



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2020

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the year ended December 31, 2020 prepared as of May 5, 2021, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2020 Annual Financial Statements**").

The above referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"). All dollar amounts are expressed in thousands of US dollars (US\$000's) unless otherwise indicated. Throughout this MD&A the terms first quarter, second quarter, third quarter, and fourth quarter are respectively used interchangeably with the terms Q1, Q2, Q3, and Q4.

### **Forward-Looking Statements**

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

Forward-looking information 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 Zimapan mine and related mineral concessions (the "**Zimapan Mine**"); the Santa Gargonia prospect ("Santa Gargonia Prospect") which is part of the Zimapan Mine concessions; and the Minillas property (the "**Minillas Property**" which is part of the Veta Grande Project); expectations regarding the continuity of mineral deposits; the Company's goals regarding raising capital and developing its projects; expected timing regarding installation of certain facilities on the Company's projects; the Company's proposed development and exploration plans for the Membrillo Prospect, and the Zimapan Mine; 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; 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 Zimapan Mine. The Company, through its 100% ownership of Carrizal Mining S.A. de C.V. ("Carrizal Mining"), had the right to operate the Zimapan Mine until June 30, 2021 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 April 2021 the Company purchased the Zimapan Mine from Minera Cedros for consideration of \$20,000 (plus applicable Mexican Value Added Tax of \$3,200). In addition, the Company holds two exploration properties in its mineral property portfolio, the Minillas Property and the Santa Gargonia Prospect.

On February 25, 2020, the Company raised gross proceeds of CDN\$734 from the sale of 6,117,917 units pursuant to a private placement.

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 resolving 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, comprising 149 mining concessions totaling approximately 7,826 ha (19,338 acres) including the Panuco Deposit, located on the Fresnillo Silver Belt, in Zacatecas State, Mexico for consideration of \$1,500 and the issuance of 5,000,000 common shares of Zacatecas Silver. This transaction was successfully completed on March 2, 2021.

On August 25, 2020, the Company filed an independent NI 43-101 Technical Report on the Zimapan Mine titled "Technical Report Zimapan Property Hidalgo Mexico"

On October 7, 2020 and October 15, 2020, the Company completed a private placement in two tranches in an aggregate amount of 45,427,463 units for gross proceeds of approximately CDN\$10,000 (US\$7,540).

On October 21, 2020, the Company's wholly owned subsidiary Carrizal Mining, was recognized by the Initiative for Responsible Mining Assurance ("IRMA") for Transparency after an audit for compliance against the IRMA Standard for Responsible Mining. Transparency is the first of four levels of IRMA's social and environmental performance system.

On April 13, 2021, the Company closed a private placement offering of 46,965,000 units of the Company for gross proceeds of CDN\$14,090. The proceeds from the offering were used by the Company in part to complement the acquisition of the Zimapan mine and in part for working capital and general corporate purposes.

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 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 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.

### **Management Change**

On July 15, 2020, Mr. Rob McMorran advised the Company that he was retiring and resigned from the office of Chief Financial Officer of the Company which he has held since the Company's formation in April 2012. Mr. McMorran will remain as an advisor to the Company's Board of Directors. Arturo Prestamo, Executive Chairman, has been appointed Interim CFO while the Company finds an appropriate candidate for this position.

### **Zimapan Mine Acquisition Agreement**

On July 28, 2020 the Company entered into a legally binding term sheet with Minera Cedros to acquire (the "Transaction") the Zimapan Mine for total consideration of \$20,000 (plus applicable Mexican Value Added Tax of \$3,200).

The Zimapan Mine at the time was under lease by Carrizal Mining.

On April 23, 2021, the Company completed the acquisition of the Zimapan Mine.

Assets 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 Mining 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 Mining 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.

Funding for the Transaction was arranged with Trafigura Mexico, S.A. de C.V. ("Trafigura") as to a \$17,600 loan facility (the "Trafigura Loan Facility") which included the recapitalization of \$2,600 of a prior loan arrangement, and as to \$5,000 from the Company's treasury. Pursuant to the terms of the Transaction the Company has until September 23, 2021 to pay Minera Cedros the outstanding Mexican Value Added Tax of \$3,200 owed in connection with the Transaction.

The Trafigura Loan Facility is for a period of 42 months at an annual interest rate of three-month LIBOR + 6.5% (currently approximately 7.5%), repayable in monthly instalments of principal plus accrued interest for the respective period. The Trafigura Loan Facility will be secured by a first charge over all Zimapan Mine assets and all other material assets owned by the Company and its subsidiaries. In addition, the Company has agreed to issue to Trafigura Mexico or an affiliate 28 million bonus warrants, each warrant exercisable into a Santacruz common share at \$0.395 per share, for a period of 12 months with respect to 26% of the warrants and 42 months with respect to 74% of the warrants, subject to the policies and approval of the TSXV. The Trafigura Loan Facility contains normal course liquidity and financial ratio covenants, among others.

