



**Consolidated Financial Statements**

**Years Ended December 31, 2021 and 2020**

(Expressed in thousands of US dollars)



## Independent auditor's report

To the Shareholders of Santacruz Silver Mining Ltd.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Santacruz Silver Mining Ltd. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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## **Material uncertainty related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## **Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regard.

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## **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and



are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



The engagement partner on the audit resulting in this independent auditor's report is Frans Minnaar.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
May 2, 2022

**SANTACRUZ SILVER MINING LTD.**

Consolidated Statements of Financial Position

As at December 31, 2021 and 2020

(Expressed in thousands of United States dollars)

	Note	2021	2020
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		938	430
Marketable securities	6	4,102	-
Trade and other receivables	7	13,260	10,928
Inventory	8	1,271	1,425
Prepaid expenses and deposits		2,503	1,069
Assets held for sale	9	-	2,569
		<b>22,074</b>	<b>16,421</b>
Other assets		53	506
Deposit on Zimapan Mine acquisition	4	-	1,000
Property, plant and equipment	4,10	22,933	14,905
Mineral property	4,11	15,854	-
<b>Total assets</b>		<b>60,914</b>	<b>32,832</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12,18	36,888	32,483
Loans payable - current portion	13	4,832	6,287
Lease liability - current portion	14,18	175	165
		<b>41,895</b>	<b>38,935</b>
Loans payable	13	7,166	-
Lease liability	14	167	304
Decommissioning and restoration provision	15	6,715	1,548
Deferred income tax liability	23(b)	2,233	1,464
<b>Total liabilities</b>		<b>58,176</b>	<b>42,251</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	16	129,532	113,217
Stock options and warrants reserve	16(c)	14,343	7,042
Contributed surplus		(1,872)	(1,872)
Accumulated other comprehensive loss		(1,323)	(1,429)
Deficit		(137,942)	(126,377)
Total shareholders' equity (deficiency)		2,738	(9,419)
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>60,914</b>	<b>32,832</b>

Nature of operations and going concern (note 1)

Contingencies (note 24)

Subsequent events (note 25)

**Approved and authorized for issue on behalf of the Board:***"Arturo Préstamo Elizondo"*

Director

*"Larry Okada"*

Director

*The accompanying notes are an integral part of these consolidated financial statements.*

**SANTACRUZ SILVER MINING LTD.**

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except number of shares)

	Note	2021	2020
		\$	\$
Revenues		<b>53,334</b>	33,097
Cost of sales	17(a)	<b>43,036</b>	32,109
<b>Gross profit</b>		<b>10,298</b>	988
Operating expenses	17(b)	<b>(17,067)</b>	(7,144)
Debt forgiveness	18	-	412
<b>Operating loss</b>		<b>(6,769)</b>	(5,744)
Finance (expense) income	17(c)	<b>(3,497)</b>	4,226
Gain on foreign exchange		<b>126</b>	117
Unrealized gain on marketable securities	6	<b>2,083</b>	-
Gain on sale of Zacatecas properties	9	<b>911</b>	-
Loss on Rosario Project transactions	5, 23	<b>(1,095)</b>	-
<b>Loss before tax</b>		<b>(8,241)</b>	(1,401)
Income tax expense	23(a)	<b>(3,324)</b>	(92)
<b>Net loss for the year</b>		<b>(11,565)</b>	(1,493)
Other comprehensive income:			
Currency translation differences		<b>106</b>	377
<b>Comprehensive loss for the year</b>		<b>(11,459)</b>	(1,116)
<b>Net loss per share:</b>			
Basic and diluted		<b>(0.04)</b>	(0.01)
<b>Weighted average number of common shares:</b>			
Basic and diluted		<b>308,017,196</b>	221,160,286

*The accompanying notes are an integral part of these consolidated financial statements.*

**SANTACRUZ SILVER MINING LTD.**

Consolidated Statements of Cash Flows  
For the years ended December 31, 2021 and 2020  
(Expressed in thousands of United States dollars)

	Note	2021	2020
		\$	\$
<b>Operating activities:</b>			
Net loss for the year		(11,565)	(1,493)
Items not affecting cash:			
Deferred income tax expense	23(a)	(382)	(35)
Accretion of decommissioning provision	15	476	51
Change in decommissioning and restoration provision	15	854	-
Accretion of Trafigura Loan Facility	13	1,152	-
Depreciation and depletion	10	4,137	710
Issuance of shares for advisory fees and share-based compensation	16(c)	-	289
Interest expense on loans payable	13	976	370
Inflation adjustments, surcharges and penalties	17(b)	2,639	-
Carrying and finance charges on loans payable	13	615	240
Finance charges on leases	14	40	-
Forgiveness of debt	18	-	(412)
Share-based compensation	16(d)	3,363	-
Unrealized gain on marketable securities	6	(2,083)	-
Gain on sale of Zacatecas Properties	9	(911)	-
Loss on Rosario Project transactions	5	1,095	-
Unrealized foreign exchange (gain) loss		(4,991)	295
Changes in non-cash working capital:			
Trade and other receivables		(5,605)	(5,021)
Inventory		154	(279)
Prepaid expenses and deposits		(1,434)	(714)
Accounts payable and accrued liabilities		9,998	1,188
<b>Net cash used in operating activities</b>		<b>(1,472)</b>	<b>(4,811)</b>
<b>Investing activities:</b>			
Acquisition of the Zimapan Mine	4	(20,000)	-
Expenditures on property, plant and equipment	10	(1,312)	(1,410)
Expenditures on mine property	11	(2,286)	(225)
Cash received from sale of Zacatecas Properties	9	1,500	-
Reimbursement of deposit	4	1,000	(1,000)
<b>Net cash used in investing activities</b>		<b>(21,098)</b>	<b>(2,635)</b>
<b>Financing activities:</b>			
Proceeds from issuance of common shares	16(b)	11,228	8,088
Share-issuance costs		(572)	(481)
Proceeds from exercise of options	16(d)	193	547
Proceeds from exercise of warrants	16(e)	1,882	110
Proceeds from loans payable	13	17,896	2,722
Repayments of loans payable	13	(7,562)	(2,994)
Lease payments on plant and equipment	14	(165)	(233)
<b>Net cash provided by financing activities</b>		<b>22,900</b>	<b>7,759</b>
Effect of exchange rate on changes in cash		178	(6)
Net change in cash and cash equivalents		330	313
Cash and cash equivalents - beginning of year		430	123
<b>Cash and cash equivalents - end of year</b>		<b>938</b>	<b>430</b>
<b>Cash paid during the year for:</b>			
Interest expense		976	79
Income taxes		-	-
Supplemental cash flow information (note 21)			

*The accompanying notes are an integral part of these consolidated financial statements.*



**SANTACRUZ SILVER MINING LTD.**

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except number of shares)

	Common shares	Share capital	Stock options and warrants reserves	Contributed surplus	Accumulated other comprehensive (loss) income	Deficit	Total (deficiency) equity
	#	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2019</b>	204,670,984	104,980	6,725	(1,872)	(1,806)	(124,884)	(16,857)
Shares issued in private placement	51,749,380	8,089	-	-	-	-	8,089
Share issuance costs	-	(874)	393	-	-	-	(481)
Shares issued from exercise of options	4,386,300	912	(365)	-	-	-	547
Shares issued from exercise of warrants	800,000	110	-	-	-	-	110
Share-based compensation	-	-	289	-	-	-	289
Currency translation differences	-	-	-	-	377	-	377
Net loss for the year	-	-	-	-	-	(1,493)	(1,493)
<b>Balance, December 31, 2020</b>	261,606,664	113,217	7,042	(1,872)	(1,429)	(126,377)	(9,419)
Shares issued in private placement	46,980,000	11,228	-	-	-	-	11,228
Share issuance costs	-	(815)	243	-	-	-	(572)
Shares issued from exercise of options	1,359,300	319	(126)	-	-	-	193
Shares issued from exercise of warrants	9,939,253	1,882	-	-	-	-	1,882
Shares issued as settlement of debt	10,342,604	3,701	-	-	-	-	3,701
Warrants issued to Trafigura	-	-	3,821	-	-	-	3,821
Share-based compensation	-	-	3,363	-	-	-	3,363
Currency translation differences	-	-	-	-	126	-	126
Net loss for the year	-	-	-	-	-	(11,746)	(11,746)
<b>Balance, December 31, 2021</b>	<b>330,227,821</b>	<b>129,532</b>	<b>14,343</b>	<b>(1,872)</b>	<b>(1,323)</b>	<b>(137,942)</b>	<b>2,738</b>

The accompanying notes are an integral part of these consolidated financial statements.

## **SANTACRUZ SILVER MINING LTD.**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except where noted)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Santacruz Silver Mining Ltd. (the “Company” or “Santacruz”) was incorporated pursuant to the Business Corporations Act of British Columbia on January 24, 2011. The Company’s registered office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, Canada V6C 2T5. The Company is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “SCZ”.

