



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the year ended December 31, 2018 prepared as of April 30, 2019, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2018 Annual Financial Statements**").

The above referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"). 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.

Forward-Looking Statements

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

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

This forward-looking information is based on certain assumptions that the Company believes are reasonable, including that: the Company is able to obtain any required government or other regulatory approvals and adequate financing to complete its current and future exploration and development programs; current gold, silver and base metal prices will not materially decrease; the proposed development of the Company's mineral projects will be viable operationally and economically and proceed as expected; the Company will not experience any material

accident, labour dispute or failure of plant or equipment; any additional financing needed by the Company will be available on reasonable terms; that planned drilling at its mineral properties will be completed and that the results of such drilling will be consistent with management's expectations; that general business, economic, and political conditions will not change in a material adverse manner; that the Company's exploration of its properties is not adversely affected by unexpected adverse weather conditions; that the estimates of the resources at the Panuco Deposit obtained by the Company are within reasonable bounds of accuracy (including with respect to size, grade and recovery); and that the Company's current exploration and development programs and objectives can be achieved.

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

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that the future price of silver, gold and base metals will decline, that mineral resources are not as estimated, that actual costs of reclamation activities are greater than expected; that changes in project parameters as plans continue to be refined result in increased costs, that lower rates of production are achieved than are expected, that unexpected variations in mineral grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents or labour disputes occur, 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 provides Carrizal with certain mine development, metallurgical and geological consulting services as well as administrative services in connection with Carrizal’s mining activities. The costs included in the Mine Services Agreement are only labour and other costs incurred by Santacruz in performing services. Costs for equipment and supplies incurred by Carrizal are not included as these are not billed to Santacruz. The Mine Services Agreement has no fixed termination date but may be terminated by either party giving 30 days written notice to the counter party.

On November 30, 2017 the Company entered into a binding Letter of Intent (the “Carrizal LOI”) wherein the Company granted Carrizal the right to earn a 20% working interest 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. In March 2018 Carrizal completed the referenced mill expansion. Although the facility is capable of operating at 750 tpd, subsequent metallurgical testing has indicated that the current optimal run rate is 650 tpd to maximize metal recoveries. Management has accepted that Carrizal has fulfilled this obligation and is reviewing with Carrizal the status of overall operations at the Veta Grande mine and the works completed by Carrizal to determine if it has complied with all terms of the Carrizal LOI.

Transaction with Contracuña

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

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

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

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

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

2018 Business Highlights

- Selected operating and financial information for the three months and years ended December 31, 2018 and 2017 is presented below:

	Three months ended Dec 31,		Years ended Dec 31,	
	2018	2017	2018	2017
Financial				
Revenue – Mining Operations	1,258	1,292	5,134	7,816
Revenue – Mining Services	1,466	3,580	8,017	3,580
Gross Loss ⁽⁴⁾	(3,073)	(451)	(4,060)	(5,156)
Impairment	(1,486)	(8,831)	(1,486)	(20,079)
Net Loss	(4,239)	(10,012)	(4,637)	(22,906)
Net Loss Per Share – Basic (\$/share)	(0.03)	(0.06)	(0.03)	(0.14)
Adjusted EBITDA ⁽⁴⁾	(2,404)	(1,435)	(3,468)	(5,297)
Operating				
Material Processed (tonnes milled)	53,396	30,974	211,465	181,073
Silver Equivalent Produced (ounces) ⁽¹⁾	237,542	139,670	815,323	865,459
Silver Equivalent Sold (payable ounces) ⁽²⁾	106,757	94,204	420,553	643,767
Production Cost per Tonne ⁽³⁾	89.97	86.49	67.01	63.74
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	48.32	32.38	36.76	23.07
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽³⁾	56.19	38.53	37.23	27.56
Average Realized Silver Price per Ounce (\$/oz.) ⁽³⁾⁽⁵⁾	14.40	16.73	15.30	17.06

⁽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 March 6, 2018, as amended July 1 and October 2, 2018, the Company through its wholly-owned subsidiary, Impulsora Minera Santacruz, S.A de C.V., arranged a loan (the "Short-term Loan") from a private Bolivian mining company, for US\$2.3 million. The Short-term Loan bears interest at 12% per annum, is repayable January 30, 2020, and is unsecured. In connection with the Short-term Loan the Company originally agreed to issue the lender 2,000,000 warrants exercisable until the end of business on March 6, 2019, at \$0.16 per share. The Company now proposes to issue 2,500,000 warrants exercisable until March 6, 2020 at \$0.16 per share, subject to the approval of the TSX Venture Exchange.
- In March 2018 the milling capacity at the Veta Grande Project was expanded to an initial estimate of 750 tpd. Mill throughput is expected to ramp up in stages until the new expanded capacity is achieved. The mill expansion was funded by Carrizal pursuant to the terms of the Carrizal LOI.
- On July 9 and October 22, 2018 the Company provided updates on the Phase I drill program ongoing at the Veta Grande, Armados, and Navidad veins that form part of Company's Veta Grande Project located in the Zacatecas Mining District, Zacatecas, Mexico. Nineteen drill holes totalling 6,165 metres were completed. Underground core drilling at the Armados mine led to the discovery of three on echelon high grade veins located in the footwall of the Armados vein.