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

## 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.

## 2020 Business Highlights

Selected operating and financial information for the three months and years ended December 31, 2020 and 2019 is presented below:

	Three months ended Dec 31,		Years ended Dec 31,	
	2020	2019	2020	2019
<b>Financial</b>				
Revenue – Mining Operations	9,905	9,964	33,097	27,140
Revenue – Mining Services	-	-	-	1,971
Gross Profit (Loss) <sup>(4)</sup>	807	(1,550)	988	(1,711)
Impairment	-	(12,202)	-	(12,202)
Net Loss	(607)	(16,017)	(1,493)	(20,432)
Net Loss Per Share – Basic (\$/share)	(0.00)	(0.08)	(0.01)	(0.11)
Adjusted EBITDA <sup>(4)</sup>	(3,536)	(3,442)	(5,446)	(5,181)
<b>Operating</b>				
Material Processed (tonnes milled)	201,585	220,154	663,519	469,292
Silver Equivalent Produced (ounces) <sup>(1)</sup>	1,000,242	1,324,303	3,655,320	2,829,453
Silver Equivalent Sold (payable ounces) <sup>(2)</sup>	662,475	805,468	2,590,592	1,831,191
Production Cost per Tonne <sup>(3)</sup>	50.06	51.03	48.24	54.97
Cash Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	23.04	18.75	18.93	18.34
All-in Sustaining Cost per Silver Equivalent (\$/oz.) <sup>(3)</sup>	24.41	21.29	21.30	21.55
Average Realized Silver Price per Ounce (\$/oz.) <sup>(3)(5)</sup>	24.05	17.00	19.53	16.75

<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 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 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.

- (4) The Company reports additional non-IFRS measures which include Gross Profit (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "*Non-IFRS Measures – Additional Information*" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the quarterly financial statements.
- (5) Average realized silver price per ounce is prior to all treatment, smelting and refining charges.

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

The Company's focus for 2021 will be:

- To return the Zimapan Mine operations to historical production levels and to steadily increase production from the Horizontes zone;
- At the Rosario Project to increase mill throughput tonnage with a revised target of ~ 320 tpd by mid-2021 at a higher head grade resulting from changing to horizontal mining of veins from vertical mining. The expectation is that this process will result in positive cash flows from operations;
- Commence an exploration campaign at the Santa Gargonia Prospect located within the Zimapan Mine mining concessions; and
- Resolve the status of the Option Agreement for Veta Grande in a manner that is acceptable to all parties.

The decisions to commence the production phase at the Rosario Mine 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 these decisions and production operations. See "General" above.

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.

## Review of Consolidated Operating Results

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
<b>Material Processed (tonnes milled) <sup>(5)</sup></b>				
Zimapan Mine	180,003	161,071	591,477	243,313
Rosario Project	21,582	22,972	60,947	76,088
Veta Grande Project	-	36,111	11,095	149,891
<b>Consolidated</b>	<b>201,585</b>	<b>220,154</b>	<b>663,519</b>	<b>469,292</b>
<b>Silver Equivalent Produced (ounces) <sup>(1) (5)</sup></b>				
Zimapan Mine	909,379	996,032	3,298,899	1,602,615
Rosario Project	90,863	134,523	291,551	465,576
Veta Grande Project	-	193,748	64,870	761,262
<b>Consolidated</b>	<b>1,000,242</b>	<b>1,324,303</b>	<b>3,655,320</b>	<b>2,829,453</b>
<b>Silver Equivalent Sold (payable ounces) <sup>(3) (5)</sup></b>				
Zimapan Mine	597,206	612,131	2,349,712	962,702
Rosario Project	65,269	80,531	193,026	351,680
Veta Grande Project	-	112,806	47,854	516,809
<b>Consolidated</b>	<b>662,475</b>	<b>805,468</b>	<b>2,590,592</b>	<b>1,831,191</b>
<b>Cash Cost of Production per Tonne <sup>(4) (5)</sup></b>				
Zimapan Mine	48.90	50.61	43.43	47.66
Rosario Project	59.68	57.15	72.33	75.28
Veta Grande Project	-	49.06	148.36	56.53
<b>Consolidated</b>	<b>50.06</b>	<b>51.03</b>	<b>48.24</b>	<b>54.97</b>
<b>Cash Cost per Silver Equivalent (\$/oz.) <sup>(4) (5)</sup></b>				
Zimapan Mine	23.21	18.53	17.79	17.50
Rosario Project	21.82	19.87	27.00	19.25
Veta Grande Project	-	19.11	39.54	19.28
<b>Consolidated</b>	<b>23.04</b>	<b>18.75</b>	<b>18.93</b>	<b>18.34</b>
<b>All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(4) (5)</sup></b>				
Zimapan Mine	24.95	20.19	19.03	19.36
Rosario Project	47.63	26.67	41.17	25.14
Veta Grande Project	-	23.70	46.35	23.20
<b>Consolidated</b>	<b>24.41</b>	<b>21.29</b>	<b>21.30</b>	<b>21.55</b>
<b>Average Realized Silver Price per Ounce (\$/oz) <sup>(4) (5)</sup></b>				
Zimapan Mine	23.98	16.85	19.46	17.20
Rosario Project	24.56	17.40	20.86	16.00
Veta Grande Project	-	17.47	17.01	16.11
<b>Consolidated</b>	<b>24.05</b>	<b>17.00</b>	<b>19.53</b>	<b>16.75</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 Zimapan Mine. Operations at the Veta 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 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.

