



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2018

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months ended March 31, 2018 prepared as of May 29, 2018, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2018 Q1 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2017 as well as the accompanying MD&A for the year then ended (the "**Annual MD&A**").

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

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

### **Forward-Looking Statements**

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

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

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

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

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

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that the future price of silver, gold and base metals will decline, that mineral resources are not as estimated, that actual costs of reclamation activities are greater than expected; that changes in project parameters as plans continue to be refined result in increased costs, that lower rates of production are achieved than are expected, that unexpected variations in mineral grade or recovery rates occur, that plant, equipment or processes fail to operate as anticipated, that accidents or labour disputes occur, that unanticipated delays occur in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A, at pages 12 to 23 of the annual information form (revised) of the Company for the year ended December 31, 2015 dated July 6, 2016 (the "AIF"), filed on SEDAR on July 8, 2016. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on forward-looking information due to the inherent uncertainty thereof.

## **General**

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

The Company is engaged in the operation, acquisition, exploration and development of mineral properties in Mexico, with a primary focus on silver and zinc, but also including gold and lead. The Company currently has two producing projects, the Veta Grande Project and the Rosario Project. In addition, the Company holds two exploration properties in its mineral property portfolio, the Minillas Property and the Zacatecas Properties.

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

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

#### **Transactions with Carrizal Mining**

On November 28, 2017 the Company entered into an agreement (the "Mine Services Agreement") with Carrizal Mining, S.A. de C.V. ("Carrizal"), a private Mexican mining company, whereby the Company will provide Carrizal with certain mine development, metallurgical and geological consulting services as well as administrative services in connection with Carrizal's mining activities. The Mine Services Agreement has no fixed termination date but may be terminated by either party giving 30 days written notice to the counter party.

On November 30, 2017 the Company entered into a binding Letter of Intent (the "Carrizal LOI") wherein the Company granted Carrizal the right to earn a 20% working interest in all mining concessions and assets comprising the Veta Grande Project as well as a 20% working interest in the Zacatecas Properties (collectively "the Properties"). In order to earn its 20% working interest Carrizal is required to fund all expenditures necessary to increase the mining and milling rate at the Veta Grande mine to 750 tpd and in addition must fund an exploration program sufficient to allow an appropriate mine plan to be developed for the ongoing operation of the Veta Grande mine, subject to the Company agreeing to contribute on an as-is where-is basis a 250 tpd ball mill and motor plus other redundant equipment not in use at the Rosario Project.

#### **Transaction with Contracuña**

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

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

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

In addition, the Company granted to Contracuña a 1% net smelter royalty ("NSR") that commences December 14, 2022. The Company has the right to acquire the NSR at any time by paying Contracuña US\$1,500.

## 2018 First Quarter Highlights

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

	<b>2018</b>	<b>2017</b>			
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
<b>Financial</b>					
Revenue – Mining Operations	753	1,292	1,798	2,641	2,085
Revenue – Mining Services	2,413	3,580	-	-	-
Gross Loss <sup>(4)</sup>	(117)	(451)	(1,819)	(1,827)	(1,059)
Impairment	-	(8,831)	-	-	-
Net (Loss) Income	(806)	(10,012)	(5,899)	(8,485)	1,490
Net (Loss) Income Per Share – Basic (\$/share)	(0.00)	(0.06)	(0.04)	(0.05)	0.01
Adjusted EBITDA <sup>(4)</sup>	(209)	(1,435)	(1,628)	(1,390)	(848)
<b>Operating</b>					
Material Processed (tonnes milled)	48,068	30,974	46,940	57,685	45,474
Silver Equivalent Produced (ounces) <sup>(1)</sup>	154,175	139,670	231,162	270,659	223,968
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	59,648	94,204	166,880	219,226	163,457
Production Cost per Tonne <sup>(3)</sup>	52.97	86.49	62.91	59.15	54.93
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	45.94	32.38	23.65	21.24	19.55
All-in Sustaining Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	55.84	38.53	28.14	24.62	24.56
Average Realized Silver Price per Ounce (\$/oz.) <sup>(3)(5)</sup>	16.78	16.73	16.85	17.17	17.31

<sup>(1)</sup> Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb and \$1.35/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and the Rosario Project. Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project as well as by the Rosario Project.

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

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

<sup>(4)</sup> The Company reports additional non-IFRS measures which include Gross Profit (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "*Non-IFRS Measures – Additional Information*" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the quarterly financial statements.

<sup>(5)</sup> Average realized silver price per ounce is prior to all treatment, smelting and refining charges.

- On February 28, 2018 the Company reported that the drilling campaign at the Veta Grande Project had been expanded to include both an initial 6,000-metre surface program on the Veta Grande vein and an initial 3,000-metre underground program on the Armados vein. In order to execute the expanded program a second drill rig would be mobilized to the Veta Grande mine. The drilling campaign is being funded by Carrizal pursuant to the terms of the Carrizal LOI.
- March 7, 2018 the Company reported that its wholly-owned subsidiary, Impulsora Minera Santacruz, S.A de C.V., had arranged a loan (the "Short-term Loan") from a private Bolivian mining company, for US\$2.3 million. The Short-term Loan bears interest at 9% per annum, is repayable July 1st, 2018, and is unsecured. In connection with the Short-term Loan the Company agreed to issue the lender 2,000,000 warrants exercisable until the end of business on March 6, 2019, at \$0.16 per share. The warrants were issued on April 19, 2018 after the transaction was approved by the TSX Venture Exchange.
- On March 23, 2018 the Company reported the milling capacity at its Veta Grande Project had been expanded to 750 tpd. The mill throughput is expected to ramp up in stages from approximately 450 tpd until the new designed capacity is achieved. The mill expansion was funded by Carrizal pursuant to the terms of the Carrizal LOI.

