



## INFORMATION CIRCULAR

(As at August 22, 2019 except as indicated)

Santacruz Silver Mining Ltd. (the "**Company**") is providing this management information circular (the "**Information Circular**") and a form of proxy in connection with management's solicitation of proxies for use at the annual general meeting (the "**Meeting**") of shareholders of the Company (the "**Shareholders**") to be held on October 1, 2019 and at any adjournments. Unless the context otherwise requires, when we refer in this Information Circular to the Company, its subsidiaries are also included. The Company will conduct its solicitation by mail and officers and employees of the Company may, without receiving special compensation, also telephone or make other personal contact. The Company will pay the cost of solicitation. All amounts referred to as \$ or dollars means United States currency, unless otherwise indicated.

### APPOINTMENT OF PROXYHOLDER

The purpose of a proxy is to designate persons who will vote the proxy on a Shareholder's behalf in accordance with the instructions given by the Shareholder in the proxy. The persons whose names are printed in the enclosed form of proxy are officers or directors of the Company (the "**Management Proxyholders**").

**A Shareholder has the right to appoint a person other than a Management Proxyholder, to represent the Shareholder at the Meeting by striking out the names of the Management Proxyholders and by inserting the desired person's name in the blank space provided or by executing a proxy in a form similar to the enclosed form. A proxyholder need not be a Shareholder.**

### VOTING BY PROXY

**Only registered Shareholders or duly appointed proxyholders are permitted to vote at the Meeting.** Common shares of the Company ("**Shares**") represented by a properly executed proxy will be voted or be withheld from voting on each matter referred to in the notice of meeting accompanying this Information Circular (the "**Notice of Meeting**") in accordance with the instructions of the Shareholder on any ballot that may be called for and if the Shareholder specifies a choice with respect to any matter to be acted upon, the Shares will be voted accordingly.

**If a Shareholder does not specify a choice and the Shareholder has appointed one of the Management Proxyholders as proxyholder, the Management Proxyholder will vote in favour of the matters specified in the Notice of Meeting and in favour of all other matters proposed by management at the Meeting.**

**The enclosed form of proxy also gives discretionary authority to the person named therein as proxyholder with respect to amendments or variations to matters identified in the Notice of the Meeting and with respect to other matters which may properly come before the Meeting.** At the date of this Information Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

## COMPLETION AND RETURN OF PROXY

Completed forms of proxy must be deposited at the office of the Company's registrar and transfer agent, Computershare Trust Company of Canada, Proxy Dept., 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M4J 2Y1, not later than forty-eight (48) hours, excluding Saturdays, Sundays and holidays, prior to the time of the Meeting, unless the chairman of the Meeting elects to exercise his discretion to accept proxies received subsequently.

## NON-REGISTERED HOLDERS

**Only Shareholders whose names appear on the records of the Company as the registered holders of Shares or duly appointed proxyholders are permitted to vote at the Meeting.** Most Shareholders of the Company are "non-registered" Shareholders ("**Non-Registered Shareholders**") because the shares they own are not registered in their names but instead registered in the name of a nominee such as a brokerage firm through which they purchased the Shares; bank, trust company, trustee or administrator of self-administered RRSP's, RRIF's, RESP's and similar plans; or clearing agency such as The Canadian Depository for Securities Limited (a "**Nominee**") and in the United States, under the name Cede & Co., as nominee for the Depository Trust Company (which acts as a brokerage depository for many U.S. firms and custodial banks). If you purchased your Shares through a broker, you are likely a Non-Registered Shareholder.

In accordance with securities regulatory policy, the Company has distributed copies of the Meeting materials, being the Notice of Meeting, this Information Circular and the Proxy, to the Nominees for distribution to non-registered holders.

Nominees are required to forward the Meeting materials to non-registered holders to seek their voting instructions in advance of the Meeting. Shares held by Nominees can only be voted in accordance with the instructions of the non-registered holder. The Nominees often have their own form of proxy, mailing procedures and provide their own return instructions. If you wish to vote by proxy, you should carefully follow the instructions from the Nominee in order to ensure that your Shares are voted at the Meeting.

If you, as a Non-Registered Shareholder, wish to vote at the Meeting in person, you should appoint yourself as proxyholder by writing your name in the space provided on the request for voting instructions or proxy provided by the Nominee and return the form to the Nominee in the envelope provided. Do not complete the voting section of the form as your vote will be taken at the Meeting.

Non-Registered Shareholders who have not objected to their Nominee disclosing certain ownership information about themselves to the Company are referred to as "non-objecting beneficial owners" ("**NOBOs**"). Those Non-Registered Shareholders who have objected to their Nominee disclosing ownership information about themselves to the Company are referred to as "objecting beneficial owners" ("**OBOs**").

In accordance with the requirements of National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* ("**NI 54-101**") of the Canadian Securities Administrators, the Company has elected to send the Meeting materials directly to NOBOs.

If the Company or its agent has sent these materials directly to you (instead of through a Nominee), your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Nominee holding on your behalf. By choosing to send these materials to you directly, the Company (and not the Nominee holding on your

behalf) has assumed responsibility for (i) delivering these materials to you and (ii) executing your proper voting instructions.

The Company does not intend to pay for Nominees to deliver the Meeting materials and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary* to OBOs. As a result, OBOs will not receive the Meeting materials unless their Nominee assumes the costs of delivery.

The Company is not sending the Meeting materials to Shareholders using "notice-and-access", as defined under NI 54-101.

### **REVOCABILITY OF PROXY**

In addition to revocation in any other manner permitted by law, a Shareholder, his attorney authorized in writing or, if the Shareholder is a corporation, a corporation under its corporate seal or by an officer or attorney thereof duly authorized, may revoke a proxy by instrument in writing, including a proxy bearing a later date. The instrument revoking the proxy must be deposited at the registered office of the Company, at any time up to and including the last business day preceding the date of the Meeting, or any adjournment thereof, or with the chairman of the Meeting on the day of the Meeting.

### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The Company is authorized to issue an unlimited number of common shares without par value, of which 174,670,984 Shares are issued and outstanding. Persons who are registered Shareholders at the close of business on August 22, 2019 will be entitled to receive notice of and vote at the Meeting and will be entitled to one vote for each Share held. The Company has only one class of shares.

To the knowledge of the directors and executive officers of the Company, no person beneficially owns, controls or directs, directly or indirectly, shares carrying 10% or more of the voting rights attached to all Shares of the Company.

### **ELECTION OF DIRECTORS**

The directors of the Company are elected at each annual general meeting and hold office until the next annual general meeting or until their successors are appointed. In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed.

Shareholder approval will be sought to fix the number of directors of the Company at five (5).

The Company has an Audit Committee, a Compensation Committee, a Governance and Nomination Committee and a Health, Safety and Environment Committee. Members of these committees are set out below.