<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> 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 in 2020 increased by 129% to 3,655,320 ounces as compared to 2,829,447 ounces in 2019. This increase is largely due to the inclusion of production from the Zimapan Mine during all of 2020 (2019 – 50% of production in Q3 and 100% in Q4) offset by a 37% 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 operations objectives for 2021 are:

- to return the Zimapan Mine operations to historical production levels and to begin and steadily increase production from the Horizontes zone; and
- at the Rosario Project to increase mill throughput tonnage with a revised target of ~ 320 tpd by mid-2021 at a higher head grade resulting from a change in mining method. The expectation is that this process will result in positive cash flows from operations;

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 12% in 2020 to \$48.24/t as compared to \$54.97/t in 2019. This positive change in unit costs reflects primarily the suspension of mining activities at the Veta Grande Project, and a 9% decrease in unit costs at the Zimapan Mine. The consolidated cash cost of production increased 24% to \$32,006 while the tonnes of mineralized material processed increased by 41%.

As compared to the Q4 2019 unit costs, the Q4 2020 cash cost of production per tonne of mineralized material processed decreased by 2%. This variance is due to a 3% decrease in unit costs at the Zimapan Mine and a 4% increase in unit costs at the Rosario project as well as a suspension of operations at the Veta Grande Project in Q1 2020. The consolidated cash cost of production decreased 10% to \$10,091 while the tonnes of mineralized material processed decreased by 8%.

### Cash Cost per Silver Equivalent Ounce

Cash cost of sales per silver equivalent ounce sold increased 3% in 2020 to \$18.93/oz as compared to \$18.34/oz in 2019. This result reflects a 40% increase in unit costs at the Rosario Project, offset by a 2% decrease at the Zimapan Mine and the suspension of mining activities at the Veta Grande Project. The consolidated cash cost of sales per silver equivalent ounce increased 44% to \$48,228 while the consolidated production of silver equivalent ounces sold increased by 39%.

As compared to Q4 2019 unit costs, the Q4 2020 unit costs increased 23%. This change reflects an 25% increase in unit costs at the Zimapan Mine and a 10% increase at the Rosario Project. The consolidated cash cost of sales decreased 5% while the amount of silver equivalent payable ounces sold decreased by 23%.

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

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 1% in 2020 to \$21.30/oz as compared to \$21.55/oz in 2019. As referenced above, this change in unit costs reflects the suspension of mining activities at the Veta Grande Project and a 2% decrease in unit costs at the Zimapan mine offset by an 64% increase in unit costs at the Rosario Project. The consolidated all-in sustaining cash cost of sales per silver equivalent ounce increased 37% to \$54,269 while the consolidated production of silver equivalent ounces sold increased by 41%.

As compared to Q4 2019 unit costs, the Q4 2020 unit costs increased 30%. This result reflects a 24% increase in unit costs at the Zimapan Mine and a 79% increase at the Rosario Project. The consolidated all-in sustaining cost for mining operations were virtually unchanged while there was a 23% decrease in silver equivalent payable ounces sold.



### Zimapan Mine, Zimapan, Hidalgo, Mexico

The Company's subsidiary, Carrizal Mining, had the right to operate the Zimapan Mine until June 30, 2021 under a mining lease agreement with Minera Cedros. Pursuant to the terms of the Zimapan Mine lease agreement, Carrizal Mining was required to 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. As noted elsewhere in this MD&A, Carrizal Mining acquired the Zimapan Mine in April 2021 pursuant to the Transaction.

### Zimapan Mine Production and Operating Results

Presented in the table and disclosure below are production statistics and unit costs for the Zimapan Mine. The production amounts reported for 2019 reflect Santacruz's 50% proportionate interest in PCG during Q3 2019 and 100% interest in Q4 2019.

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Material Processed (tonnes milled)	180,003	161,071	591,477	243,313
Silver Equivalent Produced (ounces) <sup>(1) (2)</sup>	909,379	996,032	3,298,899	1,602,615
Silver Equivalent Sold (payable ounces) <sup>(3)</sup>	597,206	612,131	2,349,712	962,702
Production - Silver (ounces) <sup>(2)</sup>	297,538	248,953	1,007,478	400,057
- Lead (tonnes) <sup>(2)</sup>	948	695	3,601	1,158
- Zinc (tonnes) <sup>(2)</sup>	2,711	2,591	10,016	4,083
- Copper (tonnes) <sup>(2)</sup>	402	482	1,543	798
Average Grade - Silver (g/t)	76	72	75	73
- Lead (%)	0.62	0.51	0.69	0.54
- Zinc (%)	2.20	2.44	2.37	2.39
- Copper (%)	0.32	0.43	0.37	0.45
Metal Recovery - Silver (%) <sup>(2)</sup>	67.4	66.4	70.4	69.9
- Lead (%) <sup>(2)</sup>	84.4	84.4	87.8	88.6
- Zinc (%) <sup>(2)</sup>	68.3	65.8	71.4	70.2
- Copper (%) <sup>(2)</sup>	69.5	69.6	70.7	73.2
Cash Cost of Production per Tonne <sup>(4)</sup>	23.21	50.61	43.43	47.66
Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	24.95	18.53	17.79	17.50
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	23.98	20.19	19.03	19.36

<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 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

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Amounts reflect Santacruz's 50% proportionate ownership of Carrizal Mining during Q3 and 100% proportionate interest during Q4 2019 and thereafter.

