



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the three and nine months ended September 30, 2020 prepared as of August 31, 2020, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2020 Q3 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2019 as well as the accompanying MD&A for the year then ended (the "**Annual MD&A**").

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

### **Forward-Looking Statements**

This MD&A and the documents incorporated herein by reference contain "forward-looking information" within the meaning of applicable Canadian securities regulations and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, "**forward-looking information**") including statements relating to the agreement with Minera Cedros and the acquisition of the Zimapan Mine by the Company, and the sale of the Zacatecas Properties to Zacatecas Silver. 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 is based on plans, expectations and estimates of management at the date the information is provided and is subject to certain factors and assumptions. In making the forward-looking statements included in this MD&A, the Company has applied several material assumptions, including that the Company's financial condition and development plans do not change as a result of unforeseen events, and that future metal prices and the demand and market outlook for metals will remain stable or improve. Forward-looking information also includes, but is not limited to, 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 Membrillo prospect ("Membrillo Prospect" which is part of the Rosario Project); the Veta Grande mine (the "**Veta Grande Mine**" which is part of the "**Veta Grande Project**"), the leased Zimapan mine and related mineral concessions (the "**Zimapan Mine**"); 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**"); expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; expected timing regarding installation of certain facilities on the Company's projects; the Company's proposed development and exploration plans for the Veta Grande Mine, the Membrillo Prospect, the Zimapan Mine, and the Panuco Deposit; plans for drilling; expectations regarding environmental issues that may affect the exploration progress; and the Company's other plans for development of its projects. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts",

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

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

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

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, the risk that actual results of exploration activities will be different than anticipated, that cost of labour, equipment or materials increase more than expected, that market conditions and global economic conditions, including increased volatility, will result in negative capital raising conditions arising from the continued COVID-19 pandemic and risks relating to the extent and duration of such pandemic and its impact on global markets, 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. 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 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, lead and copper. The Company currently has two producing projects, the Rosario Project and the leased Zimapan Mine. The Company, through its 100%

ownership of Carrizal Mining S.A. de C.V. ("Carrizal Mining"), has the right to operate the Zimapan Mine until December 31, 2020 under a mining lease agreement with Minera Cedros, S.A. de C.V. ("Minera Cedros"), a wholly-owned subsidiary of Grupo Peñoles, S.A.B. de C.V. In addition, the Company holds two exploration property groups in its mineral property portfolio, the Minillas Property and the Zacatecas Properties.

In March 2020 the Company suspended operations at the Veta Grande Project in order to facilitate capital upgrades to the processing plant and tailings storage facility. Prior to commencing such capital upgrades the Company needs to restructure the terms of the Contracuña Option Agreement. Discussions are ongoing between the parties with respect to this matter. Given the uncertainty as to the outcome of these discussions the Company is unable to project if or when operations will resume at the Veta Grande Project.

On July 23, 2020 the Company entered into an agreement with Zacatecas Silver Corp. ("Zacatecas Silver") for the sale of a 100% interest in the Zacatecas Properties, located in the Zacatecas Mining District, Mexico, for consideration of \$1.5 million and the issuance of 5,000,000 common shares of Zacatecas Silver. Zacatecas Silver is a privately held silver focused exploration company, headed by Bryan Slusarchuk and financially backed by industry leading mining operators and financiers. The Zacatecas Properties comprise 149 mining concessions totaling approximately 7,826 ha (19,338 acres) located on the Fresnillo Silver Belt, in Zacatecas State, Mexico, and include the Panuco Deposit,

On July 28, 2020 the Company entered into a legally binding term sheet (the "Term Sheet") with Minera Cedros to acquire (the "Transaction") the Zimapan Mine for total consideration of \$20 million (plus applicable Mexican Value Added Tax of \$3.2 million) (the "Purchase Price").

The Company's strategic objective is to become a mid-tier silver producer in Mexico. The Company is focused in the near term on increasing production at both the Zimapan Mine and Rosario Project.

The decisions to commence the production phase at the Rosario Mine, Veta Grande Project, and the Membrillo Prospect were not based on feasibility studies with mineral reserves demonstrating economic and technical viability or any other independent economic study under NI 43-101. 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 in accordance with NI 43-101.

Production at the leased Zimapan Mine is not supported by a feasibility study on mineral reserves demonstrating economic and technical viability or any other independent economic study under NI 43-101. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with production operations at the Zimapan Mine. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis in accordance with NI 43-101. There is no assurance that the Company will be successful in either negotiating any further extensions to the lease of the Zimapan Mine or acquiring outright the Zimapan Mine (including obtaining the necessary funding in connection with any such acquisition), and therefore there is a risk that the allocation to the Company of production from the Zimapan Mine will discontinue after December 31, 2020, which would result in a significant reduction to future production results as compared to the results contained in this MD&A. Any transaction to acquire the Zimapan Mine will be subject to receipt of all necessary regulatory approvals, including Santacruz obtaining the approval of the TSX-V.

### **Carrizal Mining Acquisition**

On July 1, 2019, the Company, through its wholly-owned subsidiary Carrizal Holdings Ltd., acquired 50% of the outstanding shares of PCG Mining, S.A. de C.V. ("PCG") (the "Initial PCG Transaction"). The shares of PCG were purchased from one of PCG's shareholders, who was at arm's-length to Santacruz (the "Vendor").

Consideration for the share acquisition was a cash payment on closing by Santacruz to the Vendor of \$400 and

other consideration in the amount of \$974, including the transfer of a life-insurance policy and two vehicles from Carrizal Mining to the Vendor; the forgiveness of approximately \$263 in debt owed by the Vendor to Carrizal Mining; and making an undertaking to remit withholding tax of \$100 to government authorities related to the cash paid to the vendor.

The Company also entered into a parallel agreement, with binding effect as of October 4, 2019, to acquire the remaining 50% of the outstanding shares of PCG that were owned by Carlos Silva (the "Silva Acquisition"), Santacruz's COO. On October 4, 2019, after receiving the requisite shareholder and TSX-V approvals, the Company completed the Silva Acquisition (together with the Initial PCG Transaction, the "PCG Transaction" or "Carrizal Acquisition". The consideration paid by Santacruz to Mr. Silva with respect to the Silva Acquisition was 30,000,000 shares of Santacruz which was estimated by management to have a fair value of \$3,383 on the date of completing the Silva Acquisition.

### **Zimapan Mine Acquisition Agreement**

On July 28, 2020 the Company, pursuant to the terms of the Transaction, agreed to acquire the Zimapan Mine for total consideration of \$20 million (plus applicable Mexican Value Added Tax of \$3.2 million).

The Zimapan Mine is currently under lease by Carrizal from Minera Cedros, expiring December 31, 2020.

Assets to be acquired pursuant to the Transaction include:

- Zimapan mill facility (the "Zimapan Mill") which is a 75,000 dry metric tonnes (DMT) per month facility with zinc, lead and copper circuits. Over the past five years the Zimapan Mill has produced an annual average of 12,400 tonnes of zinc, 3,300 tonnes of lead, 1,850 tonnes of copper and 1,290,000 ounces of silver from an average annual throughput of 700,000 tonnes of mineralized material generating an average of 4,681,000 ounces silver equivalent\* (source: Carrizal mine production records).
- Surface and underground infrastructure including electrical and other necessary infrastructure to carry on day to day operations.
- 34 mining concessions covering an area of 5,139 hectares. The mining concessions are located seven kilometers from the municipality of Zimapan. To date, Carrizal has identified 14 mineral zones that are characterized as polymetallic replacement mineralization of Pliocene age. Within the mineral zones, silver, lead, zinc and copper minerals have preferentially replaced the carbonate host rocks and pre-existing skarn bodies to produce disseminated, semi-massive sulphide and massive sulphide bodies that occur in proximity to monzonitic intrusions and quartz-feldspar porphyry dikes.