Management of the Company proposes to nominate each of the following persons for election as a director. Information concerning such persons, as furnished by the individual nominees, is as follows:

<i>Name, Jurisdiction of Residence and Position</i>	<i>Principal Occupation, Business or Employment and, if not a Previously Elected Director, Occupation, Business or Employment During the Past 5 Years</i>	<i>Previous Service as a Director</i>	<i>Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly<sup>(5)</sup></i>
Arturo Prestamo Elizondo <sup>(2) (3) (4)</sup> Monterrey, Nuevo Leon, Mexico, President, Chief Executive and Director	President and CEO of the Company.	Director since April 12, 2012	9,577,214
Federico Villaseñor <sup>(1) (2) (4)</sup> Guanajuato, Guanajuato, Mexico Director	Director of Business Development for Goldcorp Mexico, a subsidiary of Goldcorp Inc. from February 2007 to February 2014.	Director since April 8, 2014	Nil
Roland Löhner <sup>(1) (2) (3)</sup> Panama, Panama Director	Roland Löhner was a senior partner and Managing Director of The Boston Consulting Group before retiring in 2015 after 20 years with the firm. Since that time he has been an active investor in the private equity and venture capital space.	Director since February 24, 2015	1,391,500
Larry Okada <sup>(1) (3) (4)</sup> Burnaby, British Columbia, Canada Director	Business consultant. Former Chief Financial Officer of Africo Resources Ltd. from January 2010 to July 2017.	Director since April 28, 2015	50,000
W. Barry Girling Vancouver, British Columbia, Canada Director	President of RJG Capital Corporation, a private company providing administrative, financial and regulatory/shareholder services to junior public companies since 1993; VP, I-Minerals Inc. from November 2015 to present.	Director since October 17, 2018	625,000

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Governance and Nomination Committee.

(4) Member of the Health, Safety and Environment Committee.

(5) Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, as at August 22, 2019, based upon information furnished to the Company by individual directors. Unless otherwise indicated, such shares are held directly.

Except as disclosed below, to the knowledge of the Company, no proposed director:

- (a) is, as at the date of the Information Circular, or has been, within 10 years before the date of the Information Circular, a director, chief executive officer ("CEO") or chief financial officer ("CFO") of any company (including the Company) that:
  - (i) was the subject, while the director was acting in the capacity as director, CEO or CFO of such company, of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; or

- (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director ceased to be a director, CEO or CFO but which resulted from an event that occurred while the director was acting in the capacity as director, CEO or CFO of such company; or
- (b) is, as at the date of this Information Circular, or has been within 10 years before the date of the Information Circular, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director; or
- (d) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (e) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

The following directors of the Company hold directorships in other reporting issuers as set out below:

<i>Name of Director</i>	<i>Name of Other Reporting Issuer</i>
Larry M. Okada	Forum Energy Metals Corp. <sup>(1)</sup> EMX Royalty Corp. <sup>(2)</sup> Rokmaster Resources Corp. <sup>(1)</sup> Pan Andean Minerals Ltd. <sup>(1)</sup>
Federico Villaseñor	Starcore International Mines Ltd. <sup>(1)</sup>
W. Barry Girling	I-Minerals Inc. <sup>(1)</sup> Silver One Resources Inc. <sup>(1)</sup> Zinc One Resources Inc. <sup>(1)</sup> Plymouth Realty Corp. <sup>(1)</sup> Ironwood Capital Corp. <sup>(1)</sup>

<sup>(1)</sup> Listed on the TSX Venture Exchange

<sup>(2)</sup> Listed on Toronto Stock Exchange

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

Executive compensation is based upon the need to provide a compensation package that will allow the Company to attract and retain qualified and experienced executives, balanced with a pay-for performance philosophy. This philosophy is linked to the Company's business strategy which includes increasing stakeholder value. In addition, the compensation programs aim for simplicity and responsiveness to market changes.

The following executive compensation principles guide the Company's overall compensation:

- Compensation levels should be sufficiently competitive to facilitate recruitment and retention of experienced high-caliber executives in the competitive mining industry, while being fair and reasonable to Shareholders;
- The compensation program should align executives' long-term financial interests with those of the Shareholders by providing equity-based incentives; and
- Compensation should be transparent so that both executives and Shareholders understand the executive compensation program.

#### *Compensation Committee*

The Compensation Committee of the Company's board of directors (the "**Board**") is responsible for ensuring that the Company has appropriate policies, plans and programs for executive compensation and for reviewing and making recommendations to the Board with respect to the compensation of the Company's executive officers. The Compensation Committee seeks to ensure that total compensation paid to all executive officers is fair and reasonable and is consistent with the Company's compensation philosophy.

The Compensation Committee is also responsible for recommending compensation for the directors and granting stock options to the directors, officers, employees and consultants of the Company pursuant to the Company's stock option plan.

The Compensation Committee is currently comprised of Arturo Prestamo Elizondo, Federico Villaseñor, and Roland Löhner. Federico Villaseñor and Roland Löhner are independent (as that term is defined in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**")); Arturo Prestamo Elizondo is not independent as he is the President and CEO of the Company. The Board is satisfied that the composition of the Compensation Committee ensures an objective process for determining compensation. Each of these members has extensive experience in executive compensation through their current and previous roles as directors and/or officers of companies in the mining industry. The Board believes that the Compensation Committee collectively has the knowledge, experience and background required to fulfill its mandate. The members have the following skills and experience that enable them to make decisions on the suitability of the Company's compensation policies and practices.

- Arturo Prestamo Elizondo – Mr. Elizondo has been involved with publicly traded mining and mineral exploration companies and has been responsible for the oversight and governance functions of these companies, including the management of executive compensation and human resources.
- Federico Villaseñor – Mr. Villaseñor has been involved with publicly traded mining and mineral exploration companies and has gained significant experience in the management of executive compensation and human resources.
- Roland Löhner – Mr. Löhner was a senior partner and Managing Director of The Boston Consulting Group before retiring in 2015 after 20 years with the firm.

### *Compensation Consultants*

The Company has not retained a compensation consultant or advisor at any time since the Company's most recently completed financial year to assist the Board or the Compensation Committee in determining compensation for any of the Company's directors or executive officers.

### **Elements of Executive Compensation**

Compensation is comprised of a negotiated salary, with bonuses and stock options potentially being paid and issued as incentive for performance.

### *Salary*

The Company's view is that a competitive salary is a necessary element for attracting and retaining qualified executive officers. The Company also believes that attractive salaries can motivate and reward executives for their overall performance. The amount payable to a named executive officer may be based on several factors, including experience, past performance, anticipated future contributions and comparisons to salaries offered by other comparable companies. The Company reviews salaries at least once per year to ensure they remain at appropriate levels.

Amounts paid to an executive officer as base salary, including merit salary increases, are determined by reference to the individual's performance and salaries prevailing in the marketplace for comparable positions. The base salary of each executive officer is reviewed as required. Salary adjustments take into consideration the general level of salaries in the marketplace for comparable positions, the performance of the executive and the Company's performance.

### *Other Benefits*

NEOs (as defined below) are eligible to participate in employee benefit programs and plans that are generally available to all full-time employees (subject to fulfilling certain eligibility requirements). These include extended health and dental plans. In designing these benefits, the Company seeks to provide an overall level and mix of benefits that is competitive to those offered by other comparable companies.

Certain perquisites are also made available to NEOs. These may include payment of professional dues and further health benefits. The Company considers these other benefits a necessary element of a competitive executive compensation package in the industry as these types of perquisites are common among executives in the Company's industry.

### *Option-based Awards*

The Compensation Committee recognizes that the Company operates in a competitive environment and that its performance depends on the quality of its employees. The Company's stock option plan has been and will be used to provide share purchase options which are granted in consideration of the level of responsibility of the executive as well as his or her impact or contribution to the longer-term operating performance of the Company. In determining the number of options to be granted to the executive officers, the Compensation Committee takes into account the number of options, if any, previously granted to each executive officer, and the exercise price of any outstanding options to ensure that such grants are in accordance with the policies of the TSX Venture Exchange, and closely align the interests of the executive officers with the interests of Shareholders.