### Zimapan Operations Overview

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 at reduced production rates, gradually increasing production back to target levels.

As results for the Company for the year ended December 31, 2019 only included 50% of production from the Zimapan mine in Q3 2019 and 100% in Q4 2019, the Company has determined to not provide any comparison of annual unit production results or annual operations costs from 2019 to 2020 as the 100% inclusion for all of 2020 compared to a partial inclusion of production in 2019 would make such a comparison meaningless.

As such, the following discussions have been largely restricted to comparing Q4 2020 to Q4 2019.

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.

#### Zimapan Production

As compared to Q4 2019, the Q4 2020 silver equivalent production decreased 9% to 909,379 from 996,032. This negative change is entirely due to the difference in metal prices used in each respective period for calculating the respective silver equivalent ounces produced. Had the 2019 metal prices been used for the Q4 2020 production figures the Q4 2020 silver equivalent production would have increased by 7% as compared to Q4 2019.

#### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 3% in Q4 2020 to \$48.90/t as compared to \$50.61/t in Q4 2019. This resulted from an 8% increase in the cash cost of production while the tonnes of mineralized material processed increased by 12%.

#### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased 25% in Q4 2020 compared to Q4 2019. This resulted from a 12% increase in the cash cost of sales while the silver equivalent payable ounces produced decreased by 11%. The negative change in the silver equivalent payable ounces sold in Q4 2020 as compared to Q4 2019 is largely the result of the computation process for silver equivalent payable ounces sold being negatively impacted by the 141% (\$7/oz) increase in the realized price of silver on a comparative basis.

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

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 24% in Q4 2020 to \$24.95/oz as compared to \$20.19/oz in Q4 2019. This resulted from an 10% increase in the cash cost of sales while the silver equivalent payable ounces produced decreased by 11%. This negative change is largely for the same reasons as referenced above in the discussion regarding cash cost of silver equivalent ounces sold.

### **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***

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Material Processed (tonnes milled)	21,582	22,972	60,947	76,088
Silver Equivalent Produced (ounces) <sup>(1) (2)</sup>	90,863	134,523	291,551	465,576
Silver Equivalent Sold (payable ounces) <sup>(3)</sup>	65,269	80,531	193,026	351,680
Production - Silver (ounces) <sup>(2)</sup>	43,350	43,106	128,235	149,687
- Gold (ounces) <sup>(2)</sup>	77	163	277	508
- Lead (tonnes) <sup>(2)</sup>	73	88	226	287
- Zinc (tonnes) <sup>(2)</sup>	244	379	852	1,350
Average Grade - Silver (g/t)	71	64	75	65
- Gold (g/t)	0.18	0.28	0.21	0.27
- Lead (%)	0.38	0.41	0.43	0.40
- Zinc (%)	1.40	2.02	1.74	2.09
Metal Recovery - Silver (%) <sup>(2)</sup>	87.5	90.6	87.4	93.4
- Gold (%) <sup>(2)</sup>	62.4	78.7	66.1	76.8
- Lead (%) <sup>(2)</sup>	88.5	93.6	86.9	94.2
- Zinc (%) <sup>(2)</sup>	80.9	81.9	80.3	85.0
Cash Cost of Production per Tonne <sup>(4)</sup>	59.68	57.15	72.33	75.28
Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	21.82	19.87	27.00	19.25
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	27.67	26.67	41.17	25.14

<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 during 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 workforce. With respect to equipment availability, this matter was addressed at the beginning of Q3 2020 with the procurement of two additional scooptrams. Silver production during Q4 2020 increased by 103% as compared to Q3 2020 and silver equivalent production increased by 60%.

Management is continuing to seek cost savings measures and on the technical side has changed to horizontal mining on the veins from previously mining the veins vertically with a view to realizing better dilution control.

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

Silver equivalent ounces produced at the Rosario Project, all from the Membrillo Prospect, decreased 37% in 2020 as compared to 2019 for the reasons referenced above.

As compared to Q4 2019, silver equivalent ounces produced decreased by 32% in Q4 2020. As referenced above, mill throughput increased at the Rosario Project to an average of approximately 200 tpd for the month of October and throughout Q4 2020.

### Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 4% in 2020 to \$72.33/t as compared to \$75.28/t in 2019. This change reflects a 23% decrease in cash cost of production offset by a 20% decrease in tonnes milled on a year over year basis.

As compared to Q4 2019 the Q4 2020 unit costs increased by 4% to \$59.68/t. This change reflects a 2% decrease in cash cost of production and a 6% decrease in tonnes milled on a quarter over quarter basis.

### Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 40% in 2020 to \$27.00/oz as compared to \$19.25/oz in 2019. This change in unit costs reflects in part a 42% decrease in silver equivalent payable ounces sold offset by a 19% decrease in cash cost of sales. The reasons for these changes are as referenced earlier.

As compared to Q4 2019 the Q4 2020 unit costs increased 10%. This change in unit costs reflects a 7% decrease in silver equivalent payable ounces sold offset by a 2% increase in cash cost of sales.