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Latin America, with a primary focus on silver and zinc, but also including lead and copper. As at December 31, 2021, the Company had one producing project, the Zimapan Mine and held two exploration properties in its mineral property portfolio, the La Pechuga Property and the Santa Gorgonia Prospect. The Company has acquired, or has options to acquire, the mining concession rights to the following properties:

- Zimapan Mine, Zimapan, Hidalgo, Mexico
- Various other properties in Charcas, San Luis Potosi, Mexico, noting that the Rosario Project had been placed on care and maintenance in August 2021 (note 5).

#### **Going concern**

These consolidated financial statements for the years ended December 31, 2021 and 2020 (“consolidated financial statements”) have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. As at December 31, 2021, the Company has a working capital deficiency of \$19,821 (December 31, 2020 - \$22,514) and an accumulated deficit of \$137,942 (December 31, 2020 - \$126,377). Additionally, the Company has non-current loans payable (note 13) of \$7,166 (December 31, 2020 - \$nil). For the year ended December 31, 2021, the Company incurred a loss of \$11,459 (2020 - \$1,116) and used cash in operating activities of \$1,472 (2020 - \$4,811). These factors 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 raise adequate funding through equity or debt financing to discharge its liabilities as they come due. 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. Subsequent to year end, Trafigura exercised all 7,280,000 warrants (note 16) for proceeds of \$2,298 (C\$2,876) (note 25(b)).

Should the Company be unable to continue as a going concern, asset and liability realization values may be substantially different from their carrying values. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

#### **COVID-19**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The COVID-19 outbreak has resulted and continued as a widespread health crisis that has adversely affected workforces, economies, and financial markets around the world, resulting in an economic downturn for some industries. As at the date of these consolidated financial statements, COVID-19 has had no significant impact on the Company’s ability to access and explore its current properties but may impact the Company’s ability to raise funding or explore its properties should travel and other restrictions related to COVID-19 be extended or expanded in scope.

### **2. BASIS OF PREPARATION**

- a) Statement of compliance

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 2, 2022.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

**SANTACRUZ SILVER MINING LTD.**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except where noted)

## b) Basis of presentation

The consolidated financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income, and expense as set out in the accounting policies below.

## c) Functional and presentation currency

The consolidated financial statements are presented in United States dollars ("US dollar" or "USD"). The functional currency is the currency of the primary economic environment in which an entity operates. References to "C\$" or "CAD" are to Canadian dollars and references to "MXN" are to Mexican pesos.

## d) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage ownership</b>	<b>Functional currency</b>	<b>Principal activity</b>
				Holding company and head office function
Santacruz Silver Mining Ltd.	Canada	100%	CAD	
Santacruz Holdings Ltd.	Canada	100%	CAD	Holding company
Carrizal Holdings Ltd.	Canada	100%	CAD	Holding company
Impulsora Minera Santacruz, S.A. de C.V. ("IMSC")	Mexico	100%	USD	Mine operations
Carrizal Mining, S.A. de C.V. ("Carrizal Mining") <sup>(1)</sup>	Mexico	100%	USD	Mine operations
Operadora Minera Anacore, S.A. de C.V.	Mexico	100%	MXN	Holding company
PCG Mining, S.A. de C.V.	Mexico	100%	MXN	Holding company

<sup>(1)</sup> On April 23, 2021, the Company acquired a 100% interest in Carrizal Mining (note 4).

**3. SIGNIFICANT ACCOUNTING POLICIES**

## a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less.

## b) Inventory

Concentrate inventory and mined ore inventory are valued at the lower of average production cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of production consumables, direct labour, mine-site overhead, and depreciation and depletion of mine properties and property, plant and equipment. Joint-product costing is applied as the primary concentrate products (silver/zinc, silver/lead and silver/copper) both contribute to the profitability of the operation. Joint costing allocates total production costs based on the relative values of the products.

Write-downs of inventory to net realizable value are recognized within cost of sales. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recorded within cost of sales to the extent that the related inventory has not been sold.

Supplies inventory is valued at the lower of average cost and net realizable value. Costs include acquisition, freight, and other directly attributable costs.

**SANTACRUZ SILVER MINING LTD.**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except where noted)

## c) Financial instruments

## i. Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI"), or at amortized cost. The Company determines the classification of its 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, the Company can make an irrevocable election (on an instrument-by-instrument basis) on the day of acquisition 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 following table shows the classification of the Company's financial instruments under IFRS 9 - *Financial Instruments*:

<b>Financial assets</b>	
Cash and cash equivalents	Amortized cost
Marketable securities	FVTPL
Trade receivables	FVTPL
Other receivables	Amortized cost
Other assets	FVTPL
<b>Financial liabilities</b>	
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost

## ii. Measurement

*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 income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recognized in net income (loss) 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). During the year ended December 31, 2021, the Company recognized an unrealized gain on marketable securities of \$2,083 (2020 - \$nil), which was carried at FVTPL.

*Financial assets at FVTOCI*

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTOCI are recognized in other comprehensive income (loss). The does not have any FVTOCI financial assets.

*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.

## 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.

**SANTACRUZ SILVER MINING LTD.**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars, except where noted)

The Company shall recognize in the consolidated statements of income (loss) and comprehensive income (loss), 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 lifetime expected credit loss provision for the Company's trade receivables is based on historical default rates and other relevant forward-looking information. Because of factors including that the Company has only one customer for the sale of concentrate in its mining operations and the customer is considered to have low default risk as the historical default rates are low, the lifetime expected credit loss allowance for trade receivables was nominal as at December 31, 2021.

## 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 income (loss). 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 transferred or liabilities assumed, is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

## d) Assets held for sale

The Company classifies assets, or disposal groups, as held for sale when it expects to recover their carrying amounts through a sale of the assets. To meet the criteria to be classified as held for sale, the sale must be highly probable, and the assets or disposal groups must be available for immediate sale in their present condition. The Company must be committed to a plan to sell the assets, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Company measures assets or disposal groups at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss; however, gains are not recognized in excess of any cumulative impairment loss. Upon classifying assets as held for sale, the Company presents the assets and the associated liabilities as a single amount on the consolidated statements of financial position. Comparative period balances are not restated. Assets held for sale are not depreciated, depleted, or amortized.

## e) Property, plant and equipment

Property, plant and equipment are stated at historical cost net of accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and for qualifying assets, the associated borrowing costs.

Where an item of property, plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Costs incurred for major overhaul of existing equipment and sustaining capital are capitalized as property, plant and equipment and are subject to depreciation once they are available for use. Major overhauls include improvement programs that increase the productivity or extend the useful life of an asset beyond that initially envisaged. The costs of routine maintenance and repairs that do not constitute improvement programs are accounted for as a cost of inventory.

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Costs incurred for leasehold improvements are capitalized as property, plant and equipment and are subject to depreciation once they are available for use. Once available for use, the leasehold improvement costs incurred will be amortized on a straight-line basis, over the term of the underlying lease.

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of mine or lease, whichever is shorter. Depreciation starts on the date when commissioning is complete and the asset is ready for its intended use. The major classes of property, plant and equipment are depreciated on a units-of-production or declining-balance basis at the following annual rates:

<b>Class of property, plant and equipment</b>	<b>Depreciation rate</b>	<b>Depreciation method</b>
Land	Nil	Not depreciated
Office furniture and equipment	10%	Declining balance
Vehicles	25%	Declining balance
Computer hardware	30%	Declining balance
Mine plant and equipment	12%	Declining balance
Leasehold improvements	Life of lease	Straight-line

## f) Mineral property interests

*Pre-license costs*

Exploration and evaluation expenditures are expensed until the Company has obtained the legal right to explore an area.

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, the Company capitalizes on a property-by-property basis, the costs of acquiring, maintaining its interest in, exploring, and evaluating mineral properties until such time as the lease expires or the mineral properties are abandoned, sold, or are considered impaired in value. Costs not directly attributable to exploration and evaluation activities, including general and administrative costs, are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

*Mine property*

The costs associated with exploration and evaluation properties are transferred to mine properties once the work completed to date supports the future development of the property and such development receives appropriate approvals. At the end of the exploration and evaluation stage as indicated by the completion of a technical feasibility study on the resource and commercial viability is determined, an impairment test on the carrying amount is performed prior to transferring the costs to mineral properties. All costs relating to the construction, installation, or completion of a mine that are incurred subsequent to the exploration and evaluation stage are capitalized to mine properties. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

The Company assesses the stage of each mine under construction to determine when a property reaches the stage when it is in the condition for it to be capable of operating in a manner intended by management. When management determines that a property is capable of commercial production, costs capitalized during development are amortized.

Once a mineral property has been brought into production, costs of any additional work on that property are expensed as incurred, except for development programs that constitute a betterment, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset, is recognized in profit or loss.

Mine properties are depreciated and depleted over the expected number of years of operation as indicated by technical resource reports using the mineable tonnes extracted in the period from deposits contained in the mine property as a percentage of the total mineable tonnes to be extracted in current and future periods based on total mineral resources available. The expected number of remaining years of operation is reassessed annually via updates to the technical resource reports.

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Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses.