### **Risk Considerations**

The Compensation Committee considers the implications of the risk associated with the Company's compensation policies and practices when determining rewards for its officers and directors. The

Compensation Committee reviews at least once annually the risks, if any, associated with the Company's compensation policies and practices at such time.

Executive compensation is comprised of both short-term compensation in the form of a base salary and an incentive cash bonus plan, and long-term ownership through the grant of stock options. This structure ensures that a significant portion of executive compensation (stock options) is both long-term and "at risk" and, accordingly, is directly linked to the achievement of business results and the creation of long-term shareholder value.

The Compensation Committee also has the ability to set out vesting periods in each stock option agreement. As the benefits of such compensation, if any, are not realized by officers and directors until a significant period of time has passed, the ability of officers to take inappropriate or excessive risks that are beneficial to their compensation at the expense of the Company and the Shareholders is extremely limited. Furthermore, all elements of executive compensation are discretionary. As a result, it is unlikely an officer would take inappropriate or excessive risks at the expense of the Company or the Shareholders that would be beneficial to their short-term compensation when their long-term compensation might be put at risk from their actions.

Due to the relatively small size of the Company and its current management group, the Compensation Committee is able to closely monitor and consider any risks which may be associated with the Company's compensation policies and practices. Risks, if any, may be identified and mitigated through regular Board meetings during which financial and other information of the Company is reviewed. No risks have been identified arising from the Company's compensation policies and practices that are reasonably likely to have a material adverse effect on the Company.

### **Hedging of Economic Risks in the Company's Securities**

Under the Company's compensation policies, directors and officers may not take any derivative or speculative positions in the Company's securities. This is to prevent the purchase of financial instruments that are designed to hedge or offset any decrease in the market value of the Company's securities.

### **Summary Compensation Table**

The following table (presented in accordance with National Instrument Form 51-102F6 – *Statement of Executive Compensation*) sets forth all annual and long term compensation for services in all capacities to the Company for the three most recently completed financial years of the Company in respect of each of the individuals comprised of the Chief Executive Officer, the Chief Financial Officer and each of the three most highly compensated executive officers of the Company, or the three most highly compensated individuals acting in a similar capacity (other than the Chief Executive Officer and the Chief Financial Officer), at the end of the financial year ended December 31, 2018 whose total compensation was, individually, more than C\$150,000 for that financial year and any individual who would have satisfied these criteria but for the fact that individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of the financial year ended December 31, 2018 (collectively the "**Named Executive Officers**" or "**NEOs**");

NEO Name and Principal Position	Year	Salary (\$)	Share-Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plans	Long-term Incentive Plans			
Arturo Prestamo, President, CEO, Director <sup>(1)</sup>	2018	203,000	N/A	N/A	N/A	N/A	N/A	N/A	203,000
	2017	196,000	N/A	N/A	N/A	N/A	N/A	N/A	196,000
	2016	186,000	N/A	81,473 <sup>(4)</sup>	N/A	N/A	N/A	N/A	267,473
Carlos Silva Chief Operations Officer <sup>(2)</sup>	2018	180,000	N/A	N/A	N/A	N/A	N/A	N/A	180,000
	2017	30,000	N/A	N/A	N/A	N/A	N/A	N/A	30,000
	2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Robert G. McMorran, CFO <sup>(3)</sup>	2018	69,439	N/A	N/A	N/A	N/A	N/A	N/A	69,439
	2017	95,427	N/A	N/A	N/A	N/A	N/A	N/A	95,427
	2016	116,326	N/A	40,736 <sup>(4)</sup>	N/A	N/A	N/A	N/A	157,062

- (1) Mr. Arturo Prestamo also serves as a director of the Company. Mr Arturo Prestamo received nil compensation in 2018 for his services as a director of the Company.
- (2) Mr. Carlos Silva was appointed as Chief Operations Officer effective November 27, 2017.
- (3) Fees for the services of Robert McMorran as Chief Financial Officer of the Company. In addition, the Company incurred fees from Malaspina Consultants Inc. for accounting and administrative services provided to the Company as follows: \$150,415 for the year ended December 31, 2016, \$96,670 for the year ended December 31, 2017 and \$85,137 for the year ended December 31, 2018. Malaspina Consultants Inc. is a private company that provides out sourced accounting services to junior public companies and was controlled by Robert McMorran, the Chief Financial Officer of the Company until July 31, 2018.
- (4) The fair values of the options granted during the year ended December 31, 2016 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.50%; expected life – 5 years; expected volatility – 83.36%; expected forfeitures – 0%; and expected dividends – \$nil.

## Incentive Plan Awards

### Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth information concerning all awards outstanding under incentive plans of the Company at the end of the most recently completed financial year, including awards granted before the most recently completed financial year, to each of the Named Executive Officers:

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised In-The-Money Options (\$) <sup>(1)</sup>	Number of Shares Or Units Of Shares That Have Not Vested (#)	Market or Payout Value Of Share-Based Awards That Have Not Vested (\$)	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (\$)
Arturo Prestamo, President, CEO, Director	1,000,000	C\$0.15	February 10, 2021	Nil	N/A	N/A	N/A
Carlos Silva, Chief Operations Officer	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Robert G. McMorran, CFO	500,000	C\$0.15	February 10, 2021	Nil	N/A	N/A	N/A

- (1) This amount is calculated based on the difference between the exercise price of the option and the closing price of the Company's Shares on the TSX Venture Exchange on December 31, 2018 of C\$0.06.

*Value Vested Or Earned During The Year*

No stock options vested to the Named Executive Officers of the Company during the year ended December 31, 2018. The value vested or earned during the year ended December 31, 2018 of incentive plan awards granted to Named Executive Officers are as follows:

<i>NEO Name</i>	<i>Option-Based Awards - Value Vested During The Year (\$)</i>	<i>Share-Based Awards - Value Vested During The Year (\$)<sup>(1)</sup></i>	<i>Non-Equity Incentive Plan Compensation - Value Earned During The Year (\$)</i>
Arturo Prestamo, President, CEO, Director	Nil	N/A	N/A
Carlos Silva, Chief Operations Officer	Nil	N/A	N/A
Robert G. McMorran, CFO	Nil	N/A	N/A

<sup>(1)</sup> The Company did not grant any option-based or share-based awards during the year.

The Company has a "rolling" stock option plan (the "**Plan**") for the granting of incentive stock options to the officers, employees and directors. The purpose of granting such options is to assist the Company in compensating, attracting, retaining and motivating the directors of the Company and to closely align the personal interests of such persons to that of the Shareholders.

The Plan provides that the number of Shares reserved for issuance will not exceed 10% of the issued and outstanding Shares at the time of grant. The Plan authorized the Board to grant, in its absolute discretion, stock options to directors, officers, employees or consultants on such terms, limitations, conditions and restrictions as it deems necessary and advisable.

Under the Plan, the number of Shares reserved for issuance to any one individual in a 12 month period may not exceed 5% of the issued and outstanding Shares and the Shares of shares reserved for issuance to consultants may not exceed 2% of the issued and outstanding Shares. The Plan contains no vesting requirements except as to options granted to persons engaged in Investor Relations Activities (as defined in the Plan) , but permits the Board to specify a vesting schedule in its discretion.

Options may be granted for a maximum term of ten years. Options may be exercised the lesser of the term of the option and 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, consulting arrangement or employment is by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the earlier expiry date of such option.