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

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 64% in 2020 to \$41.17/oz as compared to \$25.14/oz in 2019. This change in unit costs reflects in part a 42% decrease in silver equivalent payable ounces sold offset by a 6% decrease in cash cost of sales. The reasons for these changes are as referenced earlier.

As compared to Q4 2019 the Q4 2020 all-in sustaining unit costs increased 79%. The cash cost of sales increased 68% while the amount of silver equivalent payable ounces sold decreased by 7%.

## **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 \$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***

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Material Processed (tonnes milled)	-	36,111	11,095	149,891
Silver Equivalent Produced (ounces) <sup>(1) (2)</sup>	-	193,748	64,870	761,262
Silver Equivalent Sold (payable ounces) <sup>(3)</sup>	-	112,806	47,854	516,809
Production - Silver (ounces) <sup>(2)</sup>	-	53,615	22,089	237,715
- Gold (ounces) <sup>(2)</sup>	-	116	47	457
- Lead (tonnes) <sup>(2)</sup>	-	277	120	1,082
- Zinc (tonnes) <sup>(2)</sup>	-	534	188	1,949
Average Grade - Silver (g/t)	-	102	86	105
- Gold (g/t)	-	0.24	0.22	0.22
- Lead (%)	-	1.27	1.15	1.18
- Zinc (%)	-	2.23	2.07	2.09
Metal Recovery - Silver (%) <sup>(2)</sup>	-	45.1	72.2	47.1
- Gold (%) <sup>(2)</sup>	-	42.0	59.0	42.7
- Lead (%) <sup>(2)</sup>	-	59.3	94	59.9
- Zinc (%) <sup>(2)</sup>	-	56.2	81.8	52.3
Cash Cost of Production per Tonne <sup>(4)</sup>	-	49.06	148.36	56.53
Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	-	19.11	39.54	19.28
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) <sup>(4)</sup>	-	23.70	46.35	23.20

<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.

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

<sup>(4)</sup> 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.

### ***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 "Veta Grande Technical Report") containing an updated mineral resource estimate, under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The Veta Grande Technical Report supersedes all previous technical reports prepared for the Company relating to the Veta Grande Project.

On August 25, 2020 the Company filed on SEDAR a technical report titled “Technical Report, Zimapan Property, Hidalgo, Mexico” dated effective April 2, 2020 (the “Zimapan Property, Technical Report”) under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI 43-101F1”).

A copy of the Veta Grande, Technical Report and the Zimapan Property, 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**

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
<b>Revenue</b>				
Mining operations	9,905	9,964	33,097	27,140
Mining services	-	-	-	1,971
	<b>9,905</b>	<b>9,964</b>	<b>33,097</b>	<b>29,111</b>
<b>Cost of sales</b>				
Cash cost of sales - mining operations	9,173	11,378	31,399	29,687
Depletion and amortization – mining operations	(75)	136	710	1,135
	<b>9,098</b>	<b>11,514</b>	<b>32,109</b>	<b>30,822</b>
<b>Gross profit (loss)</b>	<b>807</b>	<b>(1,550)</b>	<b>988</b>	<b>(1,711)</b>
<b>Operating expenses</b>				
Administrative	(576)	(910)	(1,177)	(1,802)
Management and consulting fees	59	(64)	(273)	(400)
Professional fees	(1,559)	(292)	(2,043)	(1,103)
Share-based payments	(45)	(157)	(289)	(397)
Shipping	(551)	(1,021)	(1,887)	(1,350)
Other	(959)	414	(1,475)	441
	<b>(3,631)</b>	<b>(2,030)</b>	<b>(7,144)</b>	<b>(4,611)</b>
Debt forgiveness	-	-	412	-
Impairment	-	(12,202)	-	(12,202)
<b>Interest earned and other finance income</b>				
Interest earned	178	-	215	-
Other income	225	-	225	-
Foreign exchange gain	-	-	117	-
IVA inflationary gain	3,944	37	4,639	265
	<b>4,347</b>	<b>37</b>	<b>5,196</b>	<b>265</b>
<b>Interest expense and other finance expenses</b>				
Accretion of decommissioning and restoration provision	(12)	(19)	(51)	(68)
Carrying charges on loans payable	1	(153)	(240)	(412)
Interest expense on loans payable	(95)	(77)	(470)	(328)
Other interest expense	-	(156)	-	(158)
Financing charge on leases	(17)	(57)	(92)	(86)
Foreign exchange loss	(1,979)	(220)	-	(1,081)
	<b>(2,102)</b>	<b>(682)</b>	<b>(853)</b>	<b>(2,132)</b>
Income tax expense	(28)	(410)	(92)	(41)
<b>Net loss for the period</b>	<b>(607)</b>	<b>(16,017)</b>	<b>(1,493)</b>	<b>(20,432)</b>

**Year ended December 31, 2020**

The Company recorded a net loss of \$1,493 (\$0.01 per share) for the year ended December 31, 2020 compared to a net loss of \$20,432 (\$0.11 per share) for the same period in 2019.