### g) Impairment of non-financial assets

The Company performs impairment tests on non-financial assets when events or circumstances occur which indicate the carrying amount of the assets may not be recoverable.

The recoverable amount is the higher of the fair value less costs of disposal ("FVLCTD") and the value in use ("VIU"). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGUs"). These are typically the individual mines or projects. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

FVLCTD is the amount that would be received from selling an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. For mining assets, fair value less cost of disposal is often estimated using a discounted cash flow approach because a fair value is not readily available from an active market or binding sale agreement. Estimated future post-tax cash flows are calculated using estimated mineral reserves and resources, estimated future commodity prices, and expected future operating and capital costs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that impairment may have reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### h) Decommissioning and restoration provision

The Company recognizes a provision for statutory, contractual, constructive, or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance is caused by the exploration or development of mineral properties. Provisions for decommissioning and restoration are recognized in the period in which the obligation is incurred or acquired and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset. These costs are depreciated on a basis consistent with the depreciation, depletion, and amortization of the underlying assets.

The obligation is accreted over time for the change in its present value, with this accretion charge recognized as a finance expense in profit or loss. The obligation is also adjusted for changes in the estimated amount and timing of expected future cash flows and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset, in which case the amount of the excess is recognized in profit or loss.

### i) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options, and warrants are classified as equity instruments.

The Company records proceeds from share issuances net of issue costs and any tax effects in equity. Common shares issued for consideration other than cash are valued based on their fair value on the date of issuance.

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### j) Valuation of equity units issued in private placements

The Company follows the residual method with respect to the measurement of common shares and common share purchase warrants issued as private placement units. Proceeds from private placements are first allocated to the common shares contained in the units based on the market value of shares on the date of issuance, with any residual amount allocated to warrants in the units. If the proceeds are less than or equal to the estimated fair market value of the share issuance, a nil carrying amount is assigned to the warrants.

#### Change in allocation

During the year ended December 31, 2021, the Company has changed its accounting policy with respect to the valuation of equity units issued in private placements whereby proceeds from private placements are now first allocated to the common shares contained in the units according to their fair value at the time of issuance, with the residual amount, if any, attributed to the warrants in the units. This is in line with IAS 32 - *Financial Instruments: Presentation*, whereby the warrants that are part of the units are exercisable into a fixed number of common shares at a fixed exercise price for a specified period of time. The change in accounting policy provides a better representation of the underlying value of the shares and warrants comprising the units. The Company has applied the change in allocation retrospectively with no impact other than a shift in equity classes. The change resulted in a reclassification between equity classes only and had no impact on current or prior profit or loss.

### k) Share issuance costs

Professional, consulting, regulatory, and other costs directly attributable to equity transactions are recorded as share issuance costs.

### l) Share-based compensation

The Company has a stock option plan, which allows grants of options to purchase common shares by the Company's directors, officers, employees, and consultants. The Company accounts for the stock options at their fair value and recognizes the cost as compensation expense over the vesting period, with the offset recorded to stock options and warrants reserve. The amount recognized as share-based compensation expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

The fair value of options granted to directors and employees is measured using the Black-Scholes option pricing model on the date of issuance. Share-based compensation to non-employees are measured at the fair value of the goods or services received, or at the fair value of the equity instruments issued if it is determined that the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

Consideration received on the exercise of stock options is recorded as share capital, and the amount previously recognized in stock options and warrants reserves is transferred to share capital. For options that expire unexercised, the initial fair value recorded remains in stock options and warrants reserve.

### m) Revenue

#### *Concentrate sales*

The Company recognizes revenue from contracts with customers from 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 to the refinery.

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 most up-to-date market prices for the estimated date of final settlement. 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 separate component of revenue.



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### n) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of shares issued and outstanding during the year. For all periods presented, the net income (loss) available to common shareholders equals the reported income (loss). Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, when a loss is incurred during the year, diluted and basic loss per share are the same because the effect on loss per share of potential issuance of shares under options and warrants would be anti-dilutive.

### o) Income taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized either in other comprehensive income (loss) or directly in equity, in which case it is recognized in other comprehensive income (loss) or in equity, respectively. Mining duties, taxes, royalties, and withholding taxes are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed by a government authority and the amount payable is calculated by reference to taxable income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates and tax laws enacted or substantively enacted at the reporting date, adjusted for amendments to tax payable or recoverable with regards to previous years.

Deferred tax expense is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax expense is not recognized for temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax expense is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and deferred income tax liabilities are offset only when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity.

### p) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Under the guidance of IFRS 10 - *Consolidated Financial Statements*, control is established by having power over the acquiree, exposure or rights to variable returns from the investor's involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquirer's returns. The acquiree's identifiable assets, liabilities, and contingent liabilities are recognized at their fair value at the acquisition date.

### q) Significant accounting policy judgements and key sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to exercise significant judgments in applying the Company's accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual future outcomes could differ from present estimates and assumptions, which may require material adjustments to the Company's consolidated financial statements. Revisions to accounting estimates are accounted for prospectively.

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Significant judgments exercised by management in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i. Going concern presentation

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management assesses the Company's ability to continue as a going concern at each reporting date using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates and assumptions of future cash flows and other events (note 1), whose subsequent changes could materially impact the validity of the assessment.

ii. Determination of functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency involves certain judgements to determine the primary economic environment of an entity. The Company re-evaluates the functional currency of its entities when there is a change in events and conditions which previously determined the primary economic environment of an entity.

iii. Collectability and classification of value added tax ("VAT") recoverable

VAT recoverable is collectible from the government of Mexico. The collection of VAT is subject to risk due to the complex application and collection process and, therefore, risk related to the collectability and timing of payment from the Mexican government. The Company uses the facts known at the time and its historical experience to determine its best estimate of the collectability and timing of these recoveries. Changes in the assumptions regarding collectability and the timing of collection could impact the valuation and classification of VAT recoverable.

iv. Classification as assets held for sale

Judgment is required in determining whether an asset meets the criteria for classification as assets held for sale in the consolidated statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale, and the length of time any amounts have been classified as assets held for sale. The Company reviews the criteria for assets held for sale each period and reclassifies such assets to or from this financial position category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

v. Assessment of the transactions as business combinations or asset acquisitions

Management has had to apply judgment relating to the acquisition of the Zimapan Mine (note 4) with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes, and outputs of the acquisition in order to reach a conclusion. The Company has determined the Zimapan Mine to be a business by assessing that the following exist: inputs - tangible and intangible assets, processes - business operations, management and staff, and outputs - revenue generating from mine operations. While the acquisition of the Zimapan Mine was structured legally as an acquisition of assets, upon analysis of IFRS 3 - *Business Combinations*, it was determined to constitute a business combination.

Significant assumptions about the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities in the next year are as follows:

i. Mineral resources estimate

The lives of operating mines are determined from the tonnes of mineralized material or ore that are available to be extracted at the end of each reporting period. The Company initially estimates the tonnes of mineralized material or ore available based on either the findings of qualified, independent mining professionals or the findings of its own technical staff. These estimates are updated from time to time as additional technical and economic information becomes available.

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Factors that impact the computation of tonnes of mineralized material or ore available include the geological data on the size, depth, and shape of the mineralized deposit or ore body, the prevailing and expected market price for the underlying metals to be extracted, and the expected costs to extract and process the mined material. Changes in the mineable tonnes of mineralized material or ore available may impact the carrying values of mine properties, exploration and evaluation properties, property, plant and equipment, decommissioning and restoration provision, and result in changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

**ii. Valuation of net assets acquired in business combinations**

Estimates were made as to the fair value of assets and liabilities acquired in business combinations (see note 4 for details of the estimates used in the Zimapan acquisition). In certain circumstances, such as the valuation of property, plant and equipment, mine property, and mineral concessions, the Company will rely on independent third-party valuers. The Company measured all assets acquired and liabilities assumed at their acquisition-date fair values.

**iii. Review of asset carrying values and impairment assessment**

The assessment of the fair value of property, plant and equipment, exploration and evaluation properties, and mine properties requires the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements, and operating performance. Changes in any of the estimates or assumptions used in determining the fair values could impact the impairment analysis.

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of the recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of FVLCTD or VIU.

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, metal prices and forecasts, production budgets and forecasts, and life-of-mine estimates.

The determination of FVLCTD and VIU requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, discount rates, mineral resources, operating costs, taxes, and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

**iv. Valuation of financial liabilities**

Management made critical estimates in determining the amortized cost of the Trafigura Loan Facility (note 13) including the loan facility's expected term, the effective annual interest rate, and the Company's ability to access alternative debt arrangements on commercially viable terms. The Company assesses these estimates and assumptions on a quarterly basis.

**v. Decommissioning and restoration provision**

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for decommissioning and restoration. The provision represents management's best estimate of the present value of the future decommissioning and restoration obligation.

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Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future decommissioning and restoration costs are subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, and changes in mine life, and as new information concerning the Company's closure and reclamation obligations becomes available.