Pursuant to the Term Sheet, if the parties have not executed definitive agreements relating to the Transaction, and completed the Transaction, on or before December 15, 2020 (the "Closing Deadline"), the party responsible for such lack of performance must pay the other party a break fee in the amount of 20% of the Purchase Price, subject to the extension provisions described below. Accordingly, if the Company is unable to secure funding of the entire Purchase Price or is otherwise unable to complete the Transaction by the Closing Deadline or such later deadline as may result from one or more extensions granted by Minera Cedros (as described below), then Carrizal will be required to pay a break fee equal to 20% of the Purchase Price to Minera Cedros.

Also pursuant to the Term Sheet, in October Carrizal paid in part the outstanding balance owing to Minera Cedros in connection with the existing lease of the Zimapan Mine such that the current balance owing is approximately \$400. In addition Carrizal paid \$1.0 million to Minera Cedros in lieu of posting a bank letter of credit or similar instrument as a guarantee for the residual balance owing under the mine lease. Any excess balance of such amount will be applied to the purchase price of the Zimapan Mine. These payments give Carrizal the right to request an extension of the Closing Deadline to January 31, 2021 and Carrizal can thereafter further request an extension of the Closing Deadline to March 31, 2021 if a further \$1.0 million is paid to Minera Cedros on or before January 31, 2021. In such case the Purchase Price is increased by 10% after December 15, 2020.

## 2020 Third Quarter Business Highlights

Selected operating and financial information for the first, second, and third quarters of 2020 as well the third and fourth quarters of the year ended December 31, 2019 is presented below:

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
<b>Financial</b>					
Revenue – Mining Operations	9,437	5,939	7,816	9,964	11,439
Revenue – Mining Services	-	-	-	-	293
Gross Profit (Loss) <sup>(4)</sup>	1,259	796	(1,874)	(1,550)	102
Impairment	-	-	-	(12,202)	-
Net Loss	(163)	(636)	(87)	(16,017)	(1,432)
Net Loss Per Share – Basic (\$/share)	(0.00)	(0.00)	(0.00)	(0.08)	(0.01)
Adjusted EBITDA <sup>(4)</sup>	987	12	(2,909)	(3,442)	(705)
<b>Operating</b>					
Material Processed (tonnes milled)	176,640	116,799	168,495	220,154	148,289
Silver Equivalent Produced (ounces) <sup>(1) (6)</sup>	977,678	709,765	967,635	1,324,303	952,826
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	661,664	530,503	735,949	805,468	530,415
Production Cost per Tonne <sup>(3)</sup>	43.06	41.44	56.20	51.03	49.58
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	18.38	15.25	18.60	18.75	18.52
All-in Sustaining Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	19.85	16.90	39.43	21.29	22.51
Average Realized Silver Price per Ounce (\$/oz.) <sup>(3) (5)</sup>	21.18	16.49	16.66	17.00	17.52

<sup>(1)</sup> Silver equivalent ounces produced in 2020 have been calculated using prices of \$17.85/oz., \$1,480/oz., \$0.92/lb, \$1.09/lb and \$2.80/lb. for silver, gold, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the Veta Grande Project, Rosario Project and the leased Zimapan Mine. Operations at the Vets Grande Project were suspended in Q1 2020 and to date have not resumed. Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb, \$1.20/lb and \$2.92/lb for silver, gold, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the Veta Grande Project and the Rosario Project for all of 2019 as well as 50% and 100% of the metal content of the concentrates produced at the leased Zimapan Mine in Q3 and Q4 2019 respectively.

<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 concentrates sold from the Veta Grande Project, Rosario Project and Zimapan Mine in 2020 and 2019.

<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.

## Management Business Overview and Outlook

The Company's focus for 2020 will be:

- To return the Zimapan Mine operations to historical levels and conclude the outright acquisition of the mine. As reported by the Company in a press release dated November 18, 2020 production from the Zimapan Mine in October 2020 was approximately 394,000 silver equivalent ounces and production is expected to further increase during the rest of Q4 2020.
- At the Rosario Project to increase mill throughput tonnage with a target nearing 400 tpd by the end of Q4 2020 with the expectation this will result in positive cash flows from operations. As reported by the Company in the news release referenced above, mill throughput at the Rosario Project increased to an average of approximately 200 tpd for the month of October and a further increase is expected; and
- To complete the restructuring of the Contracuña Option Agreement for Veta Grande on more commercially acceptable terms.

The decisions to commence the production phase at the Rosario Mine, the Veta Grande Project, the Membrillo Prospect and the Zimapan Mine were not based on feasibility studies with mineral reserves demonstrating economic and technical viability or any other independent economic study under NI 43-101. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with these decisions and production operations. See “General” above.

## Review of Consolidated Operating Results

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
<b>Material Processed (tonnes milled)</b>					
Zimapan Mine <sup>(4)</sup>	164,846	106,725	139,903	161,071	82,242
Veta Grande Project	-	-	11,095	36,111	43,999
Rosario Project	11,794	10,074	17,497	22,972	22,048
<b>Consolidated</b>	<b>176,640</b>	<b>116,799</b>	<b>168,495</b>	<b>220,154</b>	<b>148,289</b>
<b>Silver Equivalent Produced (ounces) <sup>(1) (3)</sup></b>					
Zimapan Mine <sup>(4)</sup>	920,985	639,021	829,514	996,032	606,583
Veta Grande Project	-	-	64,870	193,748	214,282
Rosario Project	56,693	70,744	73,251	134,523	131,961
<b>Consolidated</b>	<b>977,678</b>	<b>709,765</b>	<b>967,635</b>	<b>1,324,303</b>	<b>952,826</b>
<b>Silver Equivalent Sold (payable ounces)</b>					
Zimapan Mine <sup>(4)</sup>	625,036	500,486	626,984	612,131	350,571
Veta Grande Project	-	-	47,854	112,806	114,705
Rosario Project	36,628	30,018	61,111	80,531	65,139
<b>Consolidated</b>	<b>661,664</b>	<b>530,503</b>	<b>735,949</b>	<b>805,468</b>	<b>530,415</b>
<b>Cash Cost of Production per Tonne <sup>(2)</sup></b>					
Zimapan Mine	39.91	38.79	45.96	50.61	41.89
Veta Grande Project	-	-	148.36	49.06	47.67
Rosario Project	87.08	69.49	79.61	57.15	82.10
<b>Consolidated</b>	<b>43.06</b>	<b>41.44</b>	<b>56.20</b>	<b>51.03</b>	<b>49.58</b>
<b>Cash Cost per Silver Equivalent Ounce <sup>(2)</sup></b>					
Zimapan Mine	17.45	14.47	16.04	18.53	15.70
Veta Grande Project	-	-	39.52	19.11	19.79
Rosario Project	34.13	28.15	28.47	19.87	27.96
<b>Consolidated</b>	<b>18.38</b>	<b>15.25</b>	<b>18.60</b>	<b>18.75</b>	<b>18.52</b>
<b>All-in Sustaining Cash Cost per Silver Equivalent Oz <sup>(2)</sup></b>					
Zimapan Mine	18.54	15.60	17.08	20.19	18.34
Veta Grande Project	-	-	46.34	23.70	26.77
Rosario Project	42.07	38.61	34.02	26.30	38.25
<b>Consolidated</b>	<b>19.85</b>	<b>16.90</b>	<b>39.43</b>	<b>21.29</b>	<b>22.51</b>
<b>Average Realized Silver Price per Ounce <sup>(2)</sup></b>					
Zimapan Mine	21.01	16.47	16.38	16.85	17.51
Veta Grande Project	-	-	17.01	17.47	17.64
Rosario Project	24.08	16.89	16.38	17.40	17.65
<b>Consolidated</b>	<b>21.18</b>	<b>16.49</b>	<b>16.66</b>	<b>17.00</b>	<b>17.52</b>

<sup>(1)</sup> Silver equivalent ounces produced in 2020 have been calculated using prices of \$17.85/oz., \$1,480/oz., \$0.92/lb, \$1.09/lb and \$2.80/lb. for silver, gold, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the Veta Grande Project, Rosario Project and the leased Zimapan Mine. Operations at the Vets Grande Project were suspended in Q1 2020 and to date have not resumed. Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb, \$1.20/lb and \$2.92/lb for silver, gold, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the Veta Grande Project and the Rosario Project for all of 2019 as well as 50% and 100% of the metal content of the concentrates produced at the leased Zimapan Mine in Q3 and Q4 2019 respectively.