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- On August 29, 2018 the Company reported that it had reached agreement to amend the terms of the Contracuña Option Agreement to make payment of \$1.42 million of trade payables owing to Contracuña a condition precedent to completing the terms of the Contracuña Option Agreement. The trade payable balance of \$1.4 million has been secured by a promissory note issued by Santacruz to Contracuña.
 - On October 16, 2018 the Company reported that it had made the final option payment of \$225 to acquire from Golden Minerals Company certain mineral claims consisting of 149 concessions covering approximately 7,800 hectares, located in the Zacatecas Mining District, Zacatecas, Mexico (the "Zacatecas Properties")

Management Business Overview and Outlook

This past year was a period of both challenges and successes. The challenges are well documented in this MD&A as evidenced by the sub-par fiscal performance of the Company. The successes relate to the significant improvements undertaken at the Veta Grande Project that are just beginning to take effect.

The mining operations came under new management late in Q4 2017 with the appointment of Carlos Silva as COO. As the year progressed new members were added to the operations team including a new VP Exploration, as well as new geological staff, assay lab staff, metallurgical staff and accounting staff.

With the change in team members came fresh perspectives on how to improve operations. New initiatives include commencing a drilling campaign at the Veta Grande Project early in Q1 that continued throughout the year and remains ongoing into 2019. A strong emphasis was placed on increasing mine development resulting in over 4,100 metres of mine development being completed in the year on various mines forming part of the Veta Grande Project including accessing the Navidad mine and Armados mine, successfully outlining a large production stope in the southern extension of the Veta Grande vein in the Garcia Mine, completing significant level development at the Armados mine, and continuing ramp development to lower levels at the Garcia mine. In addition, a technical study by a metallurgical consultant was completed late in Q4 at the Veta Grande milling facility that has led to reconfiguring certain of the mill circuits and changing the reagents utilized. Positive results have been realized in the form of increased metal recoveries and improved operating costs.

Also, in Q3 and Q4 a review of accounting procedures was made resulting in a re-alignment of the reporting process. Included in this initiative was a detailed review of the accounts that has led to a number of accounting adjustments in Q4.

The Company's focus for 2019 will be:

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

The decisions to commence the production phase at the Rosario Mine, the Veta Grande Project, the Cinco Estrellas Property, and the Membrillo Prospect were not based on a feasibility study with mineral reserves demonstrating economic and technical viability. Accordingly, there are 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

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Material Processed (tonnes milled)				
Rosario Project	16,676	13,317	61,184	78,963
Veta Grande Project	36,720	17,657	150,281	102,110
Consolidated	53,396	30,974	211,465	181,073
Silver Equivalent Produced (ounces) ⁽¹⁾				
Rosario Project	62,054	74,683	300,956	442,329
Veta Grande Project	175,488	64,987	514,367	423,130
Consolidated	237,542	139,670	815,323	865,459
Silver Equivalent Sold (payable ounces) ⁽²⁾				
Rosario Project	36,709	56,172	184,809	345,602
Veta Grande Project	70,048	38,032	235,744	298,165
Consolidated	106,757	94,204	420,553	643,767
Cash Cost of Production per Tonne ⁽³⁾				
Rosario Project	123.29	111.21	93.60	72.38
Veta Grande Project	74.84	67.85	56.19	57.07
Consolidated	89.97	86.49	67.01	63.74
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾				
Rosario Project	58.51	29.80	34.28	21.83
Veta Grande Project	42.98	36.18	38.70	24.50
Consolidated	48.32	32.38	36.76	23.07
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾				
Rosario Project	64.83	33.81	39.39	26.03
Veta Grande Project	51.66	41.89	44.88	29.33
Consolidated	56.19	38.53	37.23	27.56
Average Realized Silver Price per Ounce (\$/oz) ⁽³⁾				
Rosario Project	14.22	16.77	15.53	17.00
Veta Grande Project	14.49	16.67	15.12	17.12
Consolidated	14.40	16.73	15.30	17.06

⁽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 2018 decreased by 6% to 815,323 ounces as compared to 865,459 ounces in 2017. This decrease reflects a 22% increase in production at the Veta Grande Project to 514,367 ounces and a 32% decrease in production at the Rosario Project to 300,956 ounces.

Silver equivalent production for Q4 2018 increased by 70% to 237,542 ounces as compared to 139,670 ounces in Q4 2017. This increase is due to a 17% decrease in production at the Rosario Project to 62,054 ounces and a 170% increase in production at the Veta Grande Project to 175,488 ounces.

As referenced earlier in this MD&A management's focus at the Veta Grande Project for 2019 is to continue increasing production to mill capacity with the source of the mill feed being in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine. At the Rosario Project the focus is to achieve positive cash flow from operations with mill throughput to be generated from the Membrillo Prospect and other sources.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 5% in 2018 to \$67.01/t as compared to \$63.74/t in 2017. This change in unit costs reflects a 2% decrease in unit costs at the Veta Grande Project and a 29% increase in unit costs at the Rosario Project. The consolidated cash cost of production increased 23% to \$14,171 in 2018 while the tonnes of mineralized material processed increased by 17% in 2018. In summary, weaker results from the Rosario Project had a negative impact on overall mining operations.