Revenues in 2020 of \$33,097 arose entirely from mining operations whereas in 2019 \$27,140 was generated by mining operations and \$1,971 by mining services. Individually the Zimapan Mine, Rosario Project, and Veta Grande Project generated respectively 89%, 9%, and 2% of revenues in 2020 as compared to 54%, 16%, 24%, and 7%



respectively in 2019 at the Zimapan Mine, Rosario Project, Veta Grande Project, and Mining Services. 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 Contracuna 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 \$31,399 (2019 - \$29,687). The increase in mining operations cash cost of sales is virtually all related to the inclusion of the Zimapan Mine for all of 2020, offset by the decrease in production at the Rosario Project and the suspension of operations at the Veta Grande Project.

During 2020 the Company recorded operating expenses of \$7,144 (2019 - \$4,611). Operating expenses increased mainly due to the increase in administrative, professional fees and share-based payments during the year.

An impairment charge of \$12,202 was taken in 2019 on the Veta Grande Project. This impairment charge included impairment on the property and the related plant and equipment against the carrying value of the Veta Grande Project during the year ended December 31, 2019, with an impairment charge of \$3,552 taken on plant and equipment, and the remaining \$8,650 impairment taken on the mine property.

#### Three months ended December 31, 2020

The Company recorded a net loss of \$607 (\$0.00 loss per share) for the year ended December 31, 2020, compared to net loss of \$16,017 (\$0.08 loss per share) for the year ended December 31, 2019.

The Company recorded revenues of \$9,905 (2019 - \$9,964), mining operation cash cost of sales of \$9,173 (2019 - \$11,378), and a reduction of amortization and depletion expenses of \$75 (2019 – expense of \$136) for the three months ended December 31, 2020 resulting in a gross profit from operations of \$807 (2019 – gross loss of \$1,550).

## Summary of Quarterly Results

(Expressed in thousands of US Dollars except per share amounts)	THREE MONTHS ENDED			
	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
	\$	\$	\$	\$
Revenues – Mining operations	9,905	9,437	5,939	7,816
Cost of sales – Mining operations	9,098	8,178	5,143	9,690
Administrative expenses	3,631	1,167	1,043	1,303
Net loss <sup>(2)(3)</sup>	(579)	(163)	(636)	(87)
Net loss per share <sup>(1)</sup>	(0.00)	(0.00)	(0.00)	(0.00)
	THREE MONTHS ENDED			
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenues – Mining operations	9,964	11,439	3,247	2,490
Revenues – Mining services	-	293	888	790
Cost of sales – Mining operations	11,514	11,630	3,884	3,794
Administrative expenses	2,030	1,349	605	627
Net loss	(16,017)	(1,432)	(1,137)	(1,846)
Net loss per share <sup>(1)</sup>	(0.08)	(0.01)	(0.01)	(0.01)

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

(2) The Q3 2019 revenues and cost of sales from mining operations increased significantly from prior quarters as a result of including 100% of the Zimapan Mine revenues and cost of sales in the Company's accounts in that quarter and for those that followed.

(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 Zimapan Mine 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 Zimapan Mine 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)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Cash cost of sales	8,351	8,264	25,529	11,875
Inventory change	452	(113)	161	(279)
<b>Cash Cost of Production (A)</b>	<b>8,803</b>	<b>8,151</b>	<b>25,690</b>	<b>11,596</b>
Cash cost of sales	8,351	8,264	25,529	11,875
Concentrate treatment, smelting and refining cost	4,311	3,079	15,346	4,974
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>12,662</b>	<b>11,343</b>	<b>40,875</b>	<b>16,849</b>
Material processed (tonnes milled) (C)	180,003	161,071	591,477	243,313
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>48.90</b>	<b>50.61</b>	<b>43.43</b>	<b>47.66</b>
Silver Equivalent Sold (payable ounces) (D)	545,580	612,131	2,298,085	962,702
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>23.21</b>	<b>18.53</b>	<b>17.79</b>	<b>17.50</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)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Cash cost of sales	1,241	1,326	4,370	5,712
Inventory change	47	(13)	38	16
<b>Cash Cost of Production (A)</b>	<b>1,288</b>	<b>1,313</b>	<b>4,408</b>	<b>5,728</b>
Cash cost of sales	1,241	1,325	4,370	5,712
Concentrate treatment, smelting and refining cost	385	275	1,091	1,059
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>1,626</b>	<b>1,600</b>	<b>5,461</b>	<b>6,771</b>
Material processed (tonnes milled) (C)	21,582	22,972	60,947	76,088
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>59.68</b>	<b>57.15</b>	<b>72.33</b>	<b>75.28</b>
Silver Equivalent Sold (payable ounces) (D)	74,511	80,531	202,268	351,680
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>21.82</b>	<b>19.87</b>	<b>27.00</b>	<b>19.25</b>

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

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Three months ended December 31,		Years ended December 31,	
	2020 <sup>(1)</sup>	2019	2020	2019
Cash cost of sales	-	1,788	1,664	8,490
Inventory change	-	(16)	(18)	(16)
<b>Cash Cost of Production (A)</b>	<b>-</b>	<b>1,772</b>	<b>1,646</b>	<b>8,474</b>
Cash cost of sales	-	1,788	1,664	8,490
Concentrate treatment, smelting and refining cost	-	368	228	1,475
<b>Cash Cost of Silver Equivalent Sold (B)</b>	<b>-</b>	<b>2,156</b>	<b>1,892</b>	<b>9,965</b>
Material processed (tonnes milled) (C)	-	36,111	11,095	149,891
<b>Cash Cost of Production per Tonne (A/C)</b>	<b>-</b>	<b>49.06</b>	<b>148.36</b>	<b>56.53</b>
Silver Equivalent Sold (payable ounces) (D)	-	112,806	47,854	516,809
<b>Cash Cost per Silver Equivalent Ounce (B/D)</b>	<b>-</b>	<b>19.11</b>	<b>39.54</b>	<b>19.28</b>

<sup>(1)</sup> Production was suspended at the Veta Grande Project in Q1 2020 and to date has not recommenced.