<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 concentrates sold from the Veta Grande Project, Rosario Project and Zimapan Mine respectively.

- (3) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "*Non-IFRS Measures*" section, below for definitions.
- (4) Amounts reported for the Zimapan Mine reflect the Company's proportionate interest in the mine which was 50% in Q3 2019 and 100% in Q4 2019 and thereafter.

### Operations Overview

Silver equivalent production for Q3 2020 increased by 3% to 977,678 ounces as compared to 952,826 ounces in Q3 2019. This increase is largely due to the inclusion of 100% of production from the Zimapan Mine during Q3 2020 of 920,985 silver equivalent ounces (2019 – 606,583 ounces from 50% of production) together with a 57% decrease in production at the Rosario Project and a suspension of operations at the Veta Grande Project in Q1 2020.

As referenced earlier in this MD&A, management's focus for 2020 is to return the Zimapan Mine operations to historical production levels and work towards concluding the acquisition of the mine and at the Rosario Project to further increase mill throughput tonnage from the improved level realized in October 2020 to 400 tpd by the end of Q4 2020 with the expectation this will result in positive cash flows from operations.

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 13% in Q3 2020 to \$43.06/t as compared to \$49.58/t in Q3 2019. This positive change in unit costs reflects primarily the suspension of mining activities at the Veta Grande Project, and a 5% decrease in unit costs at the Veta Grande Project. The consolidated cash cost of production increased 3% to \$7,606 while the tonnes of mineralized material processed increased by 19%.

As compared to the Q2 2020 unit costs, the Q3 2020 cash cost of production per tonne of mineralized material processed increased by 4%. This variance is due to a 3% increase in unit costs at the Zimapan mine and a 25% decrease in unit costs at the Rosario project. The consolidated cash cost of production increased 57% to \$7,606 while the tonnes of mineralized material processed increased by 51%.

### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 12% in Q3 2020 to \$18.38/oz as compared to \$16.35/oz in Q3 2019. This change in unit costs reflects the 34% increase at the Zimapan mine and a 27% increase in unit costs at the Rosario Project, offset by the suspension of mining activities at the Veta Grande Project.

As compared to Q2 2020 the Q3 2020 unit costs increased 21%. This change reflects an 21% increase in unit costs at both the Zimapan Mine and at the Rosario Project. The consolidated cash cost of sales for mining operations increased by 50% while the amount of silver equivalent payable ounces sold increased by 25%.

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

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 12% in Q3 2020 to \$19.85/oz as compared to \$22.51/oz in Q3 2019. As referenced above, this change in unit costs reflects the suspension of mining activities at the Veta Grande Project, offset by a 4% increase in unit costs at the Zimapan mine and a 10% increase in unit costs at the Rosario Project. The consolidated all-in sustaining cost for mining operations increased by 7% and there was a 22% increase in silver equivalent payable ounces sold.

As compared to Q2 2020 the Q3 2020 unit costs increased 17%. This change reflects a 19% increase in unit costs at the Zimapan Mine and a 9% increase at the Rosario Project. The consolidated all-in sustaining cost for mining operations increased by 46% with a 25% increase in silver equivalent payable ounces sold.

### **Zimapan Mine, Zimapan, Hidalgo, Mexico**

The Company's subsidiary, Carrizal Mining, has the right to operate the Zimapan Mine until December 31, 2020 under a mining lease agreement with Minera Cedros. Pursuant to the terms of the Zimapan Mine lease agreement, Carrizal Mining must make monthly payments to Minera Cedros based on 2% of the net smelter receipts from the concentrates produced by the Zimapan Mine for each respective month, subject to the minimum payment each month being \$45 and the maximum payment being \$60.

Production at the Zimapan Mine is not supported by a feasibility study on mineral reserves demonstrating economic and technical viability or any other independent economic study under NI 43-101. Accordingly, there is increased uncertainty and economic and technical risks of failure associated with production operations at the Zimapan Mine. Production and economic variables may vary considerably due to the absence of a complete and detailed site analysis in accordance with NI 43-101. There is no assurance that the Company will be successful in either negotiating any further extensions to the lease of the Zimapan Mine or acquiring outright the Zimapan Mine (including obtaining the necessary funding in connection with any such acquisition), and therefore there is a risk that the allocation to the Company of production from the Zimapan Mine will discontinue after December 31, 2020, which would result in a significant reduction to future production results as compared to the results contained in this MD&A. Any transaction to acquire the Zimapan Mine will be subject to receipt of all necessary regulatory approvals, including Santacruz obtaining the approval of the TSX-V.

### ***Zimapan Mine Production and Operating Results***

Presented in the table and disclosure below are production statistics and unit costs for the Zimapan Mine. An economic study under NI 43-101 has not been completed (see cautionary notes above). The production amounts reported for Q3 2019 reflect Santacruz's 50% proportionate interest of PCG during Q3 2019 and as a result are 50% of the Zimapan Mine production for that period. The production amounts reported for Q4 2019 reflect Santacruz's 100% proportionate interest of PCG during Q4 2019 and as a result are 100% of the Zimapan Mine production for that period.

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
Material Processed (tonnes milled) <sup>(4)</sup>	164,846	106,725	139,903	161,071	82,242
Silver Equivalent Produced (ounces) <sup>(1) (4)</sup>	920,985	639,021	829,514	996,032	606,583
Silver Equivalent Sold (payable ounces) <sup>(2) (4)</sup>	625,036	500,486	626,984	612,131	350,571
Production - Silver (ounces) <sup>(4)</sup>	282,760	181,836	245,344	248,953	151,464
- Lead (tonnes) <sup>(4)</sup>	1,048	692	913	695	463
- Zinc (tonnes) <sup>(4)</sup>	2,841	2,021	2,303	2,591	1,492
- Copper (tonnes) <sup>(4)</sup>	395	308	438	482	316
Average Grade - Silver (g/t)	73	75	77	72	75
- Lead (%)	0.72	0.72	0.73	0.51	0.59
- Zinc (%)	2.40	2.55	2.41	2.44	2.28
- Copper (%)	0.33	0.42	0.43	0.43	0.48
Metal Recovery - Silver (%)	72.3	72.9	71.3	66.1	75.5
- Lead (%)	88.8	89.3	89.1	84.4	95.6
- Zinc (%)	72.0	74.3	72.4	65.8	79.5
- Copper (%)	72.3	70.6	72.0	69.6	79.6
Cash Cost of Production per Tonne <sup>(3)</sup>	39.91	38.79	45.96	50.61	41.89
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	17.45	14.47	16.04	18.53	13.00
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	18.54	15.60	17.08	20.19	18.34
Average Realized Silver Price per Ounce (\$/oz) <sup>(2)</sup>	21.01	16.47	16.38	16.85	17.51

<sup>(1)</sup> Silver equivalent ounces produced in 2020 have been calculated using prices of \$17.85/oz., \$1,480/oz., \$0.92/lb, \$1.09/lb and \$2.80/lb. for silver, gold, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the leased Zimapan Mine.



- Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$0.94/lb, \$1.20/lb and \$2.92/lb for silver, lead, zinc and copper respectively applied to the metal content of the concentrates produced by the Zimapan Mine
- (2) Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to 50% and 100% respectively of the payable metal content of the lead, copper and zinc concentrates sold from the Zimapan Mine in Q3 and Q4 2019.
  - (3) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "*Non-IFRS Measures*" section for definitions.
  - (4) Amounts reflect Santacruz's 50% proportionate ownership of Carrizal Mining during Q3 and 100% proportionate interest during Q4 2019 and thereafter.
  - (5) The comparative figures for Q1 and Q2 2020 have been restated from the originally disclosed amounts based on an internal review of past metallurgical reporting practice and the adoption by management of new procedures designed to more accurately calculate the relevant data.

### Zimapan Operations Overview

Based on historical production records provided by Carrizal Mining to Santacruz the Zimapan Mine milling facility prior to 2019 operated at a rate of 60,000 tonnes to 65,000 processed per month based on 26 operating days per month, processing mineralized material with head grades and metal recoveries in line with current values. During 2019 the milling facility operated at a rate of 50,000 to 57,000 tonnes per month. The decreased production is primarily the result of decreased availability of certain mine production equipment. This situation has been addressed by management in October 2020 with the addition of new underground mining equipment which had an immediate positive impact on production rates. Production is expected to continue to increase throughout Q4 2020 back to historical levels by the end of Q4 2020.

On April 21, 2020, in response to the global Covid-19 pandemic, the Company temporarily suspended its mine, mill and exploration activities at the Zimapan Mine in Zimapan, Hidalgo, Mexico. The suspension of operations was strictly proactive as no cases of Covid-19 had been documented at the Zimapan mine.

On May 19, 2020, the Mexican government authorized the resumption of non-essential activities in municipalities that present low or no known cases of transmission of the SARS-CoV-2 virus, subject to criteria defined by the Secretariat of Health. The municipality of Zimapan, Hidalgo State, Mexico was classified as a low risk municipality. The Zimapan Mine resumed operations in May 2020.

### Zimapan Production

As compared to Q3 2019, the Zimapan Mine silver equivalent production in Q3 2020 increased by 52%. The increase is due to the company increasing its ownership of the Zimapan mine from 50% to 100% in October 2019.

Compared to Q2 2020, Q3 2020 silver equivalent production increased 44% to 920,985 from 639,021. In Q2 2020 unit costs were negatively impacted by the suspension of mining operations from mid-April to mid-May due to operating precautions related to the Covid-19 pandemic. As referenced above, in October 2020 production levels increased after the addition of new underground mining equipment and production rates are expected to increase further in Q4 2020.

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 5% in Q3 2020 to \$39.91/t as compared to \$41.89/t in Q3 2019. This resulted from a 91% increase in the cash cost of production while the tonnes of mineralized material processed increased by 100%, all due to the Company's ownership interest increasing in the Zimapan Mine from 50% in Q3 2019 to 100% in Q3 2020.

Compared to Q2 2020, the cash cost of production per tonne of mineralized material processed decreased by 3% in Q3 2020 to \$39.91/t as compared to \$38.79/t. This represents a 59% increase in the cash cost of production while the tonnes of mineralized material processed increased by 54%.

### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased 11% compared to Q3 2019. This resulted from a 98% increase in the cash cost of sales while the silver equivalent payable ounces produced increased by 78%, all due to the Company's ownership interest increasing in the Zimapan Mine from 50% in Q3 2019 to 100% in Q3 2020.

Compared to Q2 2020, the cash cost of production per silver equivalent ounce sold increased by 21% to \$17.45/oz as compared to \$14.47/oz in Q2 2020. This change in unit costs reflects a 51% increase in cash cost of sales and a 25% increase in silver equivalent payable ounces produced.

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

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 1% in Q3 2020 to \$18.54/oz as compared to \$18.34/oz in Q3 2019. This resulted from an 80% increase in the cash cost of sales while the silver equivalent payable ounces produced increased by 78%, all due to the Company's ownership interest increasing in the Zimapan Mine from 50% in Q3 2019 to 100% in Q3 2020.

Compared to Q2 2020, all-in sustaining cash cost of production per silver equivalent ounce sold increased by 19%. This change in unit costs reflects an 48% increase in cash cost of sales offset by a 25% increase in silver equivalent payable ounces produced.

As previously referenced Q3 unit costs were negatively impacted by the suspension of mining operations from mid-April to mid-May due to operating precautions related to the Covid-19 pandemic. As referenced above, in October 2020 production levels increased after the addition of new underground mining equipment and production rates are expected to increase further in Q4 2020.

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

The Rosario Project currently includes the Rosario Mine 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.

#### ***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

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
Material Processed (tonnes milled)	11,794	10,074	17,497	22,972	22,048
Silver Equivalent Produced (ounces) <sup>(1) (4)</sup>	56,693	70,744	73,251	134,523	131,961
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	36,628	30,018	61,111	80,531	65,139
Production - Silver (ounces) <sup>(4)</sup>	21,363	34,198	29,324	43,106	43,020
- Gold (ounces) <sup>(4)</sup>	59	57	84	163	134
- Lead (tonnes) <sup>(4)</sup>	32	70	52	88	83
- Zinc (tonnes) <sup>(4)</sup>	200	178	231	379	383
Average Grade - Silver (g/t) <sup>(4)</sup>	66	113	63	64	65
- Gold (g/t) <sup>(4)</sup>	0.24	0.25	0.22	0.28	0.25
- Lead (%) <sup>(4)</sup>	0.31	0.77	0.36	0.41	0.40
- Zinc (%) <sup>(4)</sup>	2.06	2.04	1.78	2.02	2.04
Metal Recovery - Silver (%) <sup>(4)</sup>	85.9	93.2	82.4	90.6	93.2
- Gold (%) <sup>(4)</sup>	64.6	69.9	68.7	78.7	76.4
- Lead (%) <sup>(4)</sup>	86.3	89.4	82.0	88.9	94.4
- Zinc (%) <sup>(4)</sup>	82.3	86.7	73.9	77.1	85.0
Cash Cost of Production per Tonne <sup>(3)</sup>	87.08	69.49	79.61	57.15	82.10
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	34.13	28.15	28.47	19.87	27.96
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	42.07	38.61	34.02	26.30	38.25
Average Realized Silver Price per Ounce <sup>(2)</sup>	24.08	16.89	16.38	17.40	17.65

<sup>(1)</sup> Silver equivalent ounces produced in 2020 have been calculated using prices of \$17.85/oz., \$1,480/oz., \$0.92/lb and \$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the concentrates produced by the Rosario Project. Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project.

<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.

<sup>(4)</sup> The comparative figures for Q1 and Q2 2020 have been restated from the originally disclosed amounts based on an internal review of past metallurgical reporting practice and the adoption by management of new procedures designed to more accurately calculate the relevant data.

### Rosario Operations Overview

Operations at the Rosario Project in the first three quarters of 2020 were impacted by a lower than normal level of mining equipment availability and by reduced labour availability, primarily for underground mining operations. The reduced labour availability reflects management's concerns for the safety of those employees that were at high risk with respect to exposure to Covid-19. Accordingly, those employees were furloughed, reducing the underground mining work force. With respect to equipment availability, this matter has been addressed late in Q2 2020 with the procurement of two additional scooptrams. As reported by the Company in its news release of November 18, 2020 mill throughput increased at the Rosario Project increased to an average of approximately 200 tpd for the month of October and a further increase is expected during the remainder of Q4 2020.

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

### Rosario Production

Production at the Rosario Project, all from the Membrillo Prospect, decreased 47% in Q3 2020 as compared to Q3 2019 for the reasons referenced above.

As compared to Q2 2020, production increased by 17% in Q3 2020. As referenced above, mill throughput increased at the Rosario Project to an average of approximately 200 tpd for the month of October and a further increase is expected during the remainder of Q4 2020.