As compared to Q4 2017 the Q4 2018 unit costs increased 4%. This change in unit costs reflects a 10% increase in unit costs at the Veta Grande Project and an 11% increase in unit costs at the Rosario Project. The consolidated cash cost of production increased 79% to \$4,804 while the tonnes of mineralized material processed increased by 72%.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 59% in 2018 to \$36.76/oz as compared to \$23.07/oz in 2017. This change in unit costs reflects a 58% increase in unit costs at the Veta Grande Project and a 57% increase in unit costs at the Rosario Project. The consolidated cash cost of production per silver equivalent ounce sold increased by 4% while silver equivalent payable ounces sold decreased by 35%.

As compared to Q4 2017 the Q4 2018 unit costs increased 49%. This change reflects an increase in unit costs of 19% at the Veta Grande Project and an increase of 96% at the Rosario Project. The consolidated cash cost of sales for mining operations increased by 69% while the amount of silver equivalent payable ounces sold increased by 13%.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 54% in 2018 to \$42.47/oz as compared to \$27.56/oz in 2017. This change in unit costs reflects a 53% increase in unit costs at the Veta Grande Project offset by a 51% increase in unit costs at the Rosario Project. The consolidated all-in sustaining cost for mining operations increased by 1% and there was a 35% decrease in silver equivalent payable ounces sold.

As compared to Q4 2017 the Q4 2018 unit costs increased 46%. This change reflects a 18% increase in unit costs at the Veta Grande Project and an 85% increase at the Rosario Project. The consolidated all-in sustaining cost for mining operations increased by 65% offset by a 13% 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 Mine and Minillas properties, for aggregate cash consideration of \$15,500 over five years, all as described in detail earlier in this MD&A (see Transaction With Contracuña).

The Company also entered into the Carrizal LOI in December 2017 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.

Veta Grande Project Production and Operating Results

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Material Processed (tonnes milled)	36,720	17,657	150,281	102,110
Silver Equivalent Produced (ounces) ⁽¹⁾	175,488	64,987	514,367	423,130
Silver Equivalent Sold (payable ounces) ⁽²⁾	70,048	38,032	235,744	298,165
Production - Silver (ounces)	58,921	25,665	190,325	201,285
- Gold (ounces)	59	53	292	424
- Lead (tonnes)	295	70	784	466
- Zinc (tonnes)	398	163	1,112	803
Average Grade - Silver (g/t)	81	78	73	100
- Gold (g/t)	0.19	0.18	0.19	0.20
- Lead (%)	0.95	0.55	0.66	0.60
- Zinc (%)	1.90	1.44	1.50	1.18
Metal Recovery - Silver (%)	61.7	58.1	54.2	61.4
- Gold (%)	49.8	52.6	39.2	63.9
- Lead (%)	84.5	72.5	78.9	76.3
- Zinc (%)	57.2	64.1	49.3	66.5
Cash Cost of Production per Tonne ⁽³⁾	74.84	67.85	56.19	57.07
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	42.98	36.18	38.70	24.50
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	51.66	43.62	44.88	29.33

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

Veta Grande Operations Overview

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

In addition, as referenced earlier in this MD&A, a technical study by a metallurgical consultant was completed late in Q4 at the Veta Grande milling facility that has led to reconfiguring certain of the mill circuits and changing the reagents utilized. Positive results have resulted in the form of increased metal recoveries for gold, silver and zinc with decreased costs for the reagents utilized.

This improvement in recoveries has continued into Q1 2019 with zinc recovery increasing to 63% and is expected to continue to improve over the coming quarters.

From a silver equivalent production perspective, the Company saw good progress in this regard as production increased by 230% in the second half of the year as compared to the first half.

In early Q2 2019 the capacity at the milling facility was increased to 570 tpd with plans to bring back online one additional small ball mill currently being refurbished by early Q3 bringing the capacity to 650 tpd.

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 are 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

Since the commencement of the drill program at Veta Grande in 2018, a total of 42 holes have been completed totalling 14,700 meters. The drilling has been both surface and underground targeting vein structures at Garcia, Navidad and Armados. The drilling has generally confirmed the projected strike of the mineralized vein structures. At the Garcia mine the Veta Grande vein structure has been traced 500 metres to the south to the property border and is continuing to trace the structure to the north. At Armados, the drilling has identified three on echelon high grade veins in the footwall to the main Armados vein. Intercepts at Navidad have demonstrated some very strong grades including 1.95 meters of 698 g/t silver equivalent.

Veta Grande Production

Veta Grande Project silver equivalent production increased by 22% to 514,367 ounces in 2018 as compared to 423,130 ounces in 2017. The increased production primarily reflects a 47% increase in tonnes milled, offset by lower head grades.