### ***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 Mine.

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)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Cash cost of sales	8,351	8,264	25,529	11,875
Concentrate treatment, smelting and refining cost	4,311	3,079	15,346	4,974
General and administrative expenses	950	1,015	2,848	1,788
<b>All-in Sustaining Cost</b>	13,612	12,358	43,723	18,637
Silver Equivalent Sold (payable ounces)	545,580	612,131	2,298,085	962,702
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	24.95	20.19	19.03	19.36

<sup>(1)</sup> The 2020 fiscal period amounts 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)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Cash cost of sales	1,241	1,326	4,370	5,712
Concentrate treatment, smelting and refining cost	385	274	1,091	1,059
Deferred ramp expenditures	-	-	-	215
General and administrative expenses	1,911	508	2,816	1,797
Accretion of decommissioning and restoration provision	12	10	51	59
<b>All-in Sustaining Cost</b>	3,549	2,118	8,328	8,842
Silver Equivalent Sold (payable ounces)	74,511	80,531	202,268	351,680
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	47.63	26.30	41.17	25.14

### **Veta Grande Project**

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Cash cost of sales	-	1,788	1,664	8,490
Concentrate treatment, smelting and refining cost	-	369	228	1,476
Deferred ramp expenditures	-	-	-	215
General and administrative expenses	-	516	326	1,808
<b>All-in Sustaining Cost</b>	-	2,673	2,218	11,989
Silver Equivalent Sold (payable ounces)	-	112,806	47,854	516,809
<b>All-in Sustaining Cost per Silver Equivalent Ounce Sold</b>	-	23.70	46.35	23.20

### **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)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Revenues	8,772	7,235	29,382	11,479
Add back: Treatment, smelting and refining charges	4,311	3,079	15,346	4,974
<b>Gross Revenues</b>	13,083	10,314	44,728	16,453
Silver Equivalent Sold (ounces)	545,580	612,131	2,298,085	956,564
<b>Avg Realized Price per Ounce of Silver Equivalent Sold</b>	23.98	16.85	19.46	17.20
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	24.39	17.30	20.55	16.21

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

(2) The 2020 fiscal period amounts 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)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Revenues	1,445	1,127	3,129	4,567
Add back: Treatment, smelting and refining charges	385	274	1,091	1,059
<b>Gross Revenues</b>	1,830	1,401	4,220	5,626
Silver Equivalent Sold (ounces)	74,511	80,531	202,268	351,680
<b>Avg Realized Price per Ounce of Silver Equivalent Sold<sup>(1)</sup></b>	24.56	17.40	20.86	16.00
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	24.39	17.30	20.55	16.21

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

### Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
Revenues	-	1,602	586	6,850
Add back: Treatment, smelting and refining charges	-	369	228	1,476
<b>Gross Revenues</b>	-	1,971	814	8,326
Silver Equivalent Sold (ounces)	-	112,806	47,854	516,809
<b>Avg Realized Price per Ounce of Silver Equivalent Sold</b>	-	17.47	17.01	16.11
<b>Avg Market Price per Ounce of Silver per London Silver Fix</b>	-	17.30	20.55	16.21

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

(2) 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 or thereafter.

### 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 three months and years ended December 31, 2020 and 2019.

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
<b>Net loss for the period as reported</b>	(607)	(16,017)	(1,493)	(20,432)
Income tax expense (recovery)	28	(410)	92	41
Interest earned and other finance income	(4,984)	(37)	(5,079)	(265)
Interest expense and other finance expenses	17	213	92	243
Carrying charges on loan payable	(1)	153	240	412
Interest expense on loan payable	95	77	470	328
Accretion expense	12	19	51	68
Amortization and depletion of mineral properties, plant and equipment	(75)	138	710	1,141
<b>EBITDA</b>	(5,515)	(15,864)	(4,917)	(18,464)
Impairment of exploration and evaluation properties	-	12,202	-	12,202
Foreign exchange loss (gain)	1,979	220	(117)	1,081
Debt forgiveness	-	-	(412)	-
<b>Adjusted EBITDA</b>	(3,536)	(3,442)	(5,446)	(5,181)

### **Financing Transactions**

#### ***Private Placements***

On February 25, 2020, The Company raised gross proceeds of CDN\$734 from the sale of 6,117,917 units (the "February 2020 Units") pursuant to a private placement at price of CDN\$0.12 per Unit. Each February 2020 Unit consisted of one common share of the Company and one non-transferable common share purchase warrant (a "February 2020 Warrant"). Each February 2020 Warrant entitles the holder to acquire one common share of the Company at a price of CDN\$0.18 per share until February 25, 2021. The funds were used for general working capital and corporate purposes.