The exercise price of the options granted under the Plan will be determined by the Board, in its discretion, but shall not be less than the closing price of the Shares on the day preceding the date of grant, less any discount permitted by the TSX Venture Exchange. Options granted under the Plan shall not be subject to any resale restrictions imposed by the TSX Venture Exchange unless granted at the maximum discount permitted by the TSX Venture Exchange.

Options are non-assignable and non-transferable (subject to options being exercisable by the optionee's heirs or administrator). The number of Shares reserved for option and the exercise price payable for the Shares subject to such option shall be adjusted appropriate in the event of any consolidation, subdivision, or stock dividend of the Shares. The Plan requires annual Shareholder approval.

### Pension Plan Benefits

The Company does not have a pension plan that provides for payments or benefits to the Named Executive Officers at, following, or in connection with retirement.

### Termination and Change of Control Benefits

The Company and its subsidiaries have no employment contracts with any Named Executive Officer.

Neither the Company, nor its subsidiaries, has a contract, agreement, plan or arrangement that provides for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change of control of the Company or its subsidiaries, or a change in responsibilities of the NEO following a change in control.

### Director Compensation

The following table sets forth all amounts of compensation provided to the directors, who are each not also a Named Executive Officer, for the most recently completed financial year:

<i>Director Name</i> <sup>(1)</sup>	<i>Fees Earned</i> (\$)	<i>Share-Based Awards</i> (\$)	<i>Option-Based Awards</i> (\$) <sup>(2)</sup>	<i>Non-Equity Incentive Plan Compensation</i> (\$)	<i>Pension Value</i> (\$)	<i>All Other Compensation</i> (\$)	<i>Total</i> (\$)
Federico Villaseñor	C\$21,800	Nil	Nil	Nil	Nil	Nil	C\$21,800
Roland Löhner	C\$24,200	Nil	Nil	Nil	Nil	Nil	C\$24,200
Larry Okada	C\$32,600	Nil	Nil	Nil	Nil	Nil	C\$32,600
Barry Girling	C\$8,375	Nil	Nil	Nil	Nil	Nil	C\$8,375

(1) Relevant disclosure has been provided in the "Summary Compensation Table" above for directors who received compensation for their services as a director who are also Named Executive Officers.

(2) Option-based awards is the share-based compensation recorded during the year from the vesting of options granted. The fair values of the options granted during the year ended December 31, 2016 were estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate – 1.50%; expected life – 5 years; expected volatility – 83.36%; expected forfeitures – 0%; and expected dividends – \$nil.

A fee schedule for non-executive directors has been established as follows:

- Each non-executive director shall receive a monthly retainer of C\$1,750;
- Each non-executive director shall receive a fee of C\$800 per board or committee meeting attended, whether via telephone or in person;
- The Chair of the Audit Committee shall receive an additional monthly retainer of C\$500;
- The Chair of the Compensation Committee shall receive an additional fee of C\$1,000 per meeting of the Compensation Committee attended, whether by telephone or in person.

*Incentive Plan Awards - Outstanding Share-Based Awards and Option-Based Awards*

The following table sets forth information concerning all awards outstanding under incentive plans of the Company at the end of the most recently completed financial year, including awards granted before the most recently completed financial year, to each of the directors who are not Named Executive Officers:

<i>Director Name</i>	<i>Option-Based Awards</i>				<i>Share-Based Awards</i>		
	<i>Number of Securities Underlying Unexercised Options (#)</i>	<i>Option Exercise Price (\$)</i>	<i>Option Expiration Date</i>	<i>Value of Unexercised In-The-Money Options (\$)<sup>(1)</sup></i>	<i>Number of Shares Or Units Of Shares That Have Not Vested (#)</i>	<i>Market or Payout Value Of Share-Based Awards That Have Not Vested (\$)</i>	<i>Market or Payout Value of Share-Based Awards That Have Not Vested (\$)</i>
Federico Villaseñor	500,000	C\$0.15	Feb 10-2021	Nil	Nil	Nil	Nil
Roland Löhner	500,000	C\$0.15	Feb 10-2021	Nil	Nil	Nil	Nil
Larry Okada	500,000	C\$0.15	Feb 10-2021	Nil	Nil	Nil	Nil
Barry Girling	Nil	N/A	N/A	Nil	Nil	Nil	Nil

<sup>(1)</sup> This amount is calculated based on the difference between the exercise price of the option and C\$0.06, the closing price of the Company's Shares on the TSX Venture Exchange on December 31, 2018.

*Incentive Plan Awards - Value Vested Or Earned During The Year*

The following table summarizes the value of options vested or earned during the year ended December 31, 2018 for each of the directors who are not Named Executive Officers of the Company.

<i>Director Name</i>	<i>Option-Based Awards - Value Vested During The Year (\$)</i>	<i>Share-Based Awards - Value Vested During The Year (\$)<sup>(1)</sup></i>	<i>Non-Equity Incentive Plan Compensation - Value Earned During The Year (\$)</i>
Federico Villaseñor	Nil	Nil	Nil
Roland Löhner	Nil	Nil	Nil
Larry Okada	Nil	Nil	Nil
Barry Girling	Nil	Nil	Nil

<sup>(1)</sup> The Company did not grant any option-based or share-based awards during the year ended December 31, 2018.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth the Company's compensation plans under which equity securities are authorized for issuance as at December 31, 2018.

<i>Plan Category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights</i> <i>(a)</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights</i> <i>(b)</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</i> <i>(c)</i>
Equity compensation plans approved by securityholders	28,840,000	\$0.44	14,467,098 <sup>(1)</sup>
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	28,840,000	\$0.44	14,467,098

<sup>(1)</sup> Represents the number of Shares remaining available for future issuance under stock options available for grant as of December 31, 2018 under the Plan. The maximum number of Shares which may be issued pursuant to options granted under the Plan is 10% of the issued and outstanding Shares at the time of grant.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date of this Information Circular there was no indebtedness outstanding of any current or former director, executive officer or employee of the Company or its subsidiaries which is owing to the Company or its subsidiaries, or which is owing to another entity which indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or its subsidiaries, entered into in connection with a purchase of securities or otherwise.

No individual who is, or at any time during the most recently completed financial year was, a director or executive officer of the Company, no proposed nominee for election as a director of the Company and no associate of such persons:

- (i) is, or at any time since the beginning of the most recently completed financial year has been, indebted to the Company or its subsidiaries; or
- (ii) is indebted to another entity, which indebtedness is, or at any time since the beginning of the most recently completed financial year has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or its subsidiaries,

in relation to a securities purchase program or other program.

## INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Except as set out herein, no person who has been a director or executive officer of the Company at any time since the beginning of the Company's last financial year, no proposed nominee of management of the Company for election as a director of the Company and no associate or affiliate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership or otherwise, in matters to be acted upon at the Meeting other than the election of directors or the appointment of auditors.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as set out herein, no informed person or proposed director of the Company and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction which in either such case has materially affected or would materially affect the Company or its subsidiaries.

## **APPOINTMENT OF AUDITORS**

PricewaterhouseCoopers LLP, Chartered Accountants, of Vancouver, British Columbia are the auditors of the Company. PricewaterhouseCoopers LLP, Chartered Accountants, were first appointed as auditors on December 10, 2014. Unless otherwise instructed, the proxies given pursuant to this solicitation will vote for the re-appointment of PricewaterhouseCoopers LLP as the auditors of the Company to hold office for the ensuing year at a remuneration to be fixed by the directors.