As compared to Q4 2017, silver equivalent production increased by 170% to 175,488 ounces in Q4 2018 from 64,987 ounces in Q4 2017. The increased production primarily reflects a 108% increase in tonnes milled and a modest increase in silver equivalent head grade. Management anticipates a continuing gradual increase in tonnage milled, head grade and metal recoveries will continue through into 2019. As compared to Q4 2018, the Q1 2019 silver equivalent head grade increased by 13%; metal recoveries for gold, silver and lead were relatively unchanged while the zinc recovery increased from 45% to 63%; and mill throughput decreased by 11% as a small ball mill was taken offline and will be refurbished during Q2 2019.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 2% in 2018 to \$56.19/t as compared to \$57.07/t in 2017. This change reflects a 47% increase in tonnes milled while the cash cost of production increased by 45%. Cash cost of production was higher as a result of the increased tonnage milled. The increase in tonnes milled reflects the beginning of an anticipated ongoing increased rate of production until the targeted 650 tpd rate is consistently achieved.

As compared to Q4 2017 the Q4 2018 unit costs increased 10%. This change reflects a 129% increase in the cash cost of production while the tonnes of mineralized material processed increased by 108%. After giving effect to the accounting adjustments previously referenced, of which approximately \$350 relates to the Veta Grande Project cash cost of operations, the restated Q4 2018 unit costs would be 4% less than the Q4 2017 unit cost.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 58% in 2018 to \$38.70/oz as compared to \$24.50/oz in 2017. This change in unit costs reflects a 25% increase in cash cost of sales combined with a 21% decrease in silver equivalent payable ounces sold during the year. The decrease in silver equivalent payable ounces sold largely reflects the 27% lower silver head grade processed in 2018, offset by a 47% increase in tonnes processed during 2018. Low silver head grade material was processed in the first half of 2018 with significant improvement in grade during the second half of the year.

As compared to Q4 2017 the Q4 2018 unit costs increased 19%. The cash cost of production increased 119% while the amount of silver equivalent payable ounces sold increased 84%. After giving effect to the cash cost of operations for the accounting adjustment referenced above, the restated Q4 2018 unit costs would be 5% more than the Q4 2017 unit cost.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 53% in 2018 to \$44.88/oz as compared to \$29.33/oz in 2017. The all-in sustaining cash cost of production increased by 21% while the amount of silver equivalent payable ounces sold decreased 21%.

As compared to Q4 2017 the Q4 2018 all-in sustaining unit costs increased 18%. The all-in sustaining cash cost of production increased by 118% offset by an 84% increase in silver equivalent payable ounces sold. The increase in all-in sustaining cash cost of production reflects in part significantly more mine development expenditures as well as increased operating costs associated with processing more mineralized material through the milling facility.

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. The Company suspended operations at the Cinco Estrellas property in late 2017.

Membrillo Prospect

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

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

Rosario Project Production and Operating Results

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Material Processed (tonnes milled)	16,676	13,317	61,184	78,963
Silver Equivalent Produced (ounces) ⁽¹⁾	62,054	74,683	300,956	442,329
Silver Equivalent Sold (payable ounces) ⁽²⁾	36,709	56,172	184,809	345,602
Production - Silver (ounces)	18,927	18,652	72,358	112,663
- Gold (ounces)	131	186	379	1,007
- Lead (tonnes)	40	23	128	157
- Zinc (tonnes)	160	249	1,047	1,488
Average Grade - Silver (g/t)	42	53	43	52
- Gold (g/t)	0.36	0.60	0.29	0.52
- Lead (%)	0.26	0.24	0.24	0.25
- Zinc (%)	1.26	2.10	2.02	2.17
Metal Recovery - Silver (%)	83.7	81.7	86.3	85.5
- Gold (%)	67.4	72.6	65.6	76.6
- Lead (%)	89.5	73.6	87.5	80.4
- Zinc (%)	76.5	89.2	84.8	87.0
Cash Cost of Production per Tonne ⁽³⁾	123.29	111.21	93.6	72.38
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	64.83	29.8	39.39	21.83
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	64.83	35.09	39.39	26.03

(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. An exploration program primarily consisting of a surface drilling program needs to be completed and a mine plan developed before production will recommence.

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 completed access to Levels 1, 2 and 3 on the main Membrillo vein as well as on the San Rafael vein. Production has been challenged by high mining dilution rates and management has taken steps to address this matter.

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 2018 from the Rosario Project decreased by 32% to 300,956 ounces as compared to 442,329 in 2017. This decrease reflects a 23% decrease in tonnes milled and lower head grade. These decreases reflect in part the impact of the suspension of operations at both the Rosario Mine and Cinco Estrellas Property as referenced above.

As compared to Q4 2017 silver equivalent production decreased by 17% to 62,054 ounces from 74,683 ounces virtually all because of a decrease in the average silver equivalent head grade.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 29% in 2018 to \$93.60/t as compared to \$72.38/t in 2017. This is mainly due to the 23% decrease in tonnes milled during the quarter. 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 Q4 2017 the Q4 2018 unit costs increased by 11%. This change reflects a 25% increase in tonnes processed accompanied by a 39% increase in cash cost of production.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 57% in 2018 to \$34.28/oz as compared to \$21.83/oz in 2017. This change in unit costs reflects in part a 16% increase in cash cost of sales and a 47% decrease in silver equivalent payable ounces sold. Both of these variances reflect in part the fact that during 2018 the amount of mineralized material processed through the mill decreased by 23%. Further, with respect to the amount of silver equivalent payable ounces sold, the head grade of mineralized material processed in 2018 was significantly lower.

