2017 - $998).
The Company entered into the Mine Services Agreement as well as the Carrizal LOI with a related company with common directors during the year ended December 31, 2017. As at June 30, 2018, $4,473 was owing from Carrizal (2017 - $1,552).

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 and cash equivalents, 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
These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in the annual financial statements for the year ended December 31, 2017, except for the adoption of IFRS 9 and 15 for the 2018 fiscal year that became effective January 1, 2018. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017. The adoption of these IFRS and their impact on these Financial Statements are discussed below.

a) **Changes in accounting policies – IFRS 9**

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's accounting policy for financial instruments under IFRS 9:

i. Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification IAS 39	**New classification IFRS 9**
Cash	amortized cost	amortized cost
Trade receivables	amortized cost	amortized cost
Other receivables	amortized cost	amortized cost
Accounts payable and accrued liabilities	amortized cost	amortized cost
Loan payable	amortized cost	amortized cost

The Company did not restate prior periods as there was no impact at the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

ii. Measurement

Financial assets at FVTOCI
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

iii. **Impairment of financial assets at amortized cost**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

iv. Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets.

b) Changes in accounting policies – IFRS 15

The Company adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

The following is the Company's new accounting policy for revenue from contracts with customers under IFRS 15:

i. Concentrate Sales

The Company recognizes revenue from contracts with customers for the sale of metal concentrates at the point in time when it transfers control of the concentrates over to the customers, which occurs upon delivery. Revenue is measured based on the market metal prices expected at time of settlement and estimates of the mineral content (assays), which are both subject to adjustment until the final settlement date. At the end of each reporting period, the amounts receivable are marked-to-market using the most up-to-date market prices for the settlement. These variations between the sales price recorded at the initial recognition date and the actual final sales price recorded at the settlement date are caused by changes in the market prices and assay results. The settlement receivable is recorded at fair value each period until final settlement occurs, with changes in fair value recorded as a component of revenue. Revenue is also recorded net of treatment and refining charges of the counterparties under the terms of the relevant sales agreements.

The Company has concluded that there were no significant changes in the accounting for concentrate sales as a result of the transition to IFRS 15 as the timing of control of the concentrate passing to the customer and the treatment of provisional pricing adjustments are unchanged from policies applied prior to the adoption of IFRS 15.

ii. Mining services revenue

The company recognizes revenue from mining services with reference to the work performed on an output appropriate to the particular service contract, such as performance of agreed service deliverables. Payments received prior to recognition of the related revenue are recorded as deferred revenue.

The Company did not restate prior periods as the adoption of IFRS 15 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

New Standards and Interpretations Not Yet Adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards in the condensed interim consolidated financial statements.

IFRS 16, Leases ("IFRS 16") specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard 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 standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

Outstanding Share Data
Authorized share capital: Unlimited number of Common Shares

All share information is reported as of August 29, 2018 in the following table.

Issued and Outstanding Common Shares				174,420,984
	Expiry Date	Exercise Price (CDN$)		
Options				
	February 10, 2021	0.15	3,900,000	3,900,000
Warrants				
	January 14, 2019	0.55	18,965,000	
	January 28, 2020	0.28	4,675,000	
	February 21, 2020	0.28	200,000	
	March 6, 2019	0.16	2,000,000	25,840,000
Fully Diluted				204,160,984

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 consolidated financial statements for the three months ended Jun 30, 2018 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.