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 6% in Q3 2020 to \$87.08/t as compared to \$82.10/t in Q3 2019. This change reflects an 43% decrease in cash cost of production offset by a 47% decrease in tonnes milled on a quarter over quarter basis. The reasons for both of these changes are as referenced earlier.

As compared to Q2 2020 the Q3 2020 unit costs increased by 25% to \$87.08/t. This change reflects a 47% increase in cash cost of production and a 17% increase in tonnes milled on a quarter over quarter basis. As referenced above mill throughput is expected to increase in Q4 2020.

### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 27% in Q3 2020 to \$34.13/oz as compared to \$26.92/oz in Q3 2019. This change in unit costs reflects in part a 36% decrease in cash cost of sales offset by a 49% decrease in silver equivalent payable ounces sold. The reasons for these changes are as referenced earlier.

As compared to Q2 2020 the Q3 2020 unit costs increased 21%. This change in unit costs reflects in part a 48% increase in cash cost of sales offset by a 22% increase in silver equivalent payable ounces sold.

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

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 10% in Q3 2020 to \$42.07/oz as compared to \$38.25/oz in Q3 2019. This change in unit costs reflects in part a 44% decrease in cash cost of sales offset by a 49% decrease in silver equivalent payable ounces sold. The reasons for these changes are as referenced earlier.

As compared to Q2 2020 the Q3 2020 all-in sustaining unit costs increased 9%. The cash cost of sales increased 33% while the amount of silver equivalent payable ounces sold increased by 22%.

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

### ***Transaction with Contracuña and Carrizal LOI***

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

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

1. \$500 on December 13, 2017 (paid);
2. \$750 on or before December 13, 2018 (\$526 unpaid);
3. \$3,000 on or before December 2, 2019 (unpaid);
4. \$3,000 on or before December 2, 2020;
5. \$4,000 on or before December 2, 2021; and
6. \$4,250 on or before December 2, 2022;

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

The Company is not in compliance with the terms of the Contracuña Option Agreement but Contracuña has not filed a Notice of Default to date. The Company and Contracuña are in discussions with respect to restructuring the terms of the Contracuña Option Agreement.

On November 30, 2017 the Company entered into a binding Letter of Intent (the “Carrizal LOI”) wherein the Company granted Carrizal Mining the right to earn a 20% working interest in the Zacatecas Properties and the Veta Grande Project (collectively the “Properties”). On May 22, 2019, the Company announced that Carrizal Mining had earned a 20% working interest in the Properties pursuant to the terms of the Carrizal LOI.

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

	2020			2019	
	Q3 <sup>(4)</sup>	Q2 <sup>(4)</sup>	Q1	Q4	Q3
Material Processed (tonnes milled)	-	-	11,095	36,111	43,999
Silver Equivalent Produced (ounces) <sup>(1)</sup>	-	-	64,870	193,748	214,282
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	-	-	47,854	112,806	114,705
Production - Silver (ounces)	-	-	22,089	53,615	62,394
- Gold (ounces)	-	-	47	116	139
- Lead (tonnes)	-	-	120	277	370
- Zinc (tonnes)	-	-	188	534	519
Average Grade - Silver (g/t)	-	-	85.72	102	99
- Gold (g/t)	-	-	0.22	0.24	0.24
- Lead (%)	-	-	1.15	1.27	1.45
- Zinc (%)	-	-	2.07	2.23	2.11
Metal Recovery - Silver (%)	-	-	72.2	45.1	44.6
- Gold (%)	-	-	59.0	42.0	40.2
- Lead (%)	-	-	94.0	59.3	58.0
- Zinc (%)	-	-	81.8	56.2	56.0
Cash Cost of Production per Tonne <sup>(3)</sup>	-	-	148.36	49.06	47.67
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	-	-	39.52	19.11	19.79
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	-	-	46.34	23.70	26.77
Average Realized Silver Price per Ounce (\$/oz) <sup>(2)</sup>	-	-	17.01	17.47	17.64

<sup>(1)</sup> Silver equivalent ounces produced in 2020 have been calculated using prices of \$17.85/oz., \$1,480/oz., \$0.92/lb and \$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the concentrates produced by the Veta Grande Project. Silver equivalent ounces produced in 2019 have been calculated using prices of \$15.25/oz., \$1,281/oz., \$0.94/lb and \$1.20/lb for silver, gold, lead and zinc respectively applied to the metal content of the 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.

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

(4) Production was suspended at the Veta Grande Project in Q1 2020 and to date has not recommenced.

#### Veta Grande Operations Overview

In March 2020 the Company suspended operations at the Veta Grande Project in order to facilitate capital upgrades to the processing plant and tailings storage facility. Prior to commencing such capital upgrades the Company needs to restructure the terms of the Contracuña Option Agreement. Discussions are ongoing between the parties with respect to this matter. Given the uncertainty as to the outcome of these discussions the Company is unable to project if or when operations will resume at the Veta Grande Project. In connection with this matter and other impairment indicators, the Company recorded an impairment charge of \$12,202 against the Veta Grande Project in Q4 2019.

In view of the current suspension of activities at the Veta Grande Project the Company has determined to not provide any comparison of unit production or results of operations to prior periods as all such comparisons are significantly impacted by suspension of activities making a comparison meaningless.

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

#### **Resource and Exploration Properties**

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

A copy of the Technical Report can be found on SEDAR or on the Company's website, [www.santacruzsilver.com](http://www.santacruzsilver.com).

#### **Qualified Persons**

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

**Financial Results**  
**Review of Operations**

	2020		2019
	Q3	Q2	Q3
<b>Revenue</b>			
Mining operations	9,437	5,939	11,439
Mining services	-	-	293
	9,437	5,939	11,732
<b>Cost of sales</b>			
Cash cost of sales - mining operations	7,920	4,884	11,090
Depletion and amortization	258	259	540
	8,178	5,143	11,630
<b>Gross profit (loss)</b>	1,259	796	102
<b>Operating expenses</b>			
Administrative	(101)	(263)	(407)
Management and consulting fees	(235)	(53)	(136)
Share-based payments	(59)	(76)	(240)
Professional fees	(85)	(161)	(343)
Concentrate Shipping costs	(553)	(289)	(84)
Other	(134)	(201)	(139)
	(1,167)	(1,043)	(1,349)
<b>Forgiveness of debt</b>	-	412	-
<b>Interest earned and other finance income</b>			
Interest earned and other	-	-	68
IVA recovery inflationary gain	37	-	160
Foreign exchange gain	637	-	45
	674	-	273
<b>Interest expense and other finance expenses</b>			
Accretion of decommissioning and restoration provision	(13)	(13)	(21)
Foreign exchange loss	(705)	(565)	-
Carrying charges and finance charges on loans payable	(7)	-	(61)
Interest expense on loans payable	(140)	(156)	(82)
Other interest expense	-	-	-
Financing charge on leases	(23)	(29)	(10)
	(888)	(763)	(174)
Income tax recovery (expense)	(41)	(38)	(284)
<b>Net loss for the period</b>	(163)	(636)	(1,432)

Three months ended September 30, 2020

The Company recorded a net loss of \$163 (\$0.00 per share) for the three-month period ended September 30, 2020 compared to a net loss of \$1,432 (\$0.01 loss per share) for the same period in 2019.

Revenues in Q3 2020 of \$9,437 arose entirely from mining operations whereas in Q3 2019 \$11,439 was generated by mining operations and \$293 by mining services. Individually the Zimapan Mine and Rosario Project generated respectively 93% and 7% of revenues in Q3 2020 as compared to 74%, 16% and 10% respectively in Q3 2019 at the Zimapan Mine, Veta Grande Project and Rosario Project. As referenced earlier, mining operations at the Veta

Grande Project were suspended in order to facilitate capital upgrades to the processing plant and tailings storage facility. Prior to commencing such capital upgrades the Company needs to restructure the terms of the Contracuña Option Agreement. Discussions are ongoing between the parties with respect to this matter. Given the uncertainty as to the outcome of these discussions the Company is unable to project if or when operations will resume at the Veta Grande Project.