As compared to Q4 2017 the Q4 2018 unit costs increased 96%. The cash cost of sales increased 28% while the amount of silver equivalent payable ounces sold decreased by 35%. The decrease in silver equivalent payable ounces sold reflects significantly lower silver and zinc grades present in the mineralized material processed at the milling facility.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 51% in 2018 to \$39.39/oz as compared to \$26.03/t in 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 Q4 2017 the Q4 2018 all-in sustaining unit costs increased 85%. This change in unit costs occurred largely for the same reasons as for the increase 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.

The Company acquired a 100% interest in the Zacatecas Properties by making payments to Golden Minerals in the amount of \$1,549 including an initial payment of \$200 on signing the agreement plus additional payments of \$185 in 2016, \$450 in 2017, \$ and \$746 in 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 Zacatecas State about 25 kilometers southeast of Zacatecas City in the municipality of Genaro Codina. Access is from paved highway heading to 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.

Selected Annual Information

The Company's fiscal period ends on December 31. The following is a summary of certain selected audited financial information for the last three completed fiscal years:

(Derived from the Financial Statements; Expressed in thousands of US Dollars except per share amounts)	2018	2017	2016
	\$	\$	\$
Cash	18	35	40
Working Capital (Deficiency)	(11,812)	(12,367)	(11,668)
Mineral Property Interest	8,076	6,744	21,140
Total Assets	23,019	27,671	51,879
Total Liabilities	21,943	20,664	26,425
Total Equity	1,077	7,007	25,454
Total Revenues ⁽¹⁾	13,151	11,396	11,812
Net Loss ⁽²⁾	(4,637)	(22,906)	(18,506)
Net Loss Per Share (basic and diluted) ⁽³⁾	(0.03)	(0.14)	(0.14)

(1) Revenues in 2018 include \$8,017 (2017 - \$3,580 and 2016 0 \$nil) from mining services.

(2) The 2018 net loss includes an impairment of the Rosario Property of \$1,486 (2017 - \$14,975 and 2016 - \$nil), the San Felipe project of \$nil (2017 - \$nil and 2016 - \$15,615), and the Gavilanes Property of \$nil (2017 - \$5,284 and 2016 - \$nil). It also includes a gross margin from mining services of \$6,958 (2017 \$856 and 2016 - \$nil).

(3) The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants, if any.

Financial Results

Review of Operations

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Revenue				
Mining operations	1,258	1,292	5,134	7,816
Mining services	1,466	3,580	8,017	3,580
	2,724	4,872	13,151	11,396
Cost of sales				
Cash cost of sales - mining operations	4,880	2,766	14,158	11,684
Cash cost of sales - mining services	0	2,724	1,059	2,724
Depletion and amortization	917	(167)	1,994	2,144
	5,797	5,323	17,211	16,552
Gross loss	(3,073)	(451)	(4,060)	(5,156)
Operating expenses				
Administrative	(239)	(171)	(452)	(449)
Management and consulting fees	(65)	(108)	(386)	(401)
Professional fees	(80)	(64)	(424)	(625)
Other	(22)	(59)	(304)	(407)
	(406)	(402)	(1,566)	(1,882)
Debt forgiveness	134	-	2,724	-
Gain (loss) on disposal of equipment	159	(415)	164	(415)
Impairment	(1,486)	(10,445)	(1,486)	(20,079)
Interest earned and other finance income				
Interest earned	-	19	-	21
Foreign exchange gain	873	317	920	-
IVA recovery inflationary gain	-	-	-	464
Change in fair value of derivative assets	-	-	-	3,569
	873	336	920	4,054
Interest Expense and Other Finance Expenses				
Accretion of decommissioning and restoration provision	(9)	(9)	(34)	(34)
Carrying charges on loans payable	(14)	-	(377)	-
Interest expense on loans payable	(166)	(33)	(386)	(61)
Other interest expense	(7)	-	(4)	-
Financing charge on leases	(124)	-	(124)	-
Interest expense and loss on settlement of JMETS note	-	93	-	(396)
Change in fair value of derivatives	-	(240)	-	-
Foreign exchange loss	-	-	-	(522)
	(320)	(189)	(925)	(1,013)
Income tax recovery (expense)	(121)	1,554	(408)	1,585
Net income (loss) for the period	(4,240)	(10,012)	(4,637)	(22,906)

Year ended December 31, 2018

The Company recorded a net loss of \$4,637 (\$0.03 loss per share) for the year ended December 31, 2018 compared to a net loss of \$22,906 (\$0.14 loss per share) for the year ended December 31, 2017. The year ended December 31, 2018 financial results include revenues and cost of sales relating to the Mining Services contract with Carrizal for the whole year, whereas in 2017 only Q4 2017 includes revenues and sales related to the Mining Services Contract.