### vi. Deferred income tax assets and liabilities

The valuation of deferred tax assets and liabilities requires the Company to estimate the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities. The Company applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

### r) Leases

As a lessee, the Company recognizes a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

### s) New accounting standards and interpretations adopted

The Company adopted Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9 - *Financial Instruments*; IAS 39 - *Financial Instruments: Recognition and Measurement*; IFRS 7 - *Financial Instruments: Disclosures*; IFRS 4 - *Insurance Contracts*; and IFRS 16 - *Leases* (the "Phase 2 Amendments") effective on January 1, 2021. Interest rate benchmark reform (the "Reform") refers to a global reform of interest rate benchmarks, which includes the replacement of some interbank offered rates with alternative benchmark rates.

The Phase 2 Amendments provide a practical expedient requiring the effective interest rate to be adjusted when accounting for changes in the basis for determining the contractual cash flow of financial assets and liabilities that relate directly to the Reform rather than applying modification accounting which might have resulted in a gain or loss. In addition, the Phase 2 Amendments require disclosures to assist users in understanding the effect of the Reform on the Company's financial instruments and risk management strategy. The Company's Trafigura Loan Facility bears interest at a floating rate equal to a base rate of 6.5% plus the London interbank offered rates ("LIBOR"). The Company is working with the lender to assess the potential alternatives to the use of the LIBOR.

### t) New accounting standards and interpretations not yet adopted

On May 14, 2020, the IASB published amendments to IAS 16 - *Property, Plant and Equipment*. The amendments prohibit deducting from the cost of property, plant, and equipment any proceeds received from selling items produced while bringing that asset for its intended use. Instead, proceeds received will be recognized as sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permissible. The Company is assessing the effect of this amendment on its consolidated financial statements. As at December 31, 2021, there were no other IFRS or IFRIC interpretations with future effective dates that were expected to have a material impact on the Company.

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### 4. ZIMAPAN MINE ACQUISITION

On April 23, 2021, the Company acquired 100% ownership of the Zimapan Mine (the "Zimapan Mine Acquisition") from Minera Cedros S.A. de C.V. ("Minera Cedros"). Prior to this acquisition, the Company, via its subsidiary Carrizal Mining, operated the Zimapan Mine under a lease arrangement with Minera Cedros. The Company paid cash consideration of \$20,000, which was funded in part by a loan facility with Trafigura Mexico, S.A. de C.V. (note 13) for \$15,000 and by \$5,000 from the Company's treasury. The Company also paid Minera Cedros a \$661 deferred purchase price charge in cash as a result of the acquisition closing subsequent to December 31, 2020.

The assets acquired pursuant to this transaction include the Zimapan mill facility, surface and underground infrastructure, and 34 mining concessions. Environmental and retirement obligations were also assumed with the transaction.

The acquisition of the Zimapan Mine has been accounted for by the Company as a business combination under IFRS 3 - *Business Combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company is required to determine the fair value of tangible and identifiable intangible assets acquired and liabilities assumed.

The following table summarizes the fair values of assets acquired and liabilities assumed.

	<b>April 23, 2021</b>
	\$
<i>Fair values of acquired assets and liabilities:</i>	
Mineral property*	16,051
Plant and equipment	7,761
Property	1,713
Buildings	459
Decommissioning and restoration provision	(4,059)
Accounts payable	(113)
Deferred tax liability	(1,151)
<b>Net assets acquired</b>	<b>20,661</b>
<i>Purchase price:</i>	
Cash	20,000
Deferred purchase price	661
<b>Total consideration</b>	<b>20,661</b>

\*Consists of producing and depleting mineral property of \$14,584 and non-depleting mineral property of \$1,467 which represents further exploration potential at Zimapan Mine.

The acquired mineral property comprises 34 mining claims, which include the Zimapan Mine. The fair value of the mineral property was determined with the assistance of an independent valuation firm who completed a valuation of the Zimapan mining operations, including the mining concessions, using a discounted cash flow model. The model takes into account forecasted production and sales, which is derived from a technical resource study completed by the Company in 2021. Significant assumptions used in the valuation were: silver price of \$22.80 to \$25.60 per ounce, discount rate of 19.0%, and a tax rate of 30.0%.

Plant and equipment comprise various on-site equipment including the mill facility. The fair value was determined by an independent valuation firm, which used replacement value and comparable market value of similar assets approaches as the basis for determining this fair value.

Property comprises 308 hectares of land with surface and underground infrastructure. Buildings include various on-site structures. The fair value was determined by an independent valuation firm, which reviewed similar commercial real estate transactions to determine this fair value.

The decommissioning and restoration provision represents the Company's future obligation to remediate the Zimapan Mine site after completion of the mining activities. The fair value was determined using a discounted cash flow analysis adjusted for the impacts for inflation and changes in the period-end exchange rate. Significant assumptions used in the determination of the fair value were: discount rate of 10.75%, inflation rate of 4.65%, and 7.5 years until payment of the rehabilitation costs.

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Accounts payable represents lease payments the Company owes to Minera Cedros for operation of the Zimapan Mine prior to the acquisition.

The deferred tax liability represents the amount of future income taxes that will be incurred as a result of the non-deductibility of the acquisition's purchase price for purposes of calculating a 7.5% mining tax as required per Mexican tax law.

As at December 31, 2020, the Company had paid a \$1,000 deposit to Minera Cedros as part of the acquisition. Upon completion of the acquisition, the deposit was refunded back to the Company.

**5. LOSS ON ROSARIO PROJECT TRANSACTIONS**

In October 2021, the Company placed the Rosario Project on care and maintenance, which resulted in the impairment of certain remaining carrying value of associated plant and equipment used on site. The plant and equipment was written off to a \$nil carrying value as future mining by the Company at the Rosario Project is unlikely based on current commodity prices and near-term projected operations. Additionally, the cost of dismantling and/or transportation of the assets to another location for use would approximate the pre-impairment carrying value of the project plant and equipment at the time of such decision. Subsequent to placing the Rosario Project in care and maintenance, a decision was made to sell any other remaining assets and liabilities related to the Rosario Project, along with related accumulated tax losses, as part of a tax planning strategy. As part of this strategy whereby IMSC would sell certain tax losses, the Company incorporated a new wholly owned subsidiary Mineworks, S.A. de C.V. ("Mineworks"), and transferred from IMSC to Mineworks the remaining assets and liabilities related to the Rosario Project, except for the decommissioning and rehabilitation provision, which remained with IMSC (note 15). The entire ownership in Mineworks was then sold to a third-party buyer in December 2021. The net result of these transactions (which include the impairment loss of the plant and equipment of \$1,840, as well as gain on the sale of Mineworks of \$745) is a loss of \$1,095. Additional details related to the tax implications are included in note 23.

**6. MARKETABLE SECURITIES**

	2021	2020
Balance, beginning of year	\$ -	\$ -
Shares received on sale of the Zacatecas Properties (note 9)	1,980	-
Change in fair value	2,083	-
Foreign exchange gain	39	-
Balance, end of year	4,102	-

The securities owned by the Company represent a 9.47% ownership in the public company noted above. The change in fair value represents the change in price of the underlying shares of Zacatecas Silver from the date of sale of the Zacatecas Properties to December 31, 2021. The shares of Zacatecas Silver are measured at FVTPL using Level 1 inputs (note 20).

**7. TRADE AND OTHER RECEIVABLES**

	December 31, 2021	December 31, 2020
Trade receivables	\$ 5,278	\$ 4,202
Mexican VAT recoverable	7,277	6,151
Canadian GST recoverable	27	10
Other receivables	678	565
Total	13,260	10,928

**8. INVENTORY**

	December 31, 2021	December 31, 2020
Mineralized material stockpiles	\$ 39	\$ 60
Concentrate inventory	548	616
Supplies inventory	684	749
Total	1,271	1,425

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During the year ended December 31, 2021, the Company recognized through cost of sales a net realizable value write-off of inventory related to the Rosario Project for \$146 (2020 - \$nil).