## **MANAGEMENT CONTRACTS**

No management functions of the Company or its subsidiaries are performed to any substantial degree by a person other than the directors or executive officers of the Company or its subsidiaries.

## **AUDIT COMMITTEE**

### **The Audit Committee's Charter**

#### **1.0 Purpose of the Committee**

1.1 The Audit Committee represents the Board in discharging its responsibility relating to the accounting, reporting and financial practices of the Company and its subsidiaries, and has general responsibility for oversight of internal controls, accounting and auditing activities and legal compliance of the Company and its subsidiaries.

#### **2.0 Members of the Committee**

2.1 The Audit Committee shall consist of no less than three Directors a majority of whom shall be "independent" as defined under National Instrument 52-110, while the Company is in the developmental stage of its business. The members of the Committee shall be selected annually by the Board and shall serve at the pleasure of the Board.

2.2 At least one Member of the Audit Committee must be "financially literate" as defined under Multilateral Instrument 52-110, having sufficient accounting or related financial management expertise to read and understand a set of financial statements, including the related notes, that present a breadth and level of complexity of the accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

#### **3.0 Meeting Requirements**

3.1 The Committee will, where possible, meet on a regular basis at least once every quarter, and will hold special meetings as it deems necessary or appropriate in its judgment. Meetings may be held in person or telephonically, and shall be at such times and places as the Committee determines.

Without meeting, the Committee may act by unanimous written consent of all members which shall constitute a meeting for the purposes of this charter.

3.2 A majority of the members of the Committee shall constitute a quorum.

#### **4.0 Duties and Responsibilities**

The Audit Committee's function is one of oversight only and shall not relieve the Company's management of its responsibilities for preparing financial statements which accurately and fairly present the Company's financial results and conditions or the responsibilities of the external auditors relating to the audit or review of financial statements. Specifically, the Audit Committee will:

- (a) have the authority with respect to the appointment, retention or discharge of the independent public accountants as auditors of the Company (the "auditors") who perform the annual audit in accordance with applicable securities laws, and who shall be ultimately accountable to the Board through the Audit Committee;
- (b) review with the auditors the scope of the audit and the results of the annual audit examination by the auditors, including any reports of the auditors prepared in connection with the annual audit;
- (c) review information, including written statements from the auditors, concerning any relationships between the auditors and the Company or any other relationships that may adversely affect the independence of the auditors and assess the independence of the auditors;
- (d) review and discuss with management and the auditors the Company's audited financial statements and accompanying Management's Discussion and Analysis of Financial Conditions ("MD&A"), including a discussion with the auditors of their judgments as to the quality of the Company's accounting principles and report on them to the Board;
- (e) review and discuss with management the Company's interim financial statements and interim MD&A and report on them to the Board;
- (f) pre-approve all auditing services and non-audit services provided to the Company by the auditors to the extent and in the manner required by applicable law or regulation. In no circumstances shall the auditors provide any non-audit services to the Company that are prohibited by applicable law or regulation;
- (g) evaluate the external auditor's performance for the preceding fiscal year, reviewing their fees and making recommendations to the Board;
- (h) periodically review the adequacy of the Company's internal controls and ensure that such internal controls are effective;
- (i) review changes in the accounting policies of the Company and accounting and financial reporting proposals that are provided by the auditors that may have a significant impact on the Company's financial reports, and report on them to the Board;
- (j) oversee and annually review the Company's Code of Business Conduct and Ethics;

- (k) approve material contracts where the Board of Directors determines that it has a conflict;
- (l) establish procedures for the receipt, retention and treatment of complaints received by the Company regarding the audit or other accounting matters;
- (m) where unanimously considered necessary by the Audit Committee, engage independent counsel and/or other advisors at the Company's expense to advise on material issues affecting the Company which the Audit Committee considers are not appropriate for the full Board;
- (n) satisfy itself that management has put into place procedures that facilitate compliance with the provisions of applicable securities laws and regulation relating to insider trading, continuous disclosure and financial reporting;
- (o) review and monitor all related party transactions which may be entered into by the Company; and
- (p) periodically review the adequacy of its charter and recommending any changes thereto to the Board.

## **5.0 Miscellaneous**

5.1 Nothing contained in this Charter is intended to extend applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.

### **Composition of the Audit Committee**

The following are the members of the Committee:

Larry Okada <sup>(1)</sup>	Independent <sup>(2)</sup>	Financially literate <sup>(1)</sup>
Federico Villaseñor	Independent <sup>(2)</sup>	Financially literate <sup>(1)</sup>
Roland Löhner	Independent <sup>(2)</sup>	Financially literate <sup>(1)</sup>

<sup>(1)</sup> Chair of the Audit Committee.

<sup>(2)</sup> As defined by NI 52-110.

### **Relevant Education and Experience**

Larry Okada is the Chair of the Audit Committee. Mr. Okada is financially literate and familiar with public company financial statements and the accounting principles used in reading and preparing financial statements. He graduated from the University of British Columbia with a BA after which he articulated to become a CPA, CA in Canada followed by a CPA in the United States.

Roland Löhner was a senior partner and Managing Director of The Boston Consulting Group before retiring in 2015 after 20 years with the firm. Mr. Löhner is financially literate and familiar with public company financial statements and the accounting principles used in reading and preparing financial statements.

Federico Villaseñor holds a B.Sc in Mining and Metallurgy from the University of Guanajuato, a M.S. of Mineral Economics from Columbia Univeresity and a Finance Degree from The Instituto Tecnológico Autónomo de Mexico. His career has spanned 40 years in the mining industry and he is financially literate and familiar with public company financial statements and the accounting principles used in reading and preparing financial statements.

### **Audit Committee Oversight**

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board.

### **Reliance on Certain Exemptions**

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in the Company's Audit Committee Charter under the heading "Duties and Responsibilities".

### **External Auditors Service Fees (By Category)**

The aggregate fees billed by the Company's external auditors during the last two fiscal years for audit fees are as follows:

<i>Financial Year Ending</i>	<i>Audit Fees</i>	<i>Audit Related Fees</i>	<i>Tax Fees</i>	<i>All Other Fees</i>
December 31, 2018	C\$110,000	Nil	C\$9,000	Nil
December 31, 2017	C\$130,400	Nil	C\$9,000	Nil

## **CORPORATE GOVERNANCE DISCLOSURE**

National Policy 58-201 establishes corporate governance guidelines which apply to all public companies. The Company has reviewed its own corporate governance practices in light of these guidelines. In certain cases, the Company's practices comply with the guidelines, however, the Board considers that some of the guidelines are not suitable for the Company at its current stage of development and therefore these guidelines have not been adopted. National Instrument 58-101 mandates disclosure of corporate governance practices which disclosure is set out below.

### **Independence of Members of Board**

The Company's Board consists of five (5) directors, four of whom are independent based upon the tests for independence set forth in NI 52-110. Federico Villaseñor, Roland Löhner, Larry Okada and W. Barry Girling are independent. Arturo Prestamo Elizondo is not independent as he is the President and CEO of the Company.