The gross margin from the Mining Services contract amounted to a profit of \$6,958 (2017 - \$856) while the gross margin from mining operations was a loss of \$11,018 (2017 – loss of \$6,012). The net loss recorded in the year ended December 31, 2018 arose substantially from the gross losses from mining operations.

Revenues in 2018 of \$13,151 include mining operations of \$5,134 (2017 - \$7,816) and mining services of \$8,017 (Q3 2017 - \$3,580). As noted above the mining services revenue is in connection with the Mining Services contract with Carrizal.

The 2018 mining operations revenue was generated from the Veta Grande Project as to 56% and the Rosario Project as to 44% whereas in 2017 mining operations revenue was generated from the Veta Grande Project as to 47% and the Rosario Project as to 53%. With respect to the Veta Grande Project, revenues increased as a result of processing more mineralized material during 2018. The decreased Rosario Project revenue is primarily the result of processing less tonnes of mineralized material in 2018 with the grade of the material processed also being lower than that in 2017. 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 2018 includes mining operations of \$14,158 (2017 - \$11,684) and mining services of \$1,059 (2017 - \$2,724). The increase in mining operations cost of sales is in part a result of an increase in tonnes processed of 17% and in part a result of increased level development at the Veta Grande Project.

During the year ended December 31, 2018 the Company recorded operating expenses of \$1,566 (2017 - \$1,882). Operating expenses decreased in 2018 as compared to 2017 as the result of lower professional fees in 2018 and the inclusion of certain fees related to the Gavilanes Property in 2017.

As detailed in the 2018 Financial Statements, interest earned and other finance income decreased by \$3,134 for the year ended December 31, 2018 compared to the year ended December 31, 2017 which includes a charge for change in fair value of foreign currency derivative of \$3,569.

As detailed in the 2018 Financial Statements, interest expense and other finance expenses in 2018 amounted to \$925 (2017 - \$1,013). The 2017 balance largely arises from interest expense and loss on settlement on the JMET Note as well as a foreign exchange loss, while the 2018 balance arises from a number of sources including interest expense and carrying charges on the loans payable.

Three months ended December 31, 2018

The Company recorded a net loss of \$4,240 (\$0.03 loss per share) for the three months ended December 31, 2018, compared to the net loss of \$10,012 (\$0.06 loss per share) for the three months ended December 31, 2017.

The Company recorded mining operations revenues of \$1,258 (2017 - \$1,292), mining services revenues of (\$1,466 (2017 - \$3,580), mining operation cash cost of sales of \$4,880 (2017 - \$2,766), mining services cash cost of sales of \$nil (2017 - \$2,724), and amortization and depletion expenses of \$917 (2017 – negative of \$167) for the three months ended December 31, 2018 resulting in a gross loss of \$3,073 (2017 - \$451). The lower net loss in 2018 is a result of the lower impairment charge taken in Q4 2018 of \$1,486 (2017 - \$10,445), offset by the higher mining operations gross loss in 2018 of \$3,622 (2017 - \$1,474).

Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
	\$	\$	\$	\$
Revenues – Mining operations	1,258	1,657	1,466	753
Revenues – Mining services	1,466	569	3,569	2,413
Cost of sales – Mining operations	4,880	3,842	3,631	2,882
Cost of sales – Mining services	-	541	117	401
Administrative expenses	406	376	290	494
Net (loss) income ⁽²⁾⁽³⁾⁽⁴⁾	(4,240)	(2,888)	3,297	(806)
Net (loss) income per share ⁽¹⁾	(0.03)	(0.02)	0.02	(0.00)
	THREE MONTHS ENDED			
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Revenues – Mining operations	1,292	1,798	2,641	2,085
Revenues – Mining services	3,580			
Cost of sales – Mining operations	2,766	3,617	4,468	3,144
Cost of sales – Mining services	2,724			
Administrative expenses	402	500	497	483
Net (loss) income ⁽²⁾⁽³⁾⁽⁴⁾	(10,012)	(5,899)	(8,485)	1,490
Net (loss) income per share ⁽¹⁾	(0.06)	(0.04)	(0.05)	0.01

⁽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.

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 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)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash cost of sales	2,824	1,225	8,438	5,864
Inventory change	(76)	(27)	6	(37)
Cash Cost of Production (A)	2,748	1,198	8,444	5,827
Cash cost of sales	2,824	1,225	8,438	5,864
Concentrate treatment, smelting and refining cost	187	151	686	1,442
Cash Cost of Silver Equivalent Sold (B)	3,011	1,376	9,124	7,306
Material processed (tonnes milled) (C)	36,720	17,657	150,281	102,110
Cash Cost of Production per Tonne (A/C)	74.84	67.85	56.19	57.07
Silver Equivalent Sold (payable ounces) (D)	70,048	38,032	235,744	298,165
Cash Cost per Silver Equivalent Ounce (B/D)	42.98	36.18	38.70	24.50