Cash cost of sales in 2020 includes direct mining operations costs of \$7,920 (2019 - \$11,090). The decrease in mining operations cash cost of sales is virtually all related to the decrease in production at the Rosario Project and the suspension of operations at the Veta Grande Project.

During Q3 2020 the Company recorded operating expenses of \$1,167 (2019 - \$1,349). Operating expenses decreased mainly due to the decrease in administrative, professional fees and share-based payments during the period.

#### Nine months ended September 30, 2020

The Company recorded a net loss of \$886 (\$0.00 loss per share) for the nine months ended September 30, 2020, compared to net loss of \$4,415 (\$0.03 loss per share) for the nine months ended September 30, 2019.

The Company recorded revenues of \$23,192 (2019 - \$19,147), mining operation cash cost of sales of \$22,226 (2019 - \$18,309), and amortization and depletion expenses of \$785 (2019 - \$999) for the nine months ended September 30, 2019 resulting in a gross loss from operations of \$2,920 (2019 - \$2,742).

#### **Summary of Quarterly Results**

(Expressed in thousands of US Dollars except per share amounts)	<b>THREE MONTHS ENDED</b>			
	<b>Sep 30, 2020</b>	<b>Jun 30, 2020</b>	<b>Mar 31, 2020</b>	<b>Dec 31, 2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues – Mining operations	9,437	5,939	7,816	9,964
Cost of sales – Mining operations	8,178	5,143	9,690	11,514
Administrative expenses	1,167	1,043	1,303	2,030
Net loss <sup>(2)(3)</sup>	(163)	(636)	(87)	(16,017)
Net (loss) income per share <sup>(1)</sup>	(0.00)	(0.00)	(0.00)	(0.08)
	<b>THREE MONTHS ENDED</b>			
	<b>Sep 30, 2019</b>	<b>Jun 30, 2019</b>	<b>Mar 31, 2019</b>	<b>Dec 31, 2018</b>
Revenues – Mining operations	11,439	3,247	2,490	1,258
Revenues – Mining services	293	888	790	1,466
Cost of sales – Mining operations	11,630	3,884	3,794	4,880
Cost of sales – Mining services	1,349	-	-	-
Administrative expenses	(1,432)	605	627	406
Net (loss) income	(0.01)	(1,137)	(1,846)	(4,240)
Net (loss) income per share <sup>(1)</sup>	11,439	(0.01)	(0.01)	(0.03)

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

(2) The Q3 2020, Q2 2020, Q1 2020, Q4 2019 and Q3 2019 revenues and cost of sales from mining operations increased significantly as a result of including 100% of the Zimapan Mine revenues and cost of sales in the Company's accounts in Q1, Q2 and Q3 2020 and Q4 2019 and 50% in Q3 2019 respectively.

(3) The Q4 2019 net loss includes an impairment charge of \$12,202 against the Veta Grande Project.



## Non-IFRS Measures

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

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

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

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

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

### *Zimapan Mine*

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Cash cost of sales <sup>(1)</sup>	6,760	4,097	6,321	8,264	3,610
Inventory change <sup>(1)</sup>	(181)	43	109	(113)	(165)
<b>Cash Cost of Production<sup>(1)</sup> (A)</b>	<b>6,579</b>	<b>4,140</b>	<b>6,430</b>	<b>8,151</b>	<b>3,445</b>
Cash cost of sales <sup>(1)</sup>	6,760	4,097	6,321	8,264	3,610
Concentrate treatment, smelting and refining cost <sup>(1)</sup>	4,150	3,147	3,738	3,079	1,895
<b>Cash Cost of Silver Equivalent Sold<sup>(1)</sup> (B)</b>	<b>10,910</b>	<b>7,244</b>	<b>10,059</b>	<b>11,343</b>	<b>5,505</b>
Material processed (tonnes milled) <sup>(1)</sup> (C)	164,846	106,725	139,903	161,071	82,242
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>39.91</b>	<b>38.79</b>	<b>45.96</b>	<b>50.61</b>	<b>41.89</b>
Silver Equivalent Sold (payable ounces) <sup>(1)</sup> (D)	625,036	500,486	626,984	612,131	350,571
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>17.45</b>	<b>14.47</b>	<b>16.04</b>	<b>18.53</b>	<b>15.70</b>

<sup>(1)</sup> The Q3 2020, Q2 2020, Q1 2020 and Q4 2019 amounts reflect Santacruz's 100% proportional ownership of Carrizal Mining while the Q3 2019 amounts reflect Santacruz's respective 50% proportional ownership of Carrizal Mining during that period.

### **Rosario Project**

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
Cash cost of sales	1,010	682	1,437	1,326	1,773
Inventory change	17	18	(44)	(13)	37
<b>Cash Cost of Production (A)</b>	<b>1,027</b>	<b>700</b>	<b>1,393</b>	<b>1,313</b>	<b>1,810</b>
Cash cost of sales	1,010	682	1,437	1,325	1,773
Concentrate treatment, smelting and refining cost	240	163	303	275	48
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>1,250</b>	<b>845</b>	<b>1,740</b>	<b>1,600</b>	<b>1,821</b>
Material processed (tonnes milled) (C)	11,794	10,074	17,497	22,972	22,048
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>87.08</b>	<b>69.49</b>	<b>79.61</b>	<b>57.15</b>	<b>82.10</b>
Silver Equivalent Sold (payable ounces) (D)	36,628	30,018	61,111	80,531	65,139
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>34.13</b>	<b>28.15</b>	<b>28.47</b>	<b>19.87</b>	<b>27.96</b>

### **Veta Grande Project**

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
Cash cost of sales	-	-	1,664	1,788	2,096
Inventory change	-	-	(18)	(16)	1
<b>Cash Cost of Production (A)</b>	<b>-</b>	<b>-</b>	<b>1,646</b>	<b>1,772</b>	<b>2,097</b>
Cash cost of sales	-	-	1,664	1,788	2,096
Concentrate treatment, smelting and refining cost	-	-	228	368	174
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>-</b>	<b>-</b>	<b>1,892</b>	<b>2,156</b>	<b>2,270</b>
Material processed (tonnes milled) (C)	-	-	11,095	36,111	43,999
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>-</b>	<b>-</b>	<b>148.36</b>	<b>49.06</b>	<b>47.67</b>
Silver Equivalent Sold (payable ounces) (D)	-	-	47,854	112,806	114,705
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>-</b>	<b>-</b>	<b>39.52</b>	<b>19.11</b>	<b>19.79</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 September 2013. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures.

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

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

AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures, corporate general and administrative expense, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total sustainable costs of producing silver from current operations and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production

from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

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

### ***Zimapan Mine***

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
Cash cost of sales <sup>(1)</sup>	6,760	4,097	6,321	8,264	3,610
Concentrate treatment, smelting and refining cost <sup>(1)</sup>	4,150	3,147	3,738	3,079	2046
Deferred ramp expenditures <sup>(1)</sup>	-	-	-	-	-
General and administrative expenses <sup>(1)</sup>	681	565	652	1,015	774
<b>All-in Sustaining Cost</b>	<b>11,591</b>	<b>7,809</b>	<b>10,711</b>	<b>12,358</b>	<b>6,430</b>
Silver Equivalent Sold (payable ounces) <sup>(1)</sup>	625,036	500,486	626,984	612,131	350,571
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	<b>18.54</b>	<b>15.60</b>	<b>17.08</b>	<b>20.19</b>	<b>18.34</b>

<sup>(1)</sup> The Q3 2020, Q2 2020, Q1 2020 and Q4 2019 amounts reflect Santacruz's 100% proportional ownership of Carrizal Mining while the Q3 2019 amounts reflect Santacruz's respective 50% proportional ownership of Carrizal Mining during that period.