### **Management Supervision by Board**

The size of the Company is such that all the Company's operations are conducted by a small management team which is also represented on the Board. The Board considers that management is effectively supervised by the independent directors on an informal basis as the independent directors are actively and regularly involved in reviewing and supervising the operations of the Company and have regular and full access to management. The independent directors are also able to meet at any time without any members of management, including the non-independent directors, being present. Further supervision is performed through the Audit Committee (which is composed entirely of independent directors) who meet with the Company's auditors without management being in attendance.

### **Participation of Directors in Other Reporting Issuers**

The participation of the directors in other reporting issuers is described in the table provided under "Election of Directors" in this Information Circular.

### **Orientation and Continuing Education**

While the Company does not have formal orientation and training programs, new Board members are provided with:

- (1) information respecting the functioning of the Board, committees and copies of the Company's corporate governance policies;
- (2) access to recent, publicly filed documents of the Company, technical reports and the Company's internal financial information;
- (3) access to management, technical experts and consultants; and
- (4) a summary of significant corporate and securities responsibilities.

Board members are encouraged to communicate with management, auditors and technical consultants; to keep themselves current with industry trends and developments and changes in legislation with management's assistance; and to attend related industry seminars and visit the Company's operations. Board members have full access to the Company's records.

### **Ethical Business Conduct**

The Board views good corporate governance as an integral component to the success of the Company and to meet responsibilities to Shareholders. The Board has adopted a Code of Business Conduct and Ethics that is posted on its website at [www.santacruzsilver.com](http://www.santacruzsilver.com) and has instructed its management and employees to abide by the Code.

### **Nomination of Directors**

The Governance and Nomination Committee (the "**Nominating Committee**") has responsibility for identifying potential Board candidates. The members of the Nominating Committee are Larry Okada, Roland Löhner, and Arturo Prestamo Elizondo. Larry Okada and Roland Löhner are independent directors of the Company; Arturo Prestamo Elizondo is not an independent director as he is the President and CEO of the Company. The Nominating Committee assesses potential Board candidates to fill perceived needs on the Board for required skill, expertise, independence and other factors. Members of the Board and representatives are consulted for possible candidates. The Board has adopted a written charter that sets forth the responsibilities of the Nominating Committee and gives the Nominating

Committee the authority to engage outside experts to assist in identifying potential candidates if considered advisable. A copy of the Nominating Committee's charter is posted on SEDAR.

### **Compensation of Directors and the CEO**

The members of the Compensation Committee are Arturo Prestamo Elizondo, Federico Villaseñor, and Roland Löhner. Federico Villaseñor and Roland Löhner are independent directors of the Company; Arturo Prestamo Elizondo is not an independent director as he is the President and CEO of the Company. The Compensation Committee has responsibility for determining compensation for the directors and senior management.

To determine compensation payable, the Compensation Committee reviews compensation paid for directors and CEOs of companies of similar size and stage of development in the mineral exploration and mining industries and determines an appropriate compensation reflecting the need to provide incentive and compensation for the time and effort expended by the directors and senior management while taking into account the financial and other resources of the Company. In setting compensation the Compensation Committee annually reviews the performance of the Company's CEO and other executive officers in light of the Company's objectives and considers other factors that may have impacted the success of the Company in achieving its objectives. The Board has adopted a written charter that sets forth the responsibilities of the Compensation Committee and gives the Compensation Committee the authority to engage outside experts to assist in identifying potential candidates if considered advisable. A copy of the Compensation Committee's charter is posted on SEDAR. For further information regarding the how the Company determines compensation for its directors and executive officers, see "*Executive Compensation– Compensation Discussion and Analysis*".

### **Board Committees**

In addition to the Audit, Compensation and Nominating Committee, the Company has a Health, Safety and Environment Committee.

The Board had adopted a written mandate that sets forth the responsibilities of the Health, Safety and Environment Committee, which includes overseeing the development and implementation of policies and procedures for ensuring a safe, healthy work environment and sustainable development. The mandate of the Health, Safety and Environment Committee is filed on SEDAR.

### **Assessments**

The Board does not consider that formal assessments of the Board would be useful at this stage of the Company's development. The Board conducts informal annual assessments of the Board's effectiveness, the individual directors and each of its committees. To assist in its review, the Board conducts informal surveys of its directors. As part of the assessments, the Board or the individual committee may review their respective mandate or charter and conduct reviews of applicable corporate policies.

## **PARTICULARS OF OTHER MATTERS TO BE ACTED UPON**

### **Approval of Stock Option Plan**

Under the Plan the Company may grant options to directors, senior officers, employees and consultants, as additional compensation, and as an opportunity to participate in the success of the Company. The granting of such options is intended to align the interests of such persons with that of the Shareholders. Options will be exercisable over periods of up to ten years as determined by the Board and are required to have an exercise price no less than the closing market price of the Company's Shares prevailing on the

day that the option is granted less a discount of up to 25%, the amount of the discount varying with the market price in accordance with the policies of the TSX Venture Exchange.

Additional material terms of the Plan are as follows:

- (a) The number of Shares reserved for issuance under the Plan (including those issuable under pre-existing options) shall not exceed 10% of the issued and outstanding Shares, on a non-diluted basis, on the grant date;
- (b) The number of Shares which may be reserved for issuance to any individual may not exceed 5% of the issued Shares (without shareholder approval), 2% if the optionee is engaged in investor relations, or 10% to insiders as a group;
- (c) Unless otherwise determined by the directors, all options shall immediately vest, other than options granted to optionees performing investor relations activities, which options must vest in stages over 12 months with no more than one-quarter vesting in any three month period;
- (d) The Plan provides that, on the death or disability of an option holder, all vested options will expire at the earlier of one year after the date of death or disability and the expiry date of such options. Where an optionee is terminated for cause, any outstanding options (whether vested or unvested) are cancelled as of the date of termination. If an optionee retires or voluntarily resigns or is otherwise terminated by the Company other than for cause, then all vested options held by such optionee will expire at the earlier of: (i) the expiry date of such options and (ii) the date which is 90 days (30 days if the optionee was engaged in investor relations activities) after the optionee ceases to be an eligible person under the Plan. The Board may, in its sole discretion if it determines such is in the best interests of the Company, extend this 90 day termination date to a later date within a reasonable period not exceeding one year;
- (e) The Plan contains a provision that, if pursuant to the operation of the plan's adjustment provisions, in respect of options granted under the Plan (the "**Subject Options**"), an optionee receives options to purchase securities of another company (the "**New Company**"), such new options shall expire on the earlier of: (i) the expiry date of the Subject Options; (ii) if the optionee does not become an eligible person in respect of the New Company, the date that the Subject Options expire pursuant to the applicable provisions of the Plan relating to expiration of options in cases of death, disability or termination of employment discussed in the preceding paragraph above (the "**Termination Provisions**"); (iii) if the optionee becomes an eligible person in respect of the New Company, the date that such new options expire pursuant to the terms of the New Company's stock option plan that correspond to the Termination Provisions; and (iv) the date that is one year after the optionee ceases to be an eligible person in respect of the New Company or such shorter period as determined by the Board;
- (f) In accordance with good corporate governance practices and as recommended by National Policy 51-201 – *Disclosure Standards*, the Company imposes black-out periods restricting the trading of its securities by directors, officers, employees and consultants during periods surrounding the release of annual and interim financial statements and at other times when deemed necessary by management and the Board. In order to ensure that optionees are not prejudiced by the imposition of such black-out periods, the Plan includes a provision (the "**Black-Out Provision**") to the effect that any outstanding stock options with an expiry date that falls during a management imposed black-out period or within five trading days thereafter will be

automatically extended to a date that is ten trading days following the end of the black-out period;

- (g) The Plan provides that if a change of control (as defined therein) occurs, or if the Company is subject to a take-over bid, all Shares subject to stock options shall immediately become vested and may thereupon be exercised in whole or in part by the option holder. The Board may also accelerate the expiry date of outstanding stock options in connection with a take-over bid; and
- (h) The Plan contains adjustment provisions with respect to outstanding options in cases of share reorganizations, special distributions and other corporation reorganizations including a consolidation, merger, amalgamation, an arrangement or other transaction under which the business or assets of the Company become, collectively, the business and assets of two or more companies with the same shareholder group upon the distribution to the Company's Shareholders, or the exchange with the Company's Shareholders, of securities of the Company or securities of another company, or a transaction whereby all or substantially all of the Company's undertaking and assets become the property of another corporation.