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### **Management Business Overview and Outlook**

During the fourth quarter of 2017 the Company completed a number of important initiatives including the appointment of Carlos Silva, an experienced and successful Mexican mine operator, as Chief Operating Officer; the execution of the Contracuña Option Agreement which now allows the Company to acquire outright the Veta Grande Project; the execution of the Carrizal LOI whereby the Company gains a producing Mexican silver mining company to assist in the development of the Veta Grande Project and which has led to the increase in milling capacity at the Veta Grande Project to 750 tpd; and the execution of the Mine Services Agreement which is expected to provide approximately \$0.75 million of net cash flow to the Company on a monthly basis thereby helping to address the Company's working capital deficiency.

During the first quarter of 2018 the Company entered into the Short-term Loan agreement that provides short-term financing of \$2.3 million to help address current working capital needs.

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

- In connection with the Carrizal LOI, complete a drilling campaign of approximately 20,000 metres at the Veta Grande Project. Upon completion of the current 6,000-metre surface drilling program the Company plans to conduct a surface drilling campaign 1.5 km from the current location on the northern strike of the Veta Grande vein system as well as completing programs on the Navidad Property and Panuco Deposit;
- At the Veta Grande Project to increase operating throughput to 750 tpd with a blended millfeed consisting of 70% in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine, with the remaining 30% sourced from previously mined mineralized material from the Veta Grande vein (“Chorros”);
- At the Rosario Project to source millfeed from the Membrillo Prospect and increase operating throughput to 350 tpd;
- To continue the systematic improvement of mining and milling operations at both the Veta Grande Project and Rosario Project.

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

## Review of Consolidated Operating Results

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
<b>Material Processed (tonnes milled)</b>					
Rosario Project	13,140	13,317	18,956	27,967	18,723
Veta Grande Project	34,928	17,657	27,984	29,718	26,751
<b>Consolidated</b>	<b>48,068</b>	<b>30,974</b>	<b>46,940</b>	<b>57,685</b>	<b>45,474</b>
<b>Silver Equivalent Produced (ounces) <sup>(1)</sup></b>					
Rosario Project	82,765	74,683	127,689	124,717	115,240
Veta Grande Project	71,410	64,987	103,473	145,942	108,728
<b>Consolidated</b>	<b>154,175</b>	<b>139,670</b>	<b>231,162</b>	<b>270,659</b>	<b>223,968</b>
<b>Silver Equivalent Sold (payable ounces) <sup>(2)</sup></b>					
Rosario Project	33,592	56,172	93,349	96,546	99,535
Veta Grande Project	26,056	38,032	73,531	122,680	63,922
<b>Consolidated</b>	<b>59,648</b>	<b>94,204</b>	<b>166,880</b>	<b>219,226</b>	<b>163,457</b>
<b>Cash Cost of Production per Tonne<sup>(3)</sup></b>					
Rosario Project	87.60	111.21	68.58	68.80	53.94
Veta Grande Project	39.94	67.85	59.07	50.07	55.62
<b>Consolidated</b>	<b>52.97</b>	<b>86.49</b>	<b>62.91</b>	<b>59.15</b>	<b>54.93</b>
<b>Cash Cost per Silver Equivalent Ounce<sup>(3)</sup></b>					
Rosario Project	37.87	29.80	20.40	24.64	15.93
Veta Grande Project	56.34	36.18	27.77	18.57	25.19
<b>Consolidated</b>	<b>45.94</b>	<b>32.38</b>	<b>23.65</b>	<b>21.24</b>	<b>19.55</b>
<b>All-in Sustaining Cash Cost per Silver Equivalent Ounce<sup>(3)</sup></b>					
Rosario Project	46.11	35.09	24.33	28.69	19.91
Veta Grande Project	68.39	41.89	32.98	21.42	31.79
<b>Consolidated</b>	<b>55.84</b>	<b>38.53</b>	<b>27.14</b>	<b>24.62</b>	<b>24.56</b>
<b>Average Realized Silver Price per Ounce<sup>(3)</sup></b>					
Rosario Project	16.76	16.77	16.84	17.08	17.20
Veta Grande Project	16.81	16.67	16.85	17.24	17.49
<b>Consolidated</b>	<b>16.78</b>	<b>16.73</b>	<b>16.85</b>	<b>17.17</b>	<b>17.31</b>

<sup>(1)</sup> Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb and \$1.35/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and Rosario Project. Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project and Rosario Project.

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

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

### Operations Overview

Silver equivalent production for Q1 2018 decreased by 30% to 154,175 ounces as compared to 223,968 ounces in 2017. This decrease is due to a 28% decrease in production at the Rosario Project to 82,765 ounces and a 34% decrease in production at the Veta Grande Project. As compared to total silver equivalent production for Q4 2017, Q1 2018 production increased by 10% reflecting an 11% increase in production at the Rosario Project and a 10% increase in production at the Veta Grande Project.

As referenced earlier in this MD&A management's focus at the Veta Grande Project for 2018 is to increase production to 750 tpd with the source of the mill feed being 70% from in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine and 30% from Chorros. Management is confident that by achieving a consistent throughput tonnage of 750 tpd the Company will achieve economies of scale that will decrease unit

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production costs on a cost/t basis. Further, by changing the source of mill feed from 90% Chorros and 10% in situ vein material as was the case throughout much of 2017 management expects that the average head grade of material processed will increase which in combination with the expected lower production cost/t will result in lower production costs/Ag equivalent ounce.

**Cash Cost per Tonne**

Cash cost of production per tonne of mineralized material processed decreased by 4% in Q1 2018 to \$52.97/t as compared to \$54.93/t in Q1 2017. This positive change in unit costs reflects a 28% decrease in unit costs at the Veta Grande Project offset by a 62% increase in unit costs at the Rosario Project. The consolidated cash cost of production decreased 2% combined with a 6% increase in tonnes of mineralized material processed.