### ***Rosario Project***

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
Cash cost of sales	1,010	682	1,437	1,326	1,773
Concentrate treatment, smelting and refining cost	240	163	303	275	178
Deferred ramp expenditures	-	-	-	-	126
General and administrative expenses	278	301	326	508	674
Accretion of decommissioning and restoration provision	13	13	13	10	21
<b>All-in Sustaining Cost</b>	<b>1,541</b>	<b>1,159</b>	<b>2,079</b>	<b>2,119</b>	<b>2,772</b>
Silver Equivalent Sold (payable ounces)	36,628	30,018	61,111	80,531	72,473
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	<b>42.07</b>	<b>38.61</b>	<b>34.02</b>	<b>26.30</b>	<b>38.25</b>

### ***Veta Grande Project***

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
Cash cost of sales	-	-	1,664	1,788	2,096
Concentrate treatment, smelting and refining cost	-	-	228	369	174
Deferred ramp expenditures	-	-	-	-	126
General and administrative expenses	-	-	326	516	675
<b>All-in Sustaining Cost</b>	<b>-</b>	<b>-</b>	<b>2,218</b>	<b>2,673</b>	<b>3,071</b>
Silver Equivalent Sold (payable ounces)	-	-	47,854	112,806	114,705
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	<b>-</b>	<b>-</b>	<b>46.34</b>	<b>23.70</b>	<b>26.77</b>

### ***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.

### Zimapan Mine

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenues <sup>(2)</sup>	8,982	5,096	6,532	7,235	4,244
Add back: Treatment, smelting and refining charges <sup>(2)</sup>	4,150	3,147	3,738	3,079	1,895
<b>Gross Revenues<sup>(2)</sup></b>	<b>13,132</b>	<b>8,243</b>	<b>10,270</b>	<b>10,314</b>	<b>6,139</b>
Silver Equivalent Sold (ounces) <sup>(2)</sup>	625,036	500,486	626,984	612,131	350,571
<b>Avg Realized Price per Ounce of Silver Equivalent Sold</b>	<b>21.01</b>	<b>16.47</b>	<b>16.38</b>	<b>16.85</b>	<b>17.51</b>
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	<b>24.39</b>	<b>16.33</b>	<b>16.94</b>	<b>17.30</b>	<b>17.02</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.
- <sup>(2)</sup> The Q3 2020, Q2 2020, Q1 2020 and Q4 2019 amounts reflect Santacruz's 100% proportional ownership of Carrizal Mining while the Q3 2019 amounts reflect Santacruz's respective 50% proportional ownership of Carrizal Mining during that period.

### Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenues	642	344	698	1,127	1,102
Add back: Treatment, smelting and refining charges	240	163	303	274	48
<b>Gross Revenues</b>	<b>882</b>	<b>507</b>	<b>1001</b>	<b>1,401</b>	<b>1,150</b>
Silver Equivalent Sold (ounces)	36,628	30,018	61,111	80,531	65,139
<b>Avg Realized Price per Ounce of Silver Equivalent Sold<sup>(1)</sup></b>	<b>24.08</b>	<b>16.89</b>	<b>16.38</b>	<b>17.40</b>	<b>17.65</b>
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	<b>24.39</b>	<b>16.33</b>	<b>16.94</b>	<b>17.30</b>	<b>17.02</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.

### Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenues	-	-	586	1,602	1,850
Add back: Treatment, smelting and refining charges	-	-	228	369	174
<b>Gross Revenues</b>	<b>-</b>	<b>-</b>	<b>814</b>	<b>1,971</b>	<b>2,024</b>
Silver Equivalent Sold (ounces)	-	-	47,854	112,806	114,705
<b>Avg Realized Price per Ounce of Silver Equivalent Sold<sup>(1)</sup></b>	<b>-</b>	<b>-</b>	<b>17.01</b>	<b>17.47</b>	<b>17.64</b>
<b>Avg Market Price per Ounce of Silver per London Silver Fix<sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>17.94</b>	<b>17.30</b>	<b>17.02</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.
- <sup>(2)</sup> The average market price per ounce of silver for Q1 2020 at Veta Grande has been calculated for the January and February periods only as no production occurred during March.

### 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 Gross Profit (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 gross profit (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 2019 Q2, Q3 and Q4 periods and 2020 Q1 and Q2 periods to the respective financial statements.

	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>
<b>Net loss for the period as reported</b>	(163)	(636)	(87)	(16,017)	(1,432)
Income tax expense (recovery)	41	38	(15)	(410)	284
Interest earned and other finance income and gain on the settlement of debt	(37)	-	(58)	(37)	(228)
Interest expense and other finance expenses	23	29	23	213	10
Carrying charges and finance charges on loan payable	7	-	234	153	61
Interest expense on loan payable	140	156	79	77	82
Accretion expense	13	13	13	19	21
Amortization and depletion of mineral properties, plant and equipment	258	259	268	138	542
<b>EBITDA</b>	<b>282</b>	<b>(141)</b>	<b>457</b>	<b>(15,864)</b>	<b>(660)</b>
Impairment of exploration and evaluation properties	-	-	-	12,202	-
Forgiveness of debt	-	(412)	-	-	-
Foreign exchange	705	565	(3,366)	220	(45)
<b>Adjusted EBITDA</b>	<b>987</b>	<b>12</b>	<b>(2,909)</b>	<b>(3,442)</b>	<b>(705)</b>

### **Financing Transactions**

#### ***Private Placement***

On October 7 and October 15, 2020 the Company completed in two tranches a private placement in the aggregate amount of 45,427,463 units (the "Units") for gross proceeds of approximately CDN\$10,000 (US\$7,540). Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at a price of C\$0.30 per share for a period of 36 months following the issue of the Warrant. The funds are expected to be used for the purchase of underground mining equipment at the Zimapan Mine as well as for general working capital and corporate purposes.

#### ***Trafigura Credit Facility***

On July 11, 2019, the Company entered into a short-term credit facility (the "Trafigura Facility") with Trafigura Mexico, S.A. de C.V. ("Trafigura") in the amount of \$1,500. The funds were advanced to the Company on May 31, 2019 and June 19, 2019. The principal was to be repaid on October 11, 2019. As part of the terms of the Trafigura Facility, the Company was obligated to pay \$100 in finance charges (the "Finance Charges") and interest expense

related to the structuring of the loan on October 11, 2019. On October 12, 2019, the Trafigura Facility was amended. The amended payment schedule is for 15 months beginning in December 2019 for an amount of \$100 per month. The Trafigura Facility is secured on certain of the Carrizal Mining mine equipment.

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

- the Finance Charges were waived and the \$100 payment made for such has been applied to the principal balance borrowed, reducing the outstanding balance to \$1,400;
- Trafigura agreed to advance an additional \$1,200 under the facility, which were advanced to the Company on or before April 20, 2020, bringing the new principal balance to \$2,600 (the “2020 Facility”); and
- The 2020 Facility is to be repaid in 12 equal monthly installments of \$217 commencing August 31, 2020 and bears interest at LIBOR plus 7%, payable monthly.

The 2020 Facility is secured on certain of the Carrizal Mining mine equipment. The balance outstanding at September 30, 2020 was \$2,542.

### ***MineCo Loan***

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

On July 2, 2018, the Company reached an agreement with MineCo to extend the repayment date of the MineCo Loan to October 1, 2018. As consideration for receiving the debt repayment date extension, the Company agreed to increase the interest rate to 12% effective July 1, 2018. In addition, the Company agreed to increase the number of Warrants to 2,500,000 at an exercise price of CAD\$0.16, and to extend the expiry date to March 6, 2020.

On October 2, 2019, the Company and MineCo agreed to further extend the repayment date of the MineCo Loan to January 30, 2020. In 2020, the Company and MineCo further extended the repayment date to March 31, 2020.