**9. ASSETS HELD FOR SALE**

On July 23, 2020, the Company entered into an agreement with Zacatecas Silver Corp. ("Zacatecas Silver"), a public Canadian company, for the sale of a 100% interest in the Zacatecas Properties for consideration of \$1,500 and the issuance of 5,000,000 common shares of Zacatecas Silver to the Company. This transaction closed on March 2, 2021. As at December 31, 2020, the Zacatecas Properties were classified as assets held for sale. These assets were measured at carrying amount, which was the lower of their carrying amount and estimated fair value less costs to sell. The gain on the sale of the Zacatecas Properties in 2021 is represented as follows:

	<b>March 2, 2021</b>
	\$
<i>Carrying value of assets disposed:</i>	
Assets held for sale	2,569
<b>Net assets disposed</b>	<b>2,569</b>
<i>Consideration received:</i>	
Cash	1,500
Shares received (5,000,000 shares at C\$0.50 per share)	1,980
<b>Total consideration</b>	<b>3,480</b>
<b>Gain on sale of Zacatecas Properties</b>	<b>911</b>

**10. PROPERTY, PLANT AND EQUIPMENT**

	Property and buildings	Plant and equipment	Office furniture and equipment	Vehicles	Computer hardware	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance, December 31, 2019	419	21,082	62	499	263	22,325
Additions	-	1,412	-	-	-	1,412
Balance, December 31, 2020	419	22,494	62	499	263	23,737
Acquisition (note 4)	2,172	7,761	-	-	-	9,933
Additions	-	1,010	45	106	151	1,312
Impairment (note 5)	-	(1,840)	-	-	-	(1,840)
<b>Balance, December 31, 2021</b>	<b>2,591</b>	<b>29,425</b>	<b>107</b>	<b>605</b>	<b>414</b>	<b>33,142</b>
<b>Accumulated depreciation</b>						
Balance, December 31, 2019	15	7,569	27	322	189	8,122
Depreciation	37	658	1	-	14	710
Balance, December 31, 2020	52	8,227	28	322	203	8,832
Depreciation	30	1,293	18	14	22	1,377
<b>Balance, December 31, 2021</b>	<b>82</b>	<b>9,520</b>	<b>46</b>	<b>336</b>	<b>225</b>	<b>10,209</b>
<b>Carrying amount</b>						
Balance, December 31, 2020	367	14,267	34	177	60	14,905
<b>Balance, December 31, 2021</b>	<b>2,509</b>	<b>19,905</b>	<b>61</b>	<b>269</b>	<b>189</b>	<b>22,933</b>

Depreciation during the year ended December 31, 2021 was \$1,377 (2020 - \$710).

As at December 31, 2021, the Company's plant and equipment included right-of-use assets with a carrying amount of \$1,122 for leased mining equipment (December 31, 2020 - \$1,370). Depreciation on the right of use assets for the year ended December 31, 2021 was \$211 (2020 - \$176).

On October 5, 2021, the Company placed the Rosario Mine on care and maintenance, which resulted in the impairment of the related property and equipment (note 5).

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**11. MINERAL PROPERTY**

	2021	2020
	\$	\$
Balance, beginning of year	-	-
Acquisition of the Zimapan Mine (note 4)	16,051	-
Mine development expenditures	2,286	-
Change in decommissioning and restoration costs (note 15)	277	-
Depletion	(2,760)	-
Balance, end of year	15,854	-

As part of the Zimapan Mine Acquisition, the Company acquired producing and depleting property with a calculated fair value of \$14,584 and non-depleting mineral property of \$1,467, which represents further exploration potential at the Zimapan Mine. As at December 31, 2021, no impairment indicators relating to the mineral property were identified.

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2021	December 31, 2020
	\$	\$
Trade payables	25,729	27,434
Taxes payable	7,270	3,921
Accrued liabilities	3,889	1,128
Total	36,888	32,483

During the year ended December 31, 2021, the Company settled outstanding payables of \$156 by way of the issuance of 435,074 common shares of the Company with a fair value of \$156.

In September 2021, as a result of labour reform in Mexico, the Company was required to recognize certain labour liability accruals for their employees, including but not limited to: vacation, holiday bonuses, annual bonuses, savings funds, and seniority departure payments. As at December 31, 2021, the related accrued liabilities includes \$987 as a result of this labour reform (December 31, 2020 - \$nil).

**13. LOANS PAYABLE**

	Trafigura	MineCo	Muutrade	Kampala	FF Swaps	Total
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019	1,468	2,782	-	500	211	4,961
Proceeds advanced	1,828	-	330	564	-	2,722
Carrying charges and restructuring fees	(100)	-	-	-	-	(100)
Interest expense	146	324	40	14	4	528
Repayment with cash	(665)	-	(20)	(1,028)	(111)	(1,824)
Balance, December 30, 2020	2,677	3,106	350	50	104	6,287
Less: Current portion	(2,677)	(3,106)	(350)	(50)	(104)	(6,287)
Non-current portion	-	-	-	-	-	-
Balance, December 31, 2020	2,677	3,106	350	50	104	6,287
Proceeds advanced (a)	17,616	-	-	280	-	17,896
Repayments of loans payable (a)	(2,616)	-	-	-	-	(2,616)
Equity component representing warrants issued (a)	(3,821)	-	-	-	-	(3,821)
Carrying charges and restructuring fees	-	564	34	17	-	615
Accretion	1,152	-	-	-	-	1,152
Interest expense	818	158	-	-	-	976
Repayment with shares (b)	-	(3,545)	-	-	-	(3,545)
Repayment with cash	(3,828)	(283)	(384)	(347)	(104)	(4,946)
<b>Balance, December 31, 2021</b>	<b>11,998</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,998</b>
<b>Less: Current portion</b>	<b>(4,832)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,832)</b>
<b>Non-current portion</b>	<b>7,166</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,166</b>



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## a) Trafigura loan facility

On July 11, 2019, the Company entered into a short-term credit facility (the "Trafigura Facility") with Trafigura Mexico, S.A. de C.V. ("Trafigura") for \$1,500. The funds were advanced to the Company on May 31, 2019 and September 19, 2019. The principal was to be repaid on October 11, 2019. As part of the terms of the Trafigura Facility, the Company was obligated to pay \$100 in finance charges (the "Finance Charges") and interest expense related to the restructuring of the loan on October 11, 2019. On October 12, 2019, the Trafigura Facility was amended. The amended payment schedule was for 15 months beginning in December 2019 for an amount of \$100 per month. The Trafigura Facility was secured by certain Carrizal Mining mine equipment.

On April 20, 2020, the Trafigura Facility was further amended by the parties as follows:

- the Finance Charges were waived and the \$100 payment made for such has been applied to the principal balance borrowed, reducing the outstanding balance to \$1,400;
- Trafigura agreed to advance an additional \$1,828 under the Trafigura Facility, bringing the new principal balance to \$2,600 (the "2020 Facility"); and
- the 2020 Facility was to be repaid in 12 equal monthly installments of \$217 commencing August 31, 2020 and bore interest at LIBOR plus 7% per annum, payable monthly.

The 2020 Facility was secured by certain Carrizal Mining mine equipment.

On April 23, 2021, in connection with the Zimapan Mine Acquisition (note 4), Trafigura loaned the Company \$17,616 under a new loan facility ("Trafigura Loan Facility"), which included the recapitalization of \$2,616 of indebtedness outstanding under the 2020 Facility in addition to the new \$15,000 loan amount. The Trafigura Loan Facility is for a period of 42 months at an annual interest rate of three-month LIBOR + 6.5% (approximately 6.71% as at December 31, 2021), repayable in monthly installments of principal plus accrued interest for the respective period.

Pursuant to the terms of the Zimapan Mine Acquisition, the Company had until September 23, 2021 to pay Minera Cedros the outstanding Mexican VAT of \$3,200 owed in connection with the Zimapan Mine Acquisition. As at December 31, 2021, \$981 of the Mexican VAT owed to Minera Cedros was outstanding (subsequent to December 31, 2021, the full amount of this VAT was paid to Minera Cedros).

The Trafigura Loan Facility is secured by a first charge over all Zimapan Mine assets and all other material assets owned by the Company and its subsidiaries. In addition, the Company issued to Trafigura 28,000,000 warrants ("Trafigura Warrants"), each Trafigura Warrant exercisable into a Santacruz common share at C\$0.395 per share, for a period of 12 months with respect to 7,280,000 of the Trafigura Warrants and 42 months with respect to the remaining 20,720,000 Trafigura Warrants. Subsequent to December 31, 2021, 7,280,000 of the Trafigura Warrants expiring April 24, 2022 were exercised for gross proceeds to the Company of \$2,298 (C\$2,876) (note 25(b)).

The Trafigura Loan Facility was initially measured at a fair value of \$13,795, which has been classified as a financial liability, and is subsequently measured at amortized cost, which is being accreted to the principal amount over the term of the Trafigura Loan Facility at an effective interest rate of 21.66%. The fair value of the Trafigura Warrants at the time of issuance was determined to be \$3,821, being the residual amount of the total Trafigura Loan Facility after deducting its fair value.

Pursuant to the Trafigura Loan Facility, Trafigura will have the right to offset payments owing by Trafigura to Carrizal Mining and/or its affiliates under existing commodity purchase and sale agreements against payments owing by Carrizal Mining to Trafigura under the Trafigura Loan Facility.

## b) Repayment with shares

During the year ended December 31, 2021, the Company settled an outstanding loan balance of \$3,828 by way of the issuance of 9,907,530 common share of the Company with a fair value of \$3,545 and a cash payment of \$283.