As compared to Q4 2017 the Q1 2018 unit costs decreased 39%. This positive change reflects respective decreases in unit costs of 41% and 21% at the Veta Grande Project and Rosario Project. The consolidated cash cost of production decreased by 5% with a 55% increase in tonnes of mineralized material processed.

**Cash Cost per Silver Equivalent Ounce**

Cash cost of production per silver equivalent ounce sold increased by 135% in Q1 2018 to \$45.94/oz as compared to \$19.55/oz in Q1 2017. This negative change in unit costs reflects 124% and 138% respective increases in unit costs at the Veta Grande Project and Rosario Project. The consolidated cash cost of sales for mining operations decreased by 20% offset by a 64% decrease in silver equivalent payable ounces sold.

As compared to Q4 2017 the Q1 2018 unit costs increased 42%. This negative change reflects respective increases in unit costs of 56% and 27% at the Veta Grande Project and Rosario Project. The consolidated cash cost of sales for mining operations decreased by 10% offset by a 37% decrease in silver equivalent payable ounces sold.

**All-In Sustaining Cash Cost per Silver Equivalent Ounce**

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 127% in Q1 2018 to \$55.84/oz as compared to \$24.56/oz in Q1 2017. This negative change in unit costs reflects a 115% and 121% increase in unit costs respectively at the Veta Grande Project and Rosario Project. The consolidated all-in sustaining cost for mining operations decreased by 17% offset by a 64% decrease in silver equivalent payable ounces sold.

As compared to Q4 2017 the Q1 2018 unit costs increased 45%. This negative change reflects respective increases in unit costs of 57% and 31% at the Veta Grande Project and Rosario Project. The consolidated all-in sustaining cost for mining operations decreased by 8% offset by a 37% decrease in silver equivalent payable ounces sold.

**Veta Grande Project, Veta Grande, Zacatecas, Mexico**

**Contracuña Agreement**

As described earlier in this MD&A, the Company entered into the Contracuña Option Agreement in December 2017 pursuant to which Santacruz was granted an option to purchase a 100% interest in the Veta Grande and Minillas properties, for aggregate cash consideration of \$15,500 over five years.

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

Also as described earlier in this MD&A, the Company entered into the Carrizal LOI in December pursuant to which Carrizal has the right to acquire a 20% working interest in all mining concessions and assets comprising the Veta Grande Project as well as a 20% working interest in the Zacatecas Properties.. On March 23, 2018 the Company reported that Carrizal had completed the mill expansion to 750 tpd.

### **Veta Grande Project Production and Operating Results**

	<b>2018</b>		<b>2017</b>		
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Material Processed (tonnes milled)	34,928	17,657	27,984	29,718	26,751
Silver Equivalent Produced (ounces) <sup>(1)</sup>	71,410	64,987	103,473	145,942	108,728
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	26,056	38,032	73,531	122,680	63,922
Production - Silver (ounces)	32,413	25,665	61,960	56,062	57,598
- Gold (ounces)	56	53	66	174	131
- Lead (tonnes)	109	70	99	198	99
- Zinc (tonnes)	118	163	146	317	177
Average Grade – Silver (g/t)	62	78	107	102	117
– Gold (g/t)	0.15	0.18	0.17	0.26	0.22
– Lead (%)	0.46	0.55	0.51	0.78	0.53
– Zinc (%)	0.94	1.44	0.77	1.30	1.09
Metal Recovery – Silver (%)	46.7	58.1	64.5	63.8	57.2
– Gold (%)	33.7	52.6	43.5	81.8	68.6
– Lead (%)	67.9	72.5	69.8	87.2	69.4
– Zinc (%)	36.2	64.1	67.4	76.7	60.7
Cash Cost of Production per Tonne <sup>(3)</sup>	39.94	67.85	59.07	50.07	55.62
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	56.34	36.18	27.77	18.57	25.19
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	68.39	43.62	32.98	21.42	31.79
Average Realized Silver Price per Ounce (\$/oz) <sup>(2)</sup>	16.81	16.67	16.85	17.24	17.49

<sup>(1)</sup> Silver equivalent ounces produced in 2018 have been calculated using prices of \$17.00/oz., \$1,295/oz., \$1.00/lb. and \$1.35/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project. Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project.

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

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

### **Veta Grande Operations Overview**

The focus at the Veta Grande Project for 2018 is to increase production to 750 tpd with the source of the mill feed being 70% from in situ material from the Veta Grande vein, Armados vein, La Flor vein and Navidad mine and 30% from Chorros. Management is confident that by achieving a consistent throughput tonnage of 750 tpd the Company will achieve economies of scale that will decrease unit production costs on a cost/t basis. Further, by changing the source of mill feed from 90% Chorros and 10% in situ vein material as was the case throughout much of 2017 management expects that the average head grade of material processed will increase which in combination with the expected lower production cost/t will result in lower production costs/Ag equivalent ounce.

In order to achieve its 2018 production objective management took the decision early in Q1 2018 to deploy all of its underground production equipment to developing production stopes on the Veta Grande vein and Armados vein. This work included driving the respective access ramps to the Veta Grande vein and Armados vein to lower levels and completing level development work on both vein systems.

As a result of the focus on mine development, the source of mineralized material processed at the milling facility was oxidized mineralized material that had been stockpiled on surface by prior mine operators. Although the cost to deliver this material to the mill for processing is relatively inexpensive, the material is low grade and due to being oxidized the metal recoveries are poor as detailed in the table above. Management anticipates that this short-term strategy will continue through to the end of Q2 2018 by which time sufficient development work will be completed that production equipment will be re-deployed between production stopes and ongoing mine development.