The Plan was last approved by the Shareholders at the Company's 2018 annual general meeting of Shareholders.

The full text of the Plan is available for viewing up to the date of the Meeting at the Company's offices at 880-580 Hornby Street, Vancouver, British Columbia and will also be available for review at the Meeting.

Under TSX Venture Exchange policy, all such rolling stock option plans which set the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares must be approved and ratified by shareholders on an annual basis. Therefore, at the Meeting Shareholders will be asked to pass an ordinary resolution in the following form:

"UPON MOTION IT WAS RESOLVED that:

- (1) the Company approve and ratify, subject to regulatory approval, the Plan pursuant to which the directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding common shares of the Company at the time of grant, with a maximum of 5% of the Company's issued and outstanding common shares being reserved to any one person on a yearly basis; and
- (2) any one officer or director of the Company is hereby authorized to execute and deliver all such documents and do all such acts and things as may be deemed advisable in such individual's discretion for the purpose of giving effect to this resolution."

The Board believes the passing of the foregoing resolution is in the best interests of the Company and recommends that Shareholders vote in favour of the resolution.

**Unless otherwise directed, the persons named in the enclosed Proxy intend to vote FOR the approval of the Plan.**

## Approval of Carrizal Transaction

At the Meeting, shareholders will be asked to approve the Transaction Resolution (as defined below) in accordance with the requirements of the TSX Venture Exchange. Details of the Transaction are set forth below.

### *Summary of the Transaction*

The Company entered into a purchase agreement with Carlos Alberto Silva Ramos ("**Silva**") dated May 15, 2019 with binding effect as of May 21, 2019 (the "**Silva Purchase Agreement**") pursuant to which the Company agreed to purchase from Silva, and Silva agreed to sell to the Company, all of the shares held or controlled by Silva in PCG Mining, S.A. de C.V. ("**PCG**"), representing 50% of the outstanding shares of PCG (the "**Silva Shares**"), in consideration for the issuance of 30,000,000 common shares of the Company (the "**Consideration Shares**") at a deemed price of C\$0.05 per share (the "**Transaction**"). Silva is the Chief Operating Officer of the Company and the Chief Executive Officer and a director of Carrizal Mining (as defined below).

As disclosed in the Company's news release dated July 2, 2019, the Company acquired 50% of the outstanding shares of PCG (the "**Arm's-Length Acquisition**") from an arm's-length third party (the "**Vendor**") for the following consideration:

- A cash payment by the Company to the Vendor of US\$500,000;
- The forgiveness of approximately US\$264,000 in debt owed by the Vendor to Carrizal Mining (as defined below); and
- Other consideration in the aggregate amount of approximately US\$680,000, including the transfer of a life-insurance policy and three vehicles from Carrizal Mining to the Vendor, valued at US\$494,000 and US\$180,000 respectively.

Accordingly, upon completion of the Transaction, the Company will hold all of the issued and outstanding shares of PCG.

PCG owns all of the issued and outstanding shares of Carrizal Mining, S.A. de C.V. ("**Carrizal Mining**") (except for a minority interest totalling 1% which is held by another person, namely the Company's President and Chief Executive Officer, Arturo Prestamo, who is a resident of Mexico, solely due to Mexican legal requirements). Therefore, upon completion of the Transaction, the Company will indirectly acquire Carrizal Mining, which is a private Mexican mining company.

Carrizal Mining's principal asset is a 20% working interest (the "**Working Interest**") in the Company's Veta Grande Project in Mexico. Carrizal Mining previously acquired the Working Interest from the Company as disclosed in the Company's news release dated May 22, 2019. Accordingly, by acquiring all of the shares of PCG, the Company will effectively buy back the Working Interest which enables the Company to return to 100% ownership rights in the Veta Grande Project (see "*Veta Grande Project*" below for further details of this project).

Carrizal Mining also operates the Carrizal and Mina Monte mines (collectively the "**Zimapan Mine**") (34 mining concessions covering an area of 5,139 ha) located seven kilometers northwest from the town of Zimapan, Hidalgo, Mexico under a 10-year lease agreement with Minera Cedros, S.A. de C.V. ("**Minera Cedros**"), a wholly-own subsidiary of Grupo Peñoles, S.A.B. de C.V. Unless otherwise amended or extended, the lease agreement with Minera Cedros expires on December 31, 2019. The Company understands that Carrizal Mining and Minera Cedros are currently in negotiations with respect

to Carrizal Mining acquiring outright the Zimapan Mine from Minera Cedros. Any transaction involving the acquisition of the Zimapan Mine or an interest therein represents an additional potential benefit of the Transaction, but there can be no assurance that Carrizal Mining will be successful in funding and completing any such acquisition transaction. Accordingly, the acquisition by Carrizal Mining of the Zimapan Mine (or an interest therein) is not a condition to completing the Transaction.

Pursuant to the Silva Purchase Agreement, completion of the Transaction remains subject to receipt of all necessary approvals from the TSX Venture Exchange. The full text of the Silva Purchase Agreement (including an English translated copy), is available under the Company's profile at [www.sedar.com](http://www.sedar.com).

#### *Regulatory Requirements*

Silva is an insider of the Company by virtue of his position of Chief Operating Officer. As a result, the Transaction constitutes a "related party transaction" of the Company under Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"). Jorge Federico Villaseñor, who is a director of the Company, is also a director of Carrizal Mining.

Senior management of the Company, excluding Silva, negotiated the terms of the Transaction under the direction of the Board (excluding Messr. Villaseñor). The Board, excluding Messr. Villaseñor who abstained from voting, unanimously approved the Transaction and determined that the Transaction is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 pursuant to the exemptions in sections 5.5(a) and 5.7(1)(a) of MI 61-101, on the basis that, at the time the Transaction was agreed to, neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the Transaction (being approximately C\$1.5 million) exceeds 25% of the Company's market capitalization calculated in accordance with MI 61-101 (being approximately C\$2.47 million). The Transaction is also exempt from the formal valuation requirements of MI 61-101 pursuant to the exemption contained in section 5.5(b) of MI 61-101 on the basis that the Company's shares are not listed on a senior stock exchange.

After reasonable enquiry, the Company is not aware of any "prior valuation" (as defined in MI 61-101) that has been made in the previous 24 months and that relates to the subject matter of or is otherwise relevant to the Transaction.