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

In connection with the offering the Company paid to certain finders cash finders' fees totaling \$500, issued 2,544,130 broker warrants having the same terms as the Warrants and issued 204,000 finder units having the same terms as the Units.

On April 13, 2021, the Company closed a private placement offering (the "April 2021 Private Placement") of 46,965,000 units of the Company (each, an "April 2021 Unit") for gross proceeds of CDN\$14,090. Each April 2021 Unit consists of one common share of the Company and one non-transferable common share purchase warrant (an "April 2021 Warrant"). Each April 2021 Warrant entitles the holder to acquire one common share of the Company at a price of CDN\$0.45 for a period of 36 months following its issuance.

In consideration for their services, the Company has paid to certain cash finders' fees totaling \$502 and issued 1,671,961 finders' warrants having the same terms as the Warrants.

The proceeds from the offering are expected to be used by the Company to complement the acquisition of the Zimapan mine and 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 pieces 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 was to be repaid in 12 equal monthly installments of \$217 commencing August 31, 2020 and bearing interest at LIBOR plus 7%, payable monthly.

The 2020 Facility was secured on certain pieces of the Carrizal Mining mine equipment. The balance outstanding at December 31, 2020 was \$2,677.

In April 2021 the 2020 Facility was re-capitalized as part of the Trafigura Loan Facility that was provided in connection with the Company's acquisition of the Zimapan Mine. Following the completion of the Zimapan Mine purchase the 2020 Facility balance was \$nil.

### ***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 CDN\$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 CDN\$0.16, and to extend the expiry date to March 6, 2020. The



Subsequent to year end on April 21, 2021, the Company and MineCo further extended the repayment to July 21, 2021.

The MineCo Loan is unsecured. The balance outstanding at December 31, 2020 was \$3,106.

***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. The balance 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. The balance 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 December 31, 2020 was \$50.

***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 December 31, 2020 was \$104.

***Muutrade facility***

On September 11, 2020, the Company entered into a credit facility (the “Muutrade Facility”) with a private Mexican financial institution.

The Muutrade Facility bears interest at 2% monthly until the repayment date of October 8, 2020. After this date, the interest is charged at 4.5% monthly.

The balance outstanding at December 31, 2020 was \$350.

***Capital Expenditures***

The Company incurred capital expenditures of \$1,410 during the year ended December 31, 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 December 31, 2020, the Company had a working capital deficiency of \$22,514 (December 31, 2019 - \$30,572) and an accumulated deficit of \$126,377 (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 year end, the Company closed a private placement offering (the "Private Placement") of units of the Company (each, a "Unit") of 46,965,000 Units at a price of \$0.30 per Unit for gross proceeds of CDN\$14,090.

### **Transactions with Related Parties**

During the years ended December 31, 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:

	2020	2019
	\$	\$
<b>Mining Services</b>		
Revenues	-	1,971
<b>Expenses</b>		
Directors' fees	-	45
Management fees	420	408
Share-based payments	253	-

At December 31, 2020, directors and officers or their related companies were owed \$17 (December 31, 2019 - \$332) in respect of the services rendered. These amounts 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 year ended December 31, 2020 (2019 - \$51) and \$61 of the leases payable outstanding at December 31, 2020 were owed to a company owned by the Chairman of the Company (December 31, 2019 - \$1,299). During the year ended December 31, 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 LOI were reported in 2019 as related party transactions.

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 \$68.

**(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.

Contractual cash flow requirements as at December 31, 2020 were as follows:

	<b>&lt; 1 year \$</b>	<b>1 – 2 years \$</b>	<b>2 – 5 years \$</b>	<b>&gt;5 years \$</b>	<b>Total \$</b>
Accounts payable and accrued liabilities	32,483	-	-	-	32,483
Loan payable	6,287	-	-	-	6,287
Leases	165	304	-	-	469
<b>Total</b>	<b>38,935</b>	<b>304</b>	<b>-</b>	<b>-</b>	<b>39,239</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 \$6 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 \$20.

The Company's financial assets and liabilities as at December 31, 2020 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

	<b>Canadian dollar \$</b>	<b>US dollar \$</b>	<b>Mexican peso \$</b>	<b>Total \$</b>
<b>Financial assets</b>				
Cash	281	30	119	430
Trade receivables	-	4,202	-	4,202
Other receivables	10	-	6,716	6,726
	291	4,232	6,835	11,358
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	159	8,846	23,478	32,483
Loans payable	-	6,287	-	6,287
	159	15,133	23,478	38,770
<b>Net financial liabilities</b>	<b>132</b>	<b>(10,901)</b>	<b>(16,643)</b>	<b>(27,412)</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 May 5, 2021 in the following table.

Issued and Outstanding Common Shares			314,339,581
	Expiry Date	Exercise Price (CDN\$)	
Options	August 6, 2024	0.18	6,583,700
Warrants	October 7, 2023	0.30	34,678,541
	October 15, 2023	0.30	13,497,052
	April 23, 2022	0.395	7,280,000
	October 23, 2024	0.395	20,720,000
<hr/>			
Fully Diluted			397,098,874

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

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