The MineCo Loan is unsecured. The balance outstanding at September 30, 2020 was \$3,002.

### ***Banco Base Loan 1***

On August 15, 2018, the Company entered into a short-term loan with Banco Base (“Banco Base Loan 1”). Funds may be drawn down under the Banco Base Loan 1 either in US dollars or Mexican pesos.

Funds drawn down must be repaid within a maximum of 15 business days following the drawdown date. Funds drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of \$600 or the equivalent amount in Mexican pesos. The Company repays the loan in full within a maximum of 15 business days, and upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Banco Base Loan 1. The Banco Base Loan 1 is unsecured and the imputed carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates were approximately 34% per annum. The balance outstanding at September 30, 2020 was \$690 which was repaid in full in October 2020.

### ***Banco Base Loan 2***

On July 1, 2019 a Banco Base loan was acquired in the Carrizal Mining Acquisition (“Banco Base Loan 2”). Funds may be drawn down under the Banco Base Loan 2 either in US dollars or Mexican pesos.

Funds drawn down must be repaid within a maximum of 15 business days following the drawdown date. Funds

drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of \$400 or the equivalent amount in Mexican pesos. The Company repays the loan in full within a maximum of 15 business days, and upon repayment of any particular draw down amount the Company may borrow the same amount immediately as a new draw under the Banco Base Loan 2. The Banco Base Loan 2 is unsecured and the imputed carrying charges that are tied to the spread between the US dollar and Mexican peso foreign exchange rates were approximately 20% per annum. The balance outstanding at September 30, 2020 was \$248 which was repaid in full in October 2020.

#### ***Private Credit Facility***

On September 30, 2019, 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 21 business days following the drawdown date. Funds drawn down in US dollars must be repaid in Mexican pesos and vice-versa. Drawdown amounts are limited to a maximum of \$600 or the equivalent amount in Mexican pesos 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. The balance outstanding at September 30, 2020 was \$100.

#### ***Swap Facility***

On September 30, 2019, the Company entered into a credit facility (the “Swap Facility”) with a private Mexican financial institution.

Funds are drawn down under the Credit Facility in Mexican pesos. Funds drawn down must be repaid within 45 business days following the drawdown date. Funds drawn down must be repaid in US dollars. Drawdown amounts are limited to a maximum of \$3,000,000 Mexican pesos. 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 are tied to the spread between the US dollar and Mexican peso foreign exchange rates.

The balance outstanding at September 30, 2020 was \$114.

#### **Capital Expenditures**

The Company incurred capital expenditures of \$308 during the nine months ended September 30, 2020 related to the purchase of equipment.

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

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

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

As at September 30, 2020, the Company had a working capital deficiency of \$31,038 (December 31, 2019 - \$30,572) and an accumulated deficit of \$125,770 (December 31, 2019 - \$124,884). 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.

Subsequent to period end the Company completed a private placement in the aggregate amount of 45,427,463 units (the "Units") for gross proceeds of approximately CDN\$10,000 (US\$7,540). Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at a price of C\$0.30 per share for a period of 36 months following the issue of the Warrant.

### Transactions with Related Parties

During the three and nine months ended September 30, 2020 and 2019, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Mining Services</b>				
Revenues	-	293	-	1,971
Cost of sales	-	-	-	-
	-	293	-	1,971
<b>Expenses</b>				
Directors' fees	-	17	-	51
Management fees	105	123	315	303
	52	212	215	212

At September 30, 2020, directors and officers or their related companies were owed \$289 (December 31, 2019 – \$332) in respect of the services rendered. These are non-interest bearing with standard payment terms.

The Company entered into certain mining equipment leases expiring in 2020 with an interest rate between 6.5% and 10.5% per annum. \$nil of lease payments were paid during the nine months ended September 30, 2020 (2019 - \$nil) and \$368 of the leases payable outstanding at September 30, 2020 were owed to a company owned by the Chairman of the Company (December 31, 2019 - \$1,261). During the period ended September 30, 2020, the Company recorded a debt forgiveness of \$412 from the lease payments owing on this mining equipment.

Prior to completing the acquisition of Carrizal Mining, the Company and Carrizal Mining were related parties by virtue of having certain common directors. Accordingly, transactions arising between the parties under the Mine Services Agreement as well as the Carrizal Mining LOI were reported in 2019 as related party transactions.

Once Carrizal Mining was acquired any transactions between the parties are eliminated upon consolidation.

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.



## Financial Instruments

### a) Fair Value of Financial Instruments

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates;

Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

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

### b) Management of Risks Arising from Financial Instruments

The Company is exposed to credit risk and market risks including interest rate risk, liquidity risk, foreign exchange rate risk, and price risk.

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

**(ii) Interest Rate Risk** – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest costs. The sensitivity of the Company's net loss to changes in the interest rate would be as follows: a 1% change in the interest rate would change the Company's net loss by approximately \$79.

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

Contractual cash flow requirements as at September 30, 2020 were as follows:

	< 1 year \$	1 – 2 years \$	2 – 5 years \$	>5 years \$	Total \$
Accounts payable and accrued liabilities	32,086	-	-	-	32,086
Loan payable	6,696	-	-	-	6,696
Leases	1,124	23	20	-	1,167
<b>Total</b>	<b>39,906</b>	<b>23</b>	<b>20</b>	<b>-</b>	<b>39,949</b>

**(iv) Foreign Exchange Rate Risk** – The Company operates in Canada and Mexico and is exposed to foreign exchange risk due to fluctuations in the US dollar and Mexican peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company’s net loss to changes in the exchange rate between the US dollar and respectively the Mexican peso and the Canadian dollar would be as follows: a 1% change in the US dollar exchange rate relative to the Mexican peso would change the Company’s net income (loss) by approximately \$11 and a 1% change in the US dollar exchange rate relative to the Canadian dollar would change the Company’s net income (loss) by approximately \$8.

The Company’s financial assets and liabilities as at September 30, 2020 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

	Canadian dollar \$	US dollar \$	Mexican peso \$	Total \$
<b>Financial assets</b>				
Cash	466	81	788	1,335
Trade receivables	-	2,966	-	2,966
Other receivables	12	-	3,770	3,782
	478	3,047	4,558	8,083
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	660	7,242	24,184	32,086
Loans payable	-	6,696	-	6,696
	660	13,938	24,184	38,782
<b>Net financial liabilities</b>	<b>(182)</b>	<b>(10,891)</b>	<b>(19,626)</b>	<b>(30,699)</b>

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

### 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.

### New Standards and Interpretations Not Yet Adopted

There are no IFRS with future effective dates that are expected to have a material impact on the Company.

### Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of November 27, 2020 in the following table.

Issued and Outstanding Common Shares			259,306,664
	Expiry Date	Exercise Price (CDN\$)	
Options	February 10, 2021	0.15	1,100,000
	August 6, 2024	0.18	7,913,700
Warrants	February 25, 2021	0.18	5,837,917
	October 7, 2023	0.30	34,678,541
	October 15, 2023	0.30	13,497,052
Fully Diluted			322,333,874

### 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 2020 Q3 Financial Statements and this accompanying MD&A (together, the "Interim Filings").

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

### Risks and Uncertainties

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

Operational risks include: the Company may not be able to find and develop resources economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental laws and regulations, the Company may

have difficulty in hiring and retaining skilled employees and contractors, environmental hazards (including discharge of pollutants or hazardous chemicals), industrial accidents and occupational and health hazards, mechanical failures, the unavailability of materials and equipment, pit slope failures, unusual or unexpected rock formations, poor or unexpected geological or metallurgical conditions, poor or inadequate ventilation, failure of mine communication systems, poor water condition, interruptions to gas and electricity supplies, human error and adverse weather conditions. Operational risks also include the occurrence of a contagious disease outbreak (such as Covid-19) and any related adverse public health developments or adverse effect on global workforces, economies, and financial markets.

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).