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**14. LEASE LIABILITY**

The Company entered into certain mining equipment leases with an interest rate between 6.5% and 10.5% per annum. The outstanding balances of the Company's mining equipment leases as at December 31, 2021 and 2020 are as follows:

	2021	2020
	\$	\$
Balance, beginning of year	469	284
Additions	-	447
Finance costs	40	20
Lease payments	(165)	(248)
Foreign exchange gain	(2)	(34)
Balance, end of year	342	469
Less: Current portion	(175)	(165)
Non-current portion	167	304

The following is a schedule of the Company's future minimum lease payments related to the equipment under finance lease:

	December 31, 2021
	\$
2022	163
2023	133
2024	88
Total future minimum lease payments	384
Effects of discounting	(42)
Total present value of minimum lease payments	342
Less: Current portion	(175)
Non-current portion	167

**15. DECOMMISSIONING AND RESTORATION PROVISION**

The discounted liabilities for each of the Company's decommissioning and restoration provisions for the years ended December 31, 2021 and 2020 are as follows:

	Rosario <sup>(a)</sup>	Veta Grande	Zimapan <sup>(b)</sup>	Total
	\$	\$	\$	\$
Balance, December 31, 2019	1,231	349	-	1,580
Accretion	51	-	-	51
Foreign exchange gain	(79)	(4)	-	(83)
Balance, December 31, 2020	1,203	345	-	1,548
Acquisition (note 4)	-	-	4,059	4,059
Change in estimate	854	-	277	1,131
Accretion	40	-	436	476
Foreign exchange gain	(38)	-	(461)	(499)
<b>Balance, December 31, 2021</b>	<b>2,059</b>	<b>345</b>	<b>4,311</b>	<b>6,715</b>

a) Rosario Mine

In October 2021, the Company ceased operations at the Rosario Mine and placed it on care and maintenance until further notice (note 5).

b) Zimapan Mine

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs at the Zimapan Mine at the end of mine life was estimated to be \$6,674 as at December 31, 2021.

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The key assumptions on which the provision estimates were based as at December 31, 2021 are as follows:

- Expected timing of the cash flows is based on the estimated useful life of the Zimapan Mine. The majority of the expenditures are expected to occur in 2028, which is the currently anticipated closure date;
- The inflation rate used is 4.65%, based on realized inflation in Mexico; and
- The discount rate used is 10.75%.

### 16. SHARE CAPITAL

#### a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

#### b) Issued - share capital

During the year ended December 31, 2021, the Company had the following share capital transactions:

- On April 13, 2021, the Company completed a non-brokered private placement of 46,980,000 units ("2021 Units") for gross proceeds of \$11,228 (C\$14,094). Each 2021 Unit consists of one common share of the Company and one non-transferable common share purchase warrant ("2021 Warrant"). Each 2021 Warrant entitles the holder to acquire one common share of the Company at a price of C\$0.45 until April 13, 2024, expiring thereafter. In consideration for their services, the Company paid to certain finders cash finder's fees of \$572 and issued 1,671,961 finders' warrants having the same terms as the 2021 Warrants.
- The Company issued 9,939,253 shares from the exercise of warrants for proceeds of \$1,882 and 1,359,300 shares from the exercise of options for proceeds of \$193. The \$126 fair value attributed to the options exercised was reclassified from reserves to share capital.
- On July 15, 2021, the Company issued 10,342,604 shares with a fair value of \$3,701 pursuant to the settlement of accounts payable and loans payable.

During the year ended December 31, 2020, the Company had the following share capital transactions:

- On October 7, 2020 and October 15, 2020, the Company completed a non-brokered private placement in two tranches in an aggregate amount of 45,427,463 units ("October 2020 Units") for gross proceeds of approximately \$7,536 (C\$10,000). Each October 2020 Unit consists of one common share of the Company and one non-transferable common share purchase warrant ("October 2020 Warrant"). Each October 2020 Warrant entitles the holder to acquire one common share of the Company at a price of C\$0.30 per share for a period of 36 months following the issue of the October 2020 Warrant. In consideration for their services, the Company issued to certain finders 2,544,130 finders' warrants having the same terms as the October 2020 Warrants and 204,000 finder units having the same terms as the October 2020 Units.
- The Company issued 800,000 shares from the exercise of warrants for proceeds of \$110 and 4,386,300 shares from the exercise of options for proceeds of \$547. The \$365 fair value attributed to the options exercised was reclassified from reserves to share capital.
- On February 25, 2020, the Company raised gross proceeds of \$553 (C\$734) from the sale of 6,117,917 units ("February 2020 Units") pursuant to a private placement at a price of C\$0.12 per February 2020 Unit. Each February 2020 Unit consisted of one common share of the Company and one non-transferable common share purchase warrant ("February 2020 Warrant"). Each February 2020 Warrant entitled the holder to acquire one common share of the Company at a price of C\$0.18 per share until February 25, 2021. In consideration for their services, the Company issued to certain finders 120,000 finders' warrants having the same terms as the February 2020 Warrants.

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## c) Stock options and warrants reserve

	Stock options	Warrants	Total
	\$	\$	\$
Balance, December 31, 2019	5,091	1,634	6,725
Share-based compensation	289	-	289
Exercise of options and warrants	(365)	-	(365)
Warrants issued for share issue costs	-	393	393
Balance, December 31, 2020	5,015	2,027	7,042
Share-based compensation	3,363	-	3,363
Exercise of options and warrants	(126)	-	(126)
Warrants issued as part of private placement	-	243	243
Warrants issued as part of Trafigura loan (note 13)	-	3,821	3,821
<b>Balance, December 31, 2021</b>	<b>8,252</b>	<b>6,091</b>	<b>14,343</b>

## d) Stock options

The Company established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors, and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board.

The following is a summary of the Company's stock options for the years ended December 31, 2021 and 2020:

	Number of stock options	Weighted average exercise price
	#	C\$
Balance, December 31, 2019	11,500,000	0.17
Exercised	(4,386,300)	0.16
Balance, December 31, 2020	7,113,700	0.18
Granted	16,250,000	0.47
Exercised	(1,359,300)	0.18
Expired	(280,000)	0.18
<b>Balance, December 31, 2021</b>	<b>21,724,400</b>	<b>0.40</b>

As at December 31, 2021, the Company had the following stock options outstanding:

Date of expiry	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining years
	#	#	C\$	Years
August 6, 2024	5,474,400	5,474,400	0.18	2.60
May 7, 2026	16,250,000	8,125,000	0.47	4.35
	<b>21,724,400</b>	<b>13,599,400</b>	<b>0.40</b>	<b>3.91</b>

During the year ended December 31, 2021, the Company granted a total of 16,250,000 stock options with a fair value of \$4,386, of which \$3,305 was recognized in operating expenses during the year ended December 31, 2021. The weighted average assumptions used in the Black-Scholes option pricing model were as follows:

	2021	2020
Risk-free rate	0.87%	-
Expected life	5.00 years	-
Expected volatility	87.66%	-
Dividend yield	0.00%	-

During the year ended December 31, 2021, the weighted average share price on the date of exercise of the stock options was C\$0.42 per share (2020 - C\$0.30).

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## e) Warrants

The following is a summary of the Company's warrants for the years ended December 31, 2021 and 2020:

	Number of warrants	Weighted average exercise price
	#	C\$
Balance, December 31, 2019	7,375,000	0.24
Expired	(7,375,000)	0.24
Issued - private placement	6,117,917	0.18
Issued - finders' warrants	120,000	0.18
Issued - private placement	45,427,463	0.30
Issued - broker and finders' warrants	2,748,130	0.30
Exercised	(800,000)	0.18
Balance, December 31, 2020	53,613,510	0.29
Issued - private placement	46,980,000	0.45
Issued - finders' warrants	1,671,961	0.45
Issued - Trafigura Loan Facility (note 13)	28,000,000	0.40
Exercised	(9,939,253)	0.23
<b>Balance, December 31, 2021</b>	<b>120,326,218</b>	<b>0.38</b>

As at December 31, 2021, the Company had the following warrants outstanding:

Date of expiry	Number of warrants	Weighted average exercise price	Weighted average remaining years
	#	C\$	Years
April 24, 2022	7,280,000	0.40	0.31
October 7, 2023	30,177,205	0.30	1.77
October 15, 2023	13,497,052	0.30	1.79
April 12, 2024	48,651,961	0.45	2.28
October 24, 2024	20,720,000	0.40	2.82
	<b>120,326,218</b>	<b>0.38</b>	<b>2.07</b>

Subsequent to December 31, 2021, 7,280,000 of the Trafigura Warrants expiring April 24, 2022 were exercised for gross proceeds to the Company of \$2,298 (C\$2,876) (note 25(b)).

During the year ended December 31, 2021, the Company issued a total of 46,980,000 warrants through a private placement, 1,671,961 finders' warrants with a fair value of \$243, and 28,000,000 Trafigura Warrants with a fair value of \$3,821. The weighted average assumptions used in the Black-Scholes option pricing model were as follows:

	2021	2020
Risk-free rate	<b>0.88%</b>	-
Expected life	<b>3.00 years</b>	-
Expected volatility	<b>88.06%</b>	-
Dividend yield	<b>0.00%</b>	-

**17. COSTS BY NATURE**

## a) Cost of sales

	2021	2020
	\$	\$
Direct production costs	<b>38,899</b>	31,399
Depreciation and depletion	<b>4,137</b>	710
Total	<b>43,036</b>	32,109

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As a result of labour reform in Mexico (note 12), during the year ended December 31, 2021, the Company recognized \$1,033 (2020 - \$nil) in direct production costs related to employment benefits. Direct production costs include salaries and wages, materials and supplies, repairs and maintenance of the equipment among other costs directly attributable to the production of metal concentrates.