Rosario Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash cost of sales	1996	1,541	5,660	5,820
Inventory change	-	(60)	7	(105)
Cash Cost of Production (A)	1,996	1,481	5,667	5,715
Cash cost of sales	1,996	1,541	5,660	5,820
Concentrate treatment, smelting and refining cost	92	133	616	1,723
Cash Cost of Silver Equivalent Sold (B)	2,148	1,674	6,336	7,543
Material processed (tonnes milled) (C)	16,676	13,317	61,184	78,963
Cash Cost of Production per Tonne (A/C)	123.29	111.21	93.6	72.38
Silver Equivalent Sold (payable ounces) (D)	36,709	56,172	184,809	345,602
Cash Cost per Silver Equivalent Ounce (B/D)	58.51	29.8	34.28	21.83

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

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

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

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

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

The following tables provide a detailed reconciliation of these measures to our operating expenses, as reported in our consolidated financial statements.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Cash cost of sales	2,824	1,225	8,438	5,864
Concentrate treatment, smelting and refining cost	187	151	686	1,442
Sustaining capital expenditures	-	-	-	16
Deferred ramp expenditures	405	66	673	467
General and administrative expenses	203	217	783	956
All-in Sustaining Cost	3619	1,659	10580	8,745
Silver Equivalent Sold (payable ounces)	70,048	38,032	235,744	298,165
All-in Sustaining Cost per Silver Equivalent Ounce Sold	51.66	43.62	44.88	29.33

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash cost of sales	2,056	1,541	5,720	5,820
Concentrate treatment, smelting and refining cost	92	133	616	1,723
Sustaining capital expenditures	-	-	-	42
Deferred ramp expenditures	20	72	126	418
General and administrative expenses	203	216	783	957
Share-based payments	-	-	-	1
Accretion of decommissioning and restoration provision	9	9	34	34
All-in Sustaining Cost	2,380	1,971	7,279	8,995
Silver Equivalent Sold (payable ounces)	36,709	56,172	184,809	345,602
All-in Sustaining Cost per Silver Equivalent Ounce Sold	63.2	35.09	39.06	26.40

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)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Revenues	828	483	2,879	3,664
Add back: Treatment, smelting and refining charges	187	151	686	1,442
Gross Revenues	1,015	634	3,565	4,472
Silver Equivalent Sold (ounces)	70,048	38,032	235,744	261,143
Avg Realized Price per Ounce of Silver Equivalent Sold	14.49	16.67	15.12	17.12
Avg Market Price per Ounce of Silver per London Silver Fix	14.54	16.70	15.84	17.05

⁽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)	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Revenues	430	809	2,255	4,152
Add back: Treatment, smelting and refining charges	92	133	616	1,723
Gross Revenues	522	942	2,871	4,933
Silver Equivalent Sold (ounces)	36,709	56,172	184,809	290,188
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	14.22	16.77	15.53	17.00
Avg Market Price per Ounce of Silver per London Silver Fix	14.54	16.70	15.84	17.05

⁽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 three months and years ended December 31, 2018 and 2017.

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Net loss for the period as reported	(4,240)	(10,012)	(4,637)	(22,906)
Income tax expense (recovery)	120	(1,554)	408	(1,585)
Interest earned and other finance income and gain on the settlement of debt	-	(19)	-	(4,054)
Interest expense and other finance expenses	131	147	128	396
Carrying charges on loan payable	14	-	377	-
Interest expense on loan payable	166	33	386	61
Accretion expense	9	9	34	34
Amortization and depletion of mineral properties, plant and equipment	917	(167)	1,994	2,155
EBITDA	(2,883)	(11,563)	(1,310)	(25,899)
Impairment of exploration and evaluation properties	1,486	10,445	1,486	20,079
Foreign exchange	(873)	(317)	(920)	522
Debt forgiveness	(134)	-	(2,724)	-
Share-based payments	-	-	-	1
Adjusted EBITDA	(2,404)	(1,435)	(3,468)	(5,297)

Pre-paid Silver Purchase

On July 14, 2016, the Company completed the restructuring (the "Restructuring") of the Prepaid Silver Purchase Agreement with JMETS, LLC ("JMETS") such that the Company no longer had any metal delivery obligations to JMETS. In addition, among other things, pursuant to the Restructuring the Company issued JMETS a new secured note in the amount of \$4,890 (the "JMETS Note") and issued 3,750,000 warrants to JMETS (the "JMETS Warrants"). Each JMETS 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. As at December 31, 2018 the balance was \$415. Subsequent to December 31, 2018 \$306 has been paid against the outstanding principal balance. 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 March 6, 2018 the Company entered into a loan agreement (the "MineCo Loan") with a private Bolivian mining company ("MineCo"), for \$2,300. The MineCo Loan bore interest at 9% per annum and was repayable July 1st, 2018. In connection with the MineCo Loan the Company issued MineCo 2,000,000 warrants (the "Warrants") exercisable until March 6, 2019, at \$0.16 per share.

On July 1, 2018, the Company reached an agreement with MineCo to extend the repayment date of the MineCo Loan to October 1, 2018. As consideration for receiving the debt repayment date extension, the Company agreed to increase the interest rate to 12% effective July 1, 2018. In addition, the Company agreed to increase the number of Warrants to 2,500,000 and to extend the expiry date to March 6, 2020, subject to the approval of the TSX-V.