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In connection with the Carrizal LOI, a 6,000-metre surface diamond drilling campaign is underway on the Veta Grande vein system. The campaign is expected to consist of 15 drill holes testing the Veta Grande vein at depth below the current level being mined by the Company and is expected to also intersect the La Flor, San Jose and Armados veins that run parallel to the Veta Grande vein. In addition, in February a 3,000-metre underground diamond drill program on the Armados vein was initiated. In total the drilling campaign for 2018 is expected to amount to 20,000 metres covering the Veta Grande vein, Armados vein, Navidad Property and Panuco Deposit. In order to execute the program a second surface drill rig is expected on property shortly. With respect to the current program, the first two surface drill holes have been completed and five underground drill holes been completed. Assays are pending.

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

#### Veta Grande Production

Silver equivalent production in Q1 2018 from the Veta Grande Project decreased by 34% to 71,410 ounces as compared to 2017. The decrease reflects a 32% decrease in the average silver equivalent head grade which occurred as a result of management's decision early in the quarter, as referenced above, to process low grade oxide mineralized material that was stockpiled on surface in order to deploy all of its underground production equipment for mine development purposes.

As compared to Q4 2017 production increased by 10% as the result of a 98% increase in tonnes milled offset by 22% decrease in the average silver equivalent head grade and decreased metal recoveries. The increase in tonnes milled reflects in part the fact that milling operations were suspended for most all of November pursuant to a notice from the Mexican Environmental Protection Agency. Milling operations recommenced on November 22, 2017. The decrease in silver equivalent head grade is for the reasons described with respect to milling surface stockpiled oxide material.

#### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 28% in Q1 2018 to \$39.94/t as compared to \$55.62/t in Q1 2017. This relates to a 31% increase in tonnes milled and a 6% decrease in cash cost of production. Cash cost of production was lower primarily for the reasons described with respect to milling surface stockpiled oxide material. The cost of delivering this material to the mill is lower than the cost of mining mineralized material underground and mucking it to surface for delivery to the mill. The increase in tonnes milled reflects the relative ease of accessing and transporting the mineralized material stockpiled on surface to the mill.

As compared to Q4 2017 the Q1 2018 unit costs decreased 41%. This positive change reflects a 16% decrease in the cash cost of production combined with a 98% increase in tonnes of mineralized material processed. Again, as referenced above, the increase in tonnes milled reflects in part the fact that milling operations were suspended for most all of November pursuant to a notice from the Mexican Environmental Protection Agency and in part management's decision early in the quarter to mill low grade surface stockpiled oxide material. Cash cost of production was lower primarily as a result of this decision as well.

#### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 124% in Q1 2018 to \$56.34/oz as compared to \$25.19/oz in Q1 2017. This change in unit costs reflects a 9% decrease in cash cost of sales offset by a 59% decrease in silver equivalent payable ounces sold during the quarter. The decrease in cash cost of sales was, as referenced above, primarily because of management's decision early in the quarter to mill low grade surface stockpiled oxide material. The decrease in silver equivalent payable ounces sold also occurred as a result of this

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decision by management due to the low grade of the material and because of being oxidized metal recoveries are poor.

As compared to Q4 2017 the Q1 2018 unit costs increased 56%. The cash cost of sales increased by 7% combined with a 31% decrease in silver equivalent payable ounces sold. The cash cost of sales increased because of the 98% increase in tonnes of mineralized material milled due largely to the suspension of milling operations for most of November offset by the lower cost of handling the surface stockpiled material sent to the mill during Q1 2018. The decrease in silver equivalent payable ounces sold is for the reasons referenced earlier with respect to low grade and poor recovery of the mineralized material processed during Q1 2018.

#### All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 115% in Q1 2018 to \$68.39/oz as compared to \$31.79/oz in Q1 2017. This change in unit costs occurred largely for the same reasons as for increase in the cash cost of production per silver equivalent ounce sold described above.

As compared to Q4 2017 the Q1 2018 the all-in sustaining unit costs increased 57%. This change in unit costs occurred largely for the same reasons as for increase in the cash cost of production per silver equivalent ounce sold described above.

#### **Rosario Project, Charcas, San Luis Potosi, Mexico**

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

#### **Rosario Mine**

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

#### **Cinco Estrellas Property**

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

#### **Membrillo Prospect**

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

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

## Rosario Project Production and Operating Results

	<b>2018</b>	<b>2017</b>			
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Material Processed (tonnes milled)	13,140	13,317	18,956	27,967	18,723
Silver Equivalent Produced (ounces) <sup>(1)</sup>	82,765	74,683	127,689	124,717	115,240
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	33,592	56,172	93,349	96,546	99,535
Production - Silver (ounces)	15,689	18,652	26,274	33,181	34,556
- Gold (ounces)	79	186	328	298	195
- Lead (tonnes)	25	23	49	40	45
- Zinc (tonnes)	331	249	449	408	382
Average Grade – Silver (g/t)	43	53	51	42	66
– Gold (g/t)	0.28	0.60	0.67	0.43	0.43
– Lead (%)	0.22	0.24	0.31	0.18	0.29
– Zinc (%)	2.91	2.10	2.61	1.76	2.37
Metal Recovery – Silver (%)	85.4	81.7	85.0	87.3	86.3
– Gold (%)	66.1	72.6	79.7	77.1	75.1
– Lead (%)	84.6	73.6	83.2	80.2	81.4
– Zinc (%)	86.6	89.2	90.7	82.9	86.0
Cash Cost of Production per Tonne <sup>(3)</sup>	87.60	111.21	68.58	68.80	53.94
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	37.87	29.80	20.40	24.64	15.93
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	46.11	35.09	24.33	28.69	19.91
Average Realized Silver Price per Ounce (\$/oz) <sup>(2)</sup>	16.76	16.77	16.84	17.08	17.20

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

Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project.

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

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

### Rosario Operations Overview

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

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

At the Membrillo Prospect the Company has completed access to Levels 1, 2 and 3 on the main Membrillo vein as well as on the San Rafael vein.