## b) Operating expenses

	2021	2020
	\$	\$
Administrative	3,011	1,073
Exploration costs related to Rosario Project	296	-
Management and consulting fees	934	273
Other	331	845
Penalties and inflation charges	2,639	104
Professional fees	1,877	2,043
Salaries and benefits	2,391	535
Share-based compensation (note 16(d))	3,363	289
Shareholder communications	333	58
Shipping	1,772	1,887
Transfer agent and filing fees	84	28
Travel	36	9
<b>Total</b>	<b>17,067</b>	<b>7,144</b>

During the year ended December 31, 2021, the Company recognized \$522 (December 31, 2020 - \$nil) in severance accruals related to the closure of the Rosario Mine, which are recorded in salaries and benefits. Also included in salaries and benefits, and pursuant to Mexican labour laws, is \$767 (2020 - \$nil) for annual employee profit sharing tax related to Carrizal Mining.

## c) Finance (expense) income

	2021	2020
	\$	\$
Accretion of decommissioning provisions	(476)	(51)
Accretion of Trafigura Loan Facility	(1,152)	-
Change in decommissioning provisions	(854)	-
Deferred purchase price related to Zimapan Mine Acquisition (note 4)	(661)	-
Finance charge on leases	(40)	(92)
Interest expense, carrying charges and finance charges on loans payable	(2,097)	(710)
Interest income	274	215
IVA recovery inflationary gain	1,694	4,639
Other (expense) income	(185)	225
<b>Total</b>	<b>(3,497)</b>	<b>4,226</b>

**18. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

	2021	2020
	\$	\$
Management and consulting fees	499	420
Share-based compensation	2,525	253
<b>Total</b>	<b>3,024</b>	<b>673</b>

Of the \$499 in management and consulting fees incurred with related parties during the year ended December 31, 2021, \$79 was related to directors' fees and \$420 was related to management fees (2020 - \$nil and \$420, respectively).

As at December 31, 2021, directors and officers or their related companies were owed \$26 (December 31, 2020 - \$17) in respect of the services rendered. These are non-interest bearing with standard payment terms.

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A total of \$38 of the leases payable remains outstanding as at December 31, 2021 (December 31, 2020 - \$61) and are owed to a company owned by the Executive Chairman of the Company. During the year ended December 31, 2020, the Company recorded a debt forgiveness of \$412 relating to the lease payments owing on this mining equipment.

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

**19. SEGMENTED INFORMATION**

The Company has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the executive management team, collectively the chief operating decision maker, in assessing performance and in determining the allocation of resources. The Company primarily manages its business by looking at individual producing and developing resource projects as well as the aggregate of the exploration and evaluation properties and typically segregate these projects between production, development, and exploration.

## a) Operating segments

The corporate division earns income that is considered incidental to the Company's activities and therefore does not meet the definition of an operating segment. Consequently, the following operating and reportable segments have been identified: the Rosario Project and Veta Grande Project ("Other"), the Zimapan Mine and exploration and evaluation (E&E) properties.

Below is a summary of the reported amounts of income or loss and the carrying amounts of assets and liabilities by operating segment.

<b>Year ended December 31, 2021</b>	<b>Other</b>	<b>Zimapan</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$	\$
Revenues	1,538	51,796	-	<b>53,334</b>
Production costs	3,016	35,883	-	<b>38,899</b>
Depletion and amortization	53	4,084	-	<b>4,137</b>
Cost of sales	3,069	39,967	-	<b>43,036</b>
Gross (loss) profit	(1,531)	11,829	-	<b>10,298</b>
Operating (loss) profit	(1,531)	11,829	(17,067)	<b>(6,769)</b>
Finance expense	(40)	(436)	(3,021)	<b>(3,497)</b>
Loss on foreign exchange	-	-	126	<b>126</b>
Unrealized gain on marketable securities	-	-	2,083	<b>2,083</b>
Gain on sale of Zacatecas Properties	-	-	911	<b>911</b>
Loss on Rosario Project Transactions	-	-	(1,095)	<b>(1,095)</b>
(Loss) income before tax	(1,571)	11,393	(18,063)	<b>(8,241)</b>
	\$	\$	\$	\$
Revenues	3,715	29,382	-	33,097
Production costs	5,870	25,529	-	31,399
Depletion and amortization	-	710	-	710
Cost of sales	5,870	26,239	-	32,109
Gross (loss) profit	(2,155)	3,143	-	988
Operating (loss) profit	(2,155)	3,143	(6,732)	(5,744)
Finance (expense) income	(51)	-	4,277	4,226
Gain on foreign exchange	-	-	117	117
(Loss) income before tax	(2,206)	3,143	(2,338)	(1,401)
	\$	\$	\$	\$
Current assets	9,257	12,324	493	<b>22,074</b>
Non-current assets	5,554	33,286	-	<b>38,840</b>
Total assets	14,811	45,610	493	<b>60,914</b>
Total liabilities	(21,012)	(35,617)	(1,547)	<b>(58,176)</b>

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As at December 31, 2020	E&E	Other	Zimapan	Corporate	Total
	\$	\$	\$	\$	\$
Current assets	2,569	1,882	8,182	3,788	16,421
Non-current assets	-	7,325	8,010	1,076	16,411
Total assets	2,569	9,207	16,192	4,864	32,832
Total liabilities	-	(1,548)	(18,957)	(21,746)	(42,251)

## b) Segment revenue by location and major customers

For all of the Other segment and the Zimapan Mine, the Company had only one customer who individually accounted for 100% of total concentrate revenue in Mexico.

## c) Non-current assets by location

All of the Company's non-current assets are located in Mexico.

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

As at December 31, 2021, marketable securities and trade receivables are measured at fair value using Level 1 inputs. The fair value of marketable securities is measured based on the quoted market price of the related common shares at each reporting date, and changes in fair value are recognized in profit or loss. The fair value of trade receivables is measured based on quoted market prices for the underlying commodity prices (silver, lead, zinc) to which the receivable relates as the trade receivables are provisionally priced at the time of sale.

The carrying values of cash and cash equivalents, other receivables, and accounts payable and accrued liabilities approximate their fair values because of their short-term nature.

The fair value of the other assets, which are shares held in a private company based out of Mexico, are measured at fair value using Level 3 inputs. The carrying value of these other assets approximates its fair value because of the regular course business activity of the entity. The Company is not aware of any indications of adverse business conditions which would indicate the fair value is less than the carrying value.

The fair value of the loans payable for disclosure purposes is determined using discounted cash flows based on the expected amounts and timing of future cash flows discounted using a market rate of interest adjusted for appropriate credit risk.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

## i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk relates primarily to cash and cash equivalents, trade receivables, and other receivables. The Company minimizes its credit risk related to cash and cash equivalents by placing cash with major financial institutions. The Company regularly reviews the collectability of its trade receivables, which are due from a large, multinational corporation that has conducted business in Mexico for many years. The Company considers the credit risk related to both cash and cash equivalents and trade receivables to be minimal.

## ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest expense.



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The sensitivity of the Company's net loss to changes in the interest rate would be as follows: a 1% change in the interest rate would change the Company's net loss by approximately \$123.

## iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company endeavors to ensure that sufficient funds are raised from equity offerings or debt financing to meet its operating requirements, after taking into account existing cash and expected exercise of stock options and share purchase warrants. The Company's cash is held in business accounts which are available on demand for the Company's programs. Refer to note 1 with respect to going concern matters.

Contractual undiscounted cash flow requirements as at December 31, 2021 were as follows:

	< 1 year	1 - 2 years	2 - 5 years	>5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	36,888	-	-	-	<b>36,888</b>
Loans payable	5,656	5,656	4,714	-	<b>16,026</b>
Leases	163	133	88	-	<b>384</b>
<b>Total</b>	<b>42,707</b>	<b>5,789</b>	<b>4,802</b>	-	<b>53,298</b>

## iv) Foreign exchange risk

The Company operates in Canada and Mexico and is exposed to foreign exchange risk due to fluctuations in the US dollar and Mexican peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss to changes in the exchange rate between the US dollar and the Mexican peso and the Canadian dollar, respectively, would be as follows: a 1% change in the US dollar exchange rate relative to the Mexican peso would change the Company's net loss by approximately \$3 and a 1% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by approximately \$54.

The Company's financial assets and liabilities as at December 31, 2021 are denominated in Canadian dollars, US dollars, and Mexican pesos and translated to US dollars as follows:

	Canadian dollar	US dollar	Mexican peso	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	117	296	525	<b>938</b>
Marketable securities	4,102	-	-	<b>4,102</b>
Trade receivables	-	5,278	-	<b>5,278</b>
Other receivables	27	-	7,955	<b>7,982</b>
<b>Total</b>	<b>4,246</b>	<b>5,574</b>	<b>8,480</b>	<b>18,300</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	287	3,880	32,721	<b>36,888</b>
Loans payable	-	11,998	-	<b>11,998</b>
<b>Total</b>	<b>287</b>	<b>15,878</b>	<b>32,721</b>	<b>48,886</b>
<b>Net financial assets (liabilities)</b>	<b>3,959</b>	<b>(10,304)</b>	<b>(24,241)</b>	<b>(30,586)</b>

## v) Price risk

Price risk is the risk that the fair value of financial instruments will fluctuate because of changes in commodity prices. Commodity prices are affected by numerous factors that are outside of the Company's control, such as: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities; the availability and costs of metal substitutes; inflation; and political and economic conditions, including interest rates and currency values.