On October 2, 2018, the Company and MineCo agreed to further extend the repayment date of the MineCo Loan to January 31, 2020. The MineCo Loan is unsecured.

MineCo Loan

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

On July 2, 2018, the Company reached agreement with MineCo to extend the repayment date of the MineCo Loan to October 1, 2018. As consideration for receiving the repayment date extension to October 1, 2018 the Company agreed to an increase in the interest rate to 12% effective July 1, 2018. In addition, the Company agreed to increase

the number of Warrants 2,500,000 and to extend the expiry date of the Warrants to March 6, 2020, subject to the approval of the TSX-V.

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

Banco Base loan

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

Funds drawn down must be repaid within a maximum of 15 business days following the drawdown date. Funds drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of \$600 or the equivalent amount in Mexican pesos. Upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Banco Base Loan. The Banco Base Loan was unsecured and the implied carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates were approximately 33% per annum. As at December 31, 2018 the balance of the Banco Base Loan was \$350.

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 \$2,759 on its mineral properties during the year ended December 31, 2018. The Company currently has one mineral property option agreement outstanding being the agreement with Contracuña for the Veta Grande Project.

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

Liquidity and Capital Resources and Going Concern

As at December 31, 2018, the Company had cash of \$18 (December 31, 2017 – \$35) and a working capital deficiency of \$11,812 (December 31, 2017 – \$12,367). During the year ended December 31, 2018, net cash used for operating activities was \$4,224, net cash used for investing activities was \$2,705 including costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities was \$1,334 arising from the issuance of the loans payable.

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

At December 31, 2018 in addition to the working capital deficiency referenced above, the Company had a loss for the year of \$4,637 (2017 - \$22,906), negative operating cash flows of \$4,224 (2017 - \$5,058) and accumulated an inception to date deficit of \$104,437. 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

During the years ended December 31, 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:

	2018	2017
	\$	\$
Mining Services		
Revenues	8,017	3,580
Cost of sales	-	1,500
	8,017	2,080
Expenses		
Accounting and corporate secretarial fees	85	149
Directors' fees	67	62
Management fees	383	196

At December 31, 2018, directors and officers or their related companies were owed \$290 (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. \$nil of lease payments were paid during the year ended December 31, 2018 (2017 - \$252) and \$1,210 of the leases payable outstanding at December 31, 2018 were owed to a company owned by the CEO of the Company (December 31, 2017 - \$998).

The Company entered into the Mine Services Agreement (Note 18) as well as the Carrizal LOI (Note 9) with a related company with common directors during the year ended December 31, 2017. As at December 31, 2018, \$nil was owing from Carrizal (December 31, 2017 - \$1,552). During the year ended December 31, 2018, Carrizal agreed to forgive \$2,724 of debt owing to it under the terms of the Mine Services Agreement.

During 2018, the Company recognized a gain on sale of mining equipment to Carrizal in the amount of \$164.

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

Fair value and Classification of Financial Instruments

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

Off-balance Sheet Arrangements

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

Change in Accounting Policies

The Company's 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	Loans and receivable	amortized cost
Trade receivables	Loans and receivable	amortized cost
Other receivables	Loans and receivable	amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	amortized cost
Loan payable	Other financial liabilities	amortized cost and FVTPL

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.

For the Company's trade receivables, the simplified approach for determining expected credit losses is used under IFRS 9, which requires the Company to determine the lifetime, expected losses for all its trade receivables. The expected lifetime credit loss provision for its trade receivables is based on historical default rates and other relevant forward-looking information. Because of factors including that the company has only two customers, one for mining operations and one for mining services, and both customers are considered to have low default risk as the historical default rates are low, the lifetime expected credit loss allowance for trade receivables is nominal as at December 31, 2018. Accordingly, the Corporation did not record any adjustment relating to the implementation of the expected credit loss model for its trade receivables.

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 using the modified retrospective method, which required it to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018, and (ii) revenue contracts which were not completed 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 cumulative 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 the 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 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.

Upon adoption of IFRS 16, the Company will record a right-of-use asset, with an associated lease liability, on the consolidated statement of financial position as at January 1, 2019. The right-of-use asset and liability will be unwound over the terms of the leases giving rise to an interest expense and depreciation charge, respectively. Currently the Company’s operating leases relate to the rental of mining equipment.

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of April 30, 2019 in the following table.

Issued and Outstanding Common Shares				174,670,984
	Expiry Date	Exercise Price (CDN\$)		
Options	February 10, 2021	0.15	3,250,000	3,250,000
Warrants	January 28, 2020	0.28	4,675,000	
	February 21, 2020	0.28	200,000	
	March 6, 2019	0.16	2,000,000*	4,875,000
Fully Diluted				182,795,984

* the Company has made an application to regulators to increase the number of warrants to 2,500,000 and to extend the expiry date, but approval of this matter from the TSX-V is still pending.

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 year ended December 31, 2018 and this accompanying MD&A (together, the “Annual 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.