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

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### Rosario Production

Silver equivalent production in Q1 2018 from the Rosario Project decreased by 28% to 82,765 ounces as compared to 2017. This decrease reflects a 30% decrease in tonnes milled which occurred as a result of the suspension of operations at both the Rosario Mine and Cinco Estrellas Property as referenced above.

As compared to Q4 2017 silver equivalent production increased 11% to 82,865 ounces in Q1 2018 reflecting an 11% increase in the average silver equivalent head grade.

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 62% in Q1 2018 to \$87.60/t as compared to \$53.94/t in Q1 2017. This is mainly due to the 30% decrease in tonnes milled during the quarter combined with the 14% increase in cash costs of production. As referenced above, the decrease in tonnes milled reflects the suspension of operations at both the Rosario Mine and Cinco Estrellas Property.

As compared to Q4 2017 the Q1 2018 unit costs decreased 21%. This positive change is virtually all due to a 22% decrease in the cash costs of production. This decrease reflects the positive impact of consolidating all mining activity to the Membrillo Prospect.

### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 138% in Q1 2018 to \$37.87/oz as compared to \$15.93/oz in Q1 2017. This change in unit costs reflects in part a decrease of 66% in silver equivalent payable ounces sold offset by a 20% decrease in cash cost of sales. The decreased silver equivalent payable ounces sold in Q1 2018 reflects the 30% decrease in tonnes milled combined with the lower grade of silver and gold in the mineralized material processed as well as the lower recovery of gold in this quarter. All of these factors reflect the fact that mineralized material sent to the mill from the Membrillo Prospect during the quarter was a blend of production stope material and development muck. The development muck is lower grade which brings the overall average grade down. Cash cost of sales decreased as a result of processing less material through the mill.

As compared to Q4 2017 the Q1 2018 unit costs increased 27%. The cash cost of sales decreased by 24% combined offset by a 40% decrease in silver equivalent payable ounces sold. The cash cost of sales decrease reflects the positive impact of consolidating all mining activity to the Membrillo Prospect. The decrease in silver equivalent payable ounces sold is for the reasons referenced above with respect to running a blend of production stope material and development muck through the mill.

### All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 132% in Q1 2018 to \$46.11/oz as compared to \$19.91/t in Q1 2017. This change in unit costs occurred largely for the same reasons as the cash cost of production per silver equivalent ounce sold increases as described above.

As compared to Q4 2017 the Q1 2018 the all-in sustaining unit costs increased 31%. This change in unit costs occurred largely for the same reasons as for increase in the cash cost of production per silver equivalent ounce sold described above.

## **Resource and Exploration Properties**

### **Zacatecas Properties, Zacatecas City, Zacatecas, Mexico**

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

The Zacatecas Mining District is located in the central part of Mexico, in the main Mexico Silver Belt. The Zacatecas Properties are located at the periphery of the Zacatecas, Veta Grande, Guadalupe, Pánuco, and Morelos

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municipalities in the state of Zacatecas, Mexico and consist of 149 concessions covering approximately 7,800 hectares and is part of the Veta Grande Project.

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

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

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

***Manillas Property, Genaro Codina, Zacatecas, Mexico***

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

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

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

## Financial Results

### Review of Operations

	2018	2017	
	Q1	Q4	Q1
<b>Revenue</b>			
Mining operations	753	1,292	2,085
Mining services	2,413	3,580	-
	<b>3,166</b>	<b>4,872</b>	<b>2,085</b>
<b>Cost of sales</b>			
Cash cost of sales - mining operations	2,492	2,766	2,451
Cash cost of sales - mining services	401	2,724	-
Depletion and amortization	390	(167)	693
	<b>3,283</b>	<b>5,323</b>	<b>3,144</b>
<b>Gross loss</b>	<b>(117)</b>	<b>(451)</b>	<b>(1,059)</b>
<b>Operating expenses</b>			
Administrative	(141)	(171)	(95)
Management and consulting fees	(158)	(108)	(92)
Professional fees	(92)	(64)	(181)
Share-based payments	-	-	(1)
Other	(103)	(59)	(114)
	<b>(494)</b>	<b>(402)</b>	<b>(483)</b>
Loss on disposal of equipment	-	<b>(415)</b>	-
Impairment	-	<b>(10,445)</b>	-
<b>Interest earned and other finance income</b>			
Interest earned	-	19	-
IVA recovery inflationary gain	-	-	431
Change in fair value of derivative assets	-	-	3,308
Foreign exchange gain	174	317	-
	<b>174</b>	<b>336</b>	<b>3,739</b>
<b>Interest Expense and Other Finance Expenses</b>			
Accretion of decommissioning and restoration provision	(8)	(9)	(8)
Change in fair value of derivatives	-	(240)	-
Foreign exchange loss	-	-	(541)
Carrying charges	(237)	-	-
Interest expense on loans payable	(35)	(33)	(11)
Interest expense and loss on settlement of JMET note	-	93	(267)
	<b>(280)</b>	<b>(189)</b>	<b>(827)</b>
Income tax (expense) recovery	(89)	1,554	120
<b>Net (loss) income for the period</b>	<b>(806)</b>	<b>(10,012)</b>	<b>1,490</b>

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#### Three months ended March 31, 2018

The Company recorded a net loss of \$806 (\$0.00 per share) for the three months ended March 31, 2018 compared to a net income of \$1,490 (\$0.01 per share) for the three months ended March 31, 2017. The three months ended March 31, 2018 financial results include revenues and cost of sales relating to the Mining Services contract with Carrizal. The gross margin from the Mining Services contract amounted to \$2,012 while the gross margin from mining operations was a loss of \$2,129 (2016 – loss of \$1,059). The net income recorded in the quarter ended March 31, 2017 arose primarily from a non-cash change in fair value of derivative liabilities of \$3,308 that was recorded with other finance income.