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## vi) Geopolitical risk

Geopolitical risk is the risk that the fair value of financial instruments will fluctuate if there is a sudden and rapid destabilization of global financial conditions in response to the current pandemic or future events, as government authorities may have limited resources to respond to the current or future crisis. Future crises may be precipitated by any number of factors outside the Company's control, including another pandemic, natural disasters, geopolitical instability, supply chain constraints or sovereign defaults. Any sudden or rapid destabilization of global economic conditions could negatively impact the Company's ability to obtain equity or debt financing or make other suitable arrangements to operate and/or finance its projects. In the event of increased levels of volatility or a rapid destabilization of global economic conditions, the Company's profitability, results of operations and financial condition could be adversely affected.

**21. SUPPLEMENTAL CASH FLOW INFORMATION**

During the years ended December 31, 2021 and 2020, the following transactions were excluded from the consolidated statements of cash flows:

	2021	2020
	\$	\$
Warrants issued for share-issuance costs related to private placements (note 16)	243	3
Shares issued for settlement of debt (note 16)	3,701	-
Warrants issued to Trafigura (note 13)	3,821	-

**22. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral properties to commercial production.

Historically, the Company has depended on external financing to fund its activities. The capital structure of the Company currently consists of shareholders' equity, which was \$2,738 as at December 31, 2021 (December 31, 2020 - \$9,419 (deficit)). The Company manages its capital structure and makes adjustments to it for changes in economic conditions and the risk characteristics of the underlying assets, being mineral properties.

In order to maintain or adjust its capital structure, the Company may issue new shares through equity offerings or sell assets to fund operations. Management reviews the Company's capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid, and highly-rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major financial institutions. There have not been changes to the Company's capital management policy during the year.

**23. INCOME TAX EXPENSE**

## a) Income tax recovery (expense)

	2021	2020
	\$	\$
Current tax expense	(3,706)	(127)
Deferred tax recovery	382	35
Income tax recovery (expense)	(3,324)	(92)

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A reconciliation of income taxes at statutory rates is as follows:

	2021	2020
	\$	\$
Loss before income taxes	(8,241)	(1,401)
Combined federal and provincial statutory income tax rates	27%	27%
Income tax recovery at statutory rates	2,225	378
Change due to differences in tax rates	82	(19)
Permanent differences	(1,695)	661
Deferred tax assets not recognized	(2,225)	(726)
Change due to foreign translation and other	(850)	(279)
Mexican mining royalty tax	(861)	(107)
Income tax expense	(3,324)	(92)

## b) Deferred taxes

The significant components of the Company's deferred tax liabilities are as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Withholdings taxes	(1,435)	(1,435)
Mineral properties and equipment	(4,499)	(22)
Deferred revenue	-	(7)
Tax losses carried forward	3,701	-
Deferred tax liabilities	(2,233)	(1,464)

The significant components of the Company's unrecognized deferred tax assets are as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Deferred income tax assets:		
Deferred financing costs	167	245
Non-capital loss carry-forwards and other	17,719	20,068
Mineral properties	-	7,923
Unrecognized deferred tax assets	17,886	28,236

Deferred tax assets and liabilities that are probable to be utilized are offset if they relate to the same taxable entity and same taxation authority. Future potential tax deductions that do not offset deferred tax liabilities are considered to be deferred tax assets.

As at December 31, 2021, the Company had non-capital losses of approximately C\$8,896 that arose in Canada which will expire in various years between 2031 and 2041. As at December 31, 2021, the Company also had losses of approximately MXN 984,558 that arose in Mexico which will expire in various years between 2022 and 2031.

Deferred tax assets have not been recognized on non-capital loss carry forwards.

## c) Taxation impact relating to Rosario Project Transactions

As explained in note 5, during the year ended December 31, 2021, the Company executed a transfer and sale transaction relating to the remaining Rosario Project assets and liabilities in IMSC (except for the decommissioning and restoration provisions, which remains with the Company). This transaction resulted in the reduction of available tax losses at IMSC as part of the transfer of certain tax losses along with other balances from IMSC to Mineworks for the subsequent ownership transfer in December 2021. The Rosario Project transaction is still to be reviewed by the Mexican Tax Authority and as such may be subject to comment and/or revision given the complexities and criteria involved with such transactions. The Company, after tax consultation, believes that the tax positions adopted are appropriate and in accordance with the law.

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### d) Taxation impact relating to Mexican Labor reform

On April 23, 2021, the Mexican government enacted a reform that prohibits the subcontract of personnel services and aims for each taxpayer to directly employ its labor force without the intermediation of an in-house or outsource service provider. Only specialized services will be allowed for subcontracting, being those that relate to activities that are not part of the core business or main economic activity of the contracting party. All companies rendering specialized services must register and secure a registry number to the labor authority.

As of August 1, 2021, any payment for the subcontracting of personnel, other than those registered as specialized, will not be deductible for income tax purposes, and the corresponding VAT will not be creditable for the payer.

In the event that the specialized services contracted by the Company do not meet these requirements, the expense will be considered non-deductible, and VAT will not be creditable.

Based on an initial assessment by the Company, certain services were identified to be registered as specialized services. The Company continues to assess and evaluate its compliance with the new Mexican labor reform requirements and is committed to fully comply with the requirements.

## **24. CONTINGENCIES**

The Company is involved in various claims, litigation and other matters in the ordinary course and conduct of business. Some of these pending matters may take a number of years to resolve. While it is not possible to determine the ultimate outcome of such actions at this time, and inherent uncertainties exist in predicting such outcomes, it is the Company's belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its consolidated financial position or results of operations.

### **Minera Contracuña Option Agreement**

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. 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 took effect December 2, 2021. The Company has the right to acquire the NSR at any time by paying Contracuña \$1,500. The Company concurrently executed on August 27, 2018 a promissory note (the "Promissory Note") in favour of Contracuña in the amount of \$1,422. The Promissory Note was repayable on or before August 30, 2019 and relates to a trade payable balance owing to Contracuña at August 27, 2018.

The Company did not repay the Promissory Note in full by August 30, 2019, nor did it make the full amount of payments due on or before December 31, 2018, December 2, 2019, or December 2, 2020, pursuant to the terms of the Contracuña Option Agreement. As such the Company is in default of the terms of the Contracuña Option Agreement. To date Contracuña has not served the Company with a formal Notice of Default.

The Company has commenced legal action seeking termination of the Contracuña Option Agreement and damages. The Company notes that no additional penalty or outflow of economic benefits are expected or provided for as at December 31, 2021.

## **25. SUBSEQUENT EVENTS**

### a) Glencore Transaction

On March 21, 2022, the Company completed its previously announced transaction with Glencore plc ("Glencore"), whereby the Company acquired a portfolio of producing assets located in Bolivia from Glencore (the "Glencore Transaction"), including a 100% interest in the Sinchi Wayra business which includes the producing Caballo Blanco mining complex, the Soracaya exploration project, and the San Lucas ore sourcing and trading business, a 45% interest in the producing Bolivar and Porco mining operations held through an unincorporated joint venture with Corporación Minera de Bolivia, a Bolivian state-owned entity, and certain related properties and assets (together, the "Glencore Assets"). Pursuant to an amendment agreement dated March 18, 2022, the Company was to pay an initial upfront consideration of \$12,011 within 30 days of closing and an additional deferred consideration of \$90,000 in equal installments over four years from closing, subject to certain conditions and adjustments.

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As a result of certain logistical and closing items delays related to the Glencore Transaction, both parties have mutually agreed to extend the deadline of this initial payment, which should occur during the three months ended June 30, 2022, subject to any additional unforeseen delays.

Glencore also retains a 1.5% net smelter returns royalty on all Glencore Assets other than the San Lucas business and a 14% gross profit royalty on the San Lucas business. Glencore has the right to acquire 100% of the offtake from the Glencore Assets in accordance with offtake agreements entered into in connection with closing.

As part of the Glencore Transaction, Glencore agreed to provide the San Lucas business with a working capital facility for an amount up to \$10,000.

In connection with the Glencore Transaction, the Company has paid \$320 in cash (\$85 paid as at December 31, 2021) and issued 3,077,317 common shares at a price of C\$0.41 per share to Big Buck Capital, S.C. ("BBC") to settle \$1,320 of fees for services provided pursuant to the terms of a consulting services agreement with BBC.

b) Other

Subsequent to year end, Trafigura exercised all 7,280,000 warrants (note 16) for proceeds of \$2,298 (C\$2,876), of which the Company applied \$316 towards partial repayment of the Trafigura Loan Facility.