Revenues in Q1 2018 of \$3,166 include mining operations of \$753 (Q1 2017 - \$2,085) and mining services of \$2,413 (Q1 2017 - \$nil). As noted above the mining services revenue is in connection with the Mining Services contract with Carrizal. Based on projected contracted mining services, management anticipates that this revenue will be approximately \$750 per month for the rest of 2018.

The Q1 2018 mining operations revenue was generated from the Veta Grande Project (46%) and Rosario Project (54%) whereas in Q1 2017 mining operations revenue was generated from the Veta Grande Project (41%) and Rosario Project (59%). With respect to the Veta Grande Project, revenues were lower as management took the decision early in the quarter to process low grade, oxide material that was stockpiled on surface in order to deploy all of its underground production equipment for mine development purposes. The decreased Rosario Project revenue is primarily the result of less tonnes milled, lower gold, silver and lead head grade, and lower gold recovery. As noted elsewhere in this MD&A management took the decision to suspend mining operations at the Cinco Estrellas Property and Rosario Mine in Q4 2017 and is focusing ongoing mining activity at the Rosario Project on the Membrillo Prospect.

Cash cost of sales in Q1 2018 includes mining operations of \$2,492 (Q1 2017 - \$2,451) and mining services of \$401(Q1 2017 - \$nil). The increase in mining operations cost of sales is largely a result of an increase in tonnes milled of 6%.

The operations for the three months ended March 31, 2018 resulted in a gross loss of \$117 (Q1 2017 – \$1,059). This decrease in loss is largely the result of the addition of the mining services revenue offset by the decreased mining operations revenue during the current year for the reasons referenced above.

During the three months ended March 31, 2018 the Company recorded operating expenses of \$494 which is consistent with the \$483 recorded in the three months ended March 31, 2017.

As detailed in Note 19(a) to the Q1 2018 Financial Statements, interest earned and other finance income decreased by \$3,565 for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to the Q1 2017 quarter including a change in fair value of derivative liabilities of \$3,308 that was related to the settlement of certain forward exchange contracts during 2017.

As detailed in Note 19(b) to the Q1 2018 Financial Statements, interest expense and other finance expenses in Q1 2018 amounted to \$280 (Q1 2017 - \$827) and decreased as silver loan interest expense was \$nil in Q1 2018 (Q1 2017 - \$267) as was the foreign exchange loss (Q1 2017 - \$541), offset by the carrying charges related to the short-term loan of \$237 in Q1 2018 (Q1 2017 - \$nil).

## Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
	\$	\$	\$	\$
Revenues – Mining operations	753	1,292	1,798	2,641
Revenues – Mining services	2,413	3,580	-	-
Cost of sales – Mining operations	2,882	2,766	3,617	4,468
Cost of sales – Mining services	401	2,724	-	-
Administrative expenses	494	402	500	497
Net loss <sup>(2)(3)</sup>	(806)	(10,012)	(5,899)	(8,485)
Net income (loss) per share <sup>(1)</sup>	(0.00)	(0.06)	(0.04)	(0.05)
THREE MONTHS ENDED				
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
	\$	\$	\$	\$
Revenues – Mining operations	2,085	1,874	3,026	3,375
Cost of sales – Mining operations	3,144	3,770	2,240	2,778
Administrative expenses	483	323	512	586
Net loss <sup>(5)</sup>	1,490	(3,646)	(11,064)	(796)
Net loss per share <sup>(1)</sup>	0.01	(0.02)	(0.08)	(0.01)

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

<sup>(2)</sup> The Q1 2017 net income arose from a decrease in derivative liabilities of \$3,308 recorded in the period.

<sup>(3)</sup> The Q3 2017 net loss includes an impairment of the Rosario Project of \$4,350.

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

<sup>(5)</sup> The Q3 2016 net loss includes an impairment of the San Felipe Project of \$15,615 and a gain on settlement of debt of \$6,377.

## Non-IFRS Measures

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

### Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

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

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

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

#### **Veta Grande Project**

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Cash cost of sales	1,373	1,225	1,644	1,638	1,357
Inventory change	22	(27)	9	(150)	131
<b>Cash Cost of Production (A)</b>	<b>1,395</b>	<b>1,198</b>	<b>1,653</b>	<b>1,488</b>	<b>1,488</b>
Cash cost of sales	1,373	1,225	1,644	1,638	1,357
Concentrate treatment, smelting and refining cost	95	151	398	640	253
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>1,468</b>	<b>1,376</b>	<b>2,042</b>	<b>2,278</b>	<b>1,610</b>
Material processed (tonnes milled) (C)	34,928	17,657	27,984	29,718	26,751
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>39.94</b>	<b>67.85</b>	<b>59.07</b>	<b>50.07</b>	<b>55.62</b>
Silver Equivalent Sold (payable ounces) (D)	26,056	38,032	73,531	122,680	63,922
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>56.34</b>	<b>36.18</b>	<b>27.77</b>	<b>18.57</b>	<b>25.19</b>

#### **Rosario Project**

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Cash cost of sales	1,119	1,541	1,289	1,896	1,094
Inventory change	32	(60)	11	28	(84)
<b>Cash Cost of Production (A)</b>	<b>1,151</b>	<b>1,481</b>	<b>1,300</b>	<b>1,924</b>	<b>1,010</b>
Cash cost of sales	1,119	1,541	1,289	1,896	1,094
Concentrate treatment, smelting and refining cost	153	133	615	483	492
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>1,272</b>	<b>1,674</b>	<b>1,904</b>	<b>2,379</b>	<b>1,586</b>
Material processed (tonnes milled) (C)	13,140	13,317	18,956	27,967	18,723
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>87.60</b>	<b>111.21</b>	<b>68.58</b>	<b>68.80</b>	<b>53.94</b>
Silver Equivalent Sold (payable ounces) (D)	33,592	56,172	93,349	96,546	99,535
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>37.87</b>	<b>29.8</b>	<b>20.40</b>	<b>24.64</b>	<b>15.93</b>

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

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

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

The Company defines sustaining capital expenditures as, "costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements. Sustaining capital expenditures exclude all expenditures at the Gavilanes Property and Zacatecas Properties, and the Veta Grande Project prior to October 1, 2016, as well as certain expenditures at the Rosario Project which are deemed expansionary in nature."

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

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

#### **Veta Grande Project**

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
Cash cost of sales	1,373	1,225	1,644	1,638	1,357
Concentrate treatment, smelting and refining cost	95	151	398	640	253
Sustaining capital expenditures	-	-	-	16	-
Deferred ramp expenditures	67	66	133	86	182
General and administrative expenses	247	217	250	248	240
<b>All-in Sustaining Cost</b>	<b>1,782</b>	<b>1,659</b>	<b>2,425</b>	<b>2,628</b>	<b>2,032</b>
Silver Equivalent Sold (payable ounces)	26,056	38,032	73,531	122,680	63,922
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	<b>68.39</b>	<b>43.62</b>	<b>32.98</b>	<b>21.42</b>	<b>31.79</b>

#### **Rosario Project**

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
Cash cost of sales	1,119	1,545	1,289	1,896	1,094
Concentrate treatment, smelting and refining cost	153	133	615	483	492
Sustaining capital expenditures	-	-	-	42	-
Deferred ramp expenditures	22	72	109	91	146
General and administrative expenses	247	216	250	249	241
Share-based payments	-	-	-	-	1
Accretion of decommissioning and restoration provision	8	9	8	9	8
<b>All-in Sustaining Cost</b>	<b>1,549</b>	<b>1,971</b>	<b>2,271</b>	<b>2,770</b>	<b>1,982</b>
Silver Equivalent Sold (payable ounces)	33,592	56,172	93,349	96,546	99,535
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	<b>46.11</b>	<b>35.09</b>	<b>24.33</b>	<b>28.69</b>	<b>19.91</b>

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### **Average Realized Silver Price per Ounce**

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

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

#### **Veta Grande Project**

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
Revenues	343	483	841	1,475	865
Add back: Treatment, smelting and refining charges	95	151	398	640	253
<b>Gross Revenues</b>	<b>438</b>	<b>634</b>	<b>1,239</b>	<b>2,115</b>	<b>1,118</b>
Silver Equivalent Sold (ounces)	26,056	38,032	73,531	122,680	63,922
<b>Avg Realized Price per Ounce of Silver Equivalent Sold</b>	<b>16.81</b>	<b>16.67</b>	<b>16.85</b>	<b>17.24</b>	<b>17.49</b>
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	<b>16.85</b>	<b>16.70</b>	<b>16.83</b>	<b>17.26</b>	<b>17.42</b>

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

#### **Rosario Project**

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
Revenues	410	809	957	1,166	1,220
Add back: Treatment, smelting and refining charges	153	133	615	483	492
<b>Gross Revenues</b>	<b>563</b>	<b>942</b>	<b>1,572</b>	<b>1,649</b>	<b>1,712</b>
Silver Equivalent Sold (ounces)	33,592	56,172	93,349	96,546	99,535
<b>Avg Realized Price per Ounce of Silver Equivalent Sold<sup>(1)</sup></b>	<b>16.76</b>	<b>16.77</b>	<b>16.84</b>	<b>17.08</b>	<b>17.20</b>
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	<b>16.85</b>	<b>16.70</b>	<b>16.83</b>	<b>17.26</b>	<b>17.42</b>

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

### **Non-IFRS Measures – Additional Information**

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

#### **Mine Operations Income (Loss)**

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

#### **EBITDA and Adjusted EBITDA**

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

Adjusted EBITDA is a non-IFRS measure in which standard EBITDA (earnings before interest expense, interest income, taxes, amortization and depletion, and impairment charges) is adjusted for share-based payments expense,

foreign exchange gains or losses, and non-recurring items. Foreign exchange gains or losses may consist of both realized and unrealized losses. Under IFRS, entities must reflect in compensation expense the cost of share-based payments. In the Company's circumstances, share-based payments can involve a significant accrual of amounts that will not be settled in cash but are settled by the issuance of shares in exchange. The Company discloses adjusted EBITDA to aid in understanding of the results of the Company and is meant to provide further information about the Company's financial results to investors.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA for the 2017 Q1, Q2, Q3, and Q4 periods and 2018 Q1 period to the respective financial statements.

	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>
<b>Net loss for the period as reported</b>	(806)	(10,012)	(5,899)	(8,485)	1,490
Income tax expense (recovery)	89	(1,554)	37	52	(120)
Interest earned and other finance income and gain on the settlement of debt	-	(19)	(56)	(480)	(3,739)
Interest expense and other finance expenses	237	147	-	-	-
Interest expense on JMET note	-	-	175	47	267
Interest expense on loan payable	35	33	-	17	11
Accretion expense	8	9	8	9	8
Amortization and depletion of mineral properties, plant and equipment	402	(167)	691	934	693
<b>EBITDA</b>	(35)	(11,563)	(5,044)	(7,906)	(1,390)
Impairment of exploration and evaluation properties	-	10,445	4,350	5,284	-
Foreign exchange	(174)	(317)	(934)	1,232	541
Share-based payments	-	-	-	-	1
<b>Adjusted EBITDA</b>	(209)	(1,435)	(1,628)	(1,390)	(848)

### Pre-paid Silver Purchase

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

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

### Trafigura Loan

On December 22, 2015, the Company entered into a short-term loan facility (the "Loan") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the principal amount of \$725. The Loan bore interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in six equal monthly installments commencing January 31, 2016. The Loan was secured by certain personal assets of the CEO of the Company. Subsequently, the Loan terms were amended at various dates in 2016 and 2017 pursuant to which the Company at various times repaid a portion of the Loan and at other times received new advances under the Loan such that as at December 22, 2017, the date of the

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most recent amendment (the “Amended Loan”) the outstanding principal balance of the Amended Loan was \$731. Pursuant to the terms of the Amended Loan, Trafigura advanced on February 15, 2018 an additional \$580 bringing the balance of the Amended Loan to \$1,311. The Amended Loan bears interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in twelve monthly installments commencing April 30, 2018 and terminating on March 31, 2019. The monthly installment amounts will be the greater of \$109 and 10% of the net concentrate sales amount for the respective month. On April xy, 2018 the Company repaid \$109(?). The Amended Loan is secured by certain personal assets of the CEO of the Company and by a first charge on the Rosario Project mineral concessions.

### **Credit facility**

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

### **Short-term loan**

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

### **Use of Proceeds from Financings**

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

### **Capital Expenditures**

The Company incurred expenditures of \$277 on its mineral properties during the three months ended March 31, 2018. The Company currently has two mineral property option agreements that are outstanding being the agreement with Golden Minerals for the Zacatecas Properties and the agreement with Contracuña for the Veta Grande Project

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

### **Liquidity and Capital Resources and Going Concern**

As at March 31, 2018, the Company had cash and cash equivalents of \$2,791 (December 31, 2017 – \$35) and a working capital deficiency of \$13,572 (December 31, 2017 – \$12,367). During the three months ended March 31, 2018, net cash provided by operating activities was \$624, net cash used for investing activities was \$652 including costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities was \$2,771, including the issuance of the Short-term Loan in the amount of \$2,300.

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

At December 31, 2017, in addition to the working capital deficiency referenced above, the Company had accumulated an inception to date deficit of \$100,484. The working capital deficiency and accumulated deficit indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability

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

### **Transactions with Related Parties**

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

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

During the three months ended March 31, 2018 and 2017, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Mining Services</b>		
Revenues <sup>(1)</sup>	2,413	-
Cost of sales <sup>(2)</sup>	401	-
	2,012	
<b>Expenses</b>		
Accounting and corporate secretarial fees <sup>(3)</sup>	23	59
Directors' fees <sup>(4)</sup>	14	13
Management fees <sup>(5)</sup>	106	46

<sup>(1)</sup> The amount recorded relates to services provided to Carrizal Mining S.A. de C.V.

<sup>(2)</sup> The amount recorded relates to equipment rented to and materials provided to the Company by Carrizal Mining S.A. de C.V.

<sup>(3)</sup> The charge includes accounting and corporate secretarial fees paid or payable to Malaspina Consultants Inc.

<sup>(4)</sup> The charge includes directors' fees paid or payable to Federico Villaseñor, Roland Löhner, and Larry Okada.

<sup>(5)</sup> The charge in 2017 includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, and in 2017 the charge includes management fees paid to Arturo Préstamo Elizondo and Carlos Silva.

At March 31, 2018, directors and officers or their related companies were owed \$226 (December 31, 2017 – \$266) in respect of the services rendered. These are non-interest bearing with standard payment terms.

The Company entered into certain mining equipment leases expiring between 2017 and 2020 with an interest rate between 6.5% and 10.5% per annum. \$472 of lease payments were paid during the three months ended March 31, 2018 (2017 - \$168) and \$832 of the leases payable outstanding at March 31, 2017 were owed to a company owned by the CEO of the Company (2017 - \$998).

The Company entered into the Mine Services Agreement (note 17) as well as the Carrizal LOI (Note 8b) with a related company with common directors during the year ended December 31, 2017. As at March 31, 2018, \$287 was owing to Carrizal (2017 - \$1,552 owing from Carrizal).

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

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## **Fair value and Classification of Financial Instruments**

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

## **Off-balance Sheet Arrangements**

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

## **Change in Accounting Policies**

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

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

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

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

#### **i. Classification**

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

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

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	<b>Original classification IAS 39</b>	<b>New classification IFRS 9</b>
Cash	amortized cost	amortized cost
Trade receivables	amortized cost	amortized cost
Other receivables	amortized cost	amortized cost
Accounts payable and accrued liabilities	amortized cost	amortized cost
Loan payable	amortized cost	amortized cost

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

## ii. Measurement

### **Financial assets at FVTOCI**

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

### **Financial assets and liabilities at amortized cost**

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

### **Financial assets and liabilities at FVTPL**

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

## iii. Impairment of financial assets at amortized cost

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

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

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#### **iv. Derecognition**

##### **Financial assets**

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

##### **Financial liabilities**

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

#### **b) Changes in accounting policies – IFRS 15**

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

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

##### **i. Concentrate Sales**

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

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

##### **ii. Mining services revenue**

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

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

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## New Standards and Interpretations Not Yet Adopted

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

IFRS 16, Leases ("IFRS 16") specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

## Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

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

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

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ('NI 52-109'), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the three months ended March 31, 2018 and this accompanying MD&A (together, the "Interim Filings").

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

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## **Risks and Uncertainties**

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

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental laws and regulations, the Company may have difficulty in hiring and retaining skilled employees and contractors, environmental hazards (including discharge of pollutants or hazardous chemicals), industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water condition, interruptions to gas and electricity supplies, human error and adverse weather conditions, there is no assurance that the Company will acquire additional mineral properties and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties, access to capital and hiring of skilled personnel. The Company continuously monitors and responds to changes in these factors and seeks to adhere to all regulations governing its operations.

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

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

## **Additional Disclosure for Venture Issuers without Significant Revenue**

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

## **Qualified Persons**

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

## **Other Information**

Additional information related to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website, [www.santacruzsilver.com](http://www.santacruzsilver.com).