The Transaction is considered a "Reviewable Transaction" under TSX Venture Exchange Policy 5.3 – *Acquisitions and Dispositions of Non-Cash Assets* ("**Policy 5.3**") and Silva is considered a "Non-Arm's Length Party" under TSX Venture Exchange policy. Section 5.14(b) of Policy 5.3 requires disinterested shareholder approval of any transaction where the number of securities issued or issuable to Non-Arm's Length Parties as a group as payment of the purchase price for an acquisition, exceeds 10% of the number of outstanding securities of the issuer on a non-diluted basis, prior to closing the transaction.

Silva does not currently hold any common shares of the Company. The Consideration Shares represent approximately 17.2% of the Company's current 174,670,984 outstanding shares. On completion of the Transaction, Silva would hold 30,000,000 common shares of the Company (being the Consideration Shares) representing approximately 14.7% of the Company's then issued and outstanding shares (assuming no other shares are issued subsequent to the date hereof other than the Consideration Shares). As a result, pursuant to Policy 5.3, the Company is required to obtain approval of the Transaction from the shareholders of the Company by way of ordinary resolution passed by 50% of the votes cast at a meeting of shareholders, excluding the votes of any shares owned by Silva or his affiliates.

Pursuant to Policy 5.3, the Company is also required to establish evidence of value to support the consideration payable to Silva under the Transaction. Evidence of value for the Consideration Shares was

established by the approximately US\$4.1 million in exploration and development costs Carrizal Mining had previously incurred in connection with earning the Working Interest, 50% of which (US\$2.05 million) exceeds the deemed value (C\$1.5 million) of the Consideration Shares to be issued to Silva for 50% of PCG.

Pursuant to applicable Canadian securities legislation and the policies of the TSX Venture Exchange, the Consideration Shares, which will be issued by the Company to Silva on a private placement basis, will be restricted from trading for a period of four months following the date of issuance of the Consideration Shares.

The Transaction is not considered to be a "restructuring transaction" as defined in National Instrument 51-102 *Continuous Disclosure Obligations* ("NI 51-102") nor a significant acquisition under Part 8 of NI 51-102.

*Trading Price and Volume*

The Company's common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "SCZ". The following table sets forth information relating to the monthly trading of the shares on the TSX Venture Exchange for the twelve months prior to the date hereof.

<i>Period</i>	<i>High (C\$)</i>	<i>Low (C\$)</i>	<i>Total Volume</i>
<b>2018</b>			
August	\$0.11	\$0.08	1,073,200
September	\$0.11	\$0.09	765,300
October	\$0.12	\$0.09	414,000
November	\$0.10	\$0.08	1,120,900
December	\$0.09	\$0.05	5,625,700
<b>2019</b>			
January	\$0.07	\$0.05	4,610,100
February	\$0.07	\$0.06	4,260,800
March	\$0.06	\$0.05	3,186,200
April	\$0.06	\$0.05	489,700
May	\$0.07	\$0.05	865,900
June	\$0.10	\$0.07	1,494,100
July	\$0.16	\$0.09	5,069,100
August 1-21	\$0.19	\$0.16	2,596,000

On May 21, 2019, the last trading day before the initial announcement of the Transaction, the closing price of the Company's common shares on the TSX Venture Exchange was C\$0.06 and on the date hereof the closing price was C\$0.165.

*Selected Financial Information Concerning Carrizal Mining*

The table below sets forth selected financial information concerning Carrizal Mining as at the dates indicated. The December 31 information is based on financial statements of Carrizal Mining audited in accordance with applicable Mexican legal requirements. The June 30 information is based on unaudited

financial information prepared by management of Carrizal Mining. PCG is a holding company with nominal assets and liabilities, other than its investment in Carrizal Mining.

The financial accounts of Carrizal Mining are recorded Mexican pesos. The amounts in the table below have been converted to United States dollars based on the daily exchange rate report by the Bank of Mexico as at June 30, 2019 (1 peso = 0.0521 US dollars) and December 31, 2018 (1 peso = 0.0509 US dollars), as applicable.

	June 30, 2019 (unaudited) (US\$ 000's)	December 31, 2018 (US\$ 000's)
<b>ASSETS</b>		
Current	8,253	8,451
Non-current	10,281 <sup>(1)</sup>	10,253 <sup>(2)</sup>
	18,534	18,704
<b>LIABILITIES</b>		
Current	16,742	14,303
Non-current	369	35
	17,111	14,338
<b>SHAREHOLDERS' EQUITY</b>		
	1,423	4,366
	18,534	18,704

(1) Non-current assets as at June 30, 2019 include approximately US\$7,061 recorded as "Machinery and equipment and improvements to leased properties", of which approximately US\$2,032 relates to the Zimapan Mine and approximately US\$5,029 relates to the Working Interest in respect of the Company's Veta Grande Project.

(2) Non-current assets as at December 31, 2018 include approximately US\$8,462 recorded as "Machinery and equipment and improvements to leased properties", of which approximately US\$3,612 relates to the Zimapan Mine and approximately US\$4,850 relates to the Working Interest in respect of the Company's Veta Grande Project.

#### *Veta Grande Project*

As explained above, the principal asset of Carrizal Mining is the Working Interest in the Company's Veta Grande Project.

In connection with the Transaction and this Information Circular, the Company obtained an updated technical report entitled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" dated August 20, 2019 (the "**Veta Grande Report**"), which was prepared by consulting geologist Van Phu Bui, B.Sc., P.Geol and consulting geologist Michael Frederick O'Brien, M.Sc., B.Sc.(HONS), P.Geol., each of whom is independent within the meaning of National Instrument 43-101 *Standards of Disclosure for Mineral Projects*.

Attached as Schedule "A" to this Information Circular is an excerpt of the Summary section of the Veta Grande Report. **The entire Veta Grande Report is incorporated by reference into this Information Circular, and is available under the Company's profile at [www.sedar.com](http://www.sedar.com).**

*Approval and Recommendation of the Board of Directors*

The Board (excluding Messr. Villaseñor) has carefully considered the Transaction, including the terms of the Silva Purchase Agreement, and has determined that the Transaction is in the best interests of the Company, and unanimously recommends that shareholders vote in favour of the Transaction Resolution at the Meeting. In recommending that shareholders vote in favour of the Transaction Resolution, the Board (excluding Messr. Villaseñor) considered, among other things: (i) the importance to the Company of the Working Interest; (ii) the terms and conditions of the Arm's-Length Acquisition; and (iii) the Veta Grande Report.

Notwithstanding that the Transaction may be authorized and approved by the shareholders at the Meeting, the directors will be authorized and empowered, without further notice to, or authorization, approval, ratification or confirmation of, any shareholders of the Company to determine whether or not to proceed with the Transaction at any time prior to the closing thereof.

*Transaction Resolution*

At the Meeting, shareholders will be asked to consider and, if thought advisable, pass an ordinary resolution approving the Transaction, in substantially the form of the resolution set forth below (the "**Transaction Resolution**"). To the knowledge of the directors and management of the Company after reasonable enquiry, no shares are required to be excluded from voting on the Transaction Resolution, as neither Silva nor any of his affiliates hold any common shares of the Company as at the date hereof.

All shareholders will be entitled to vote on the Transaction Resolution. In order to pass, the Transaction Resolution must be approved by greater than one-half (1/2) or 50% of the votes cast by those shareholders who, being entitled to do so, vote in person or by proxy at the Meeting.

The Transaction Resolution is as follows:

"UPON MOTION IT WAS RESOLVED AS AN ORDINARY RESOLUTION THAT:

- (1) the issuance by Santacruz Silver Mining Ltd. (the "**Company**") of 30,000,000 common shares of the Company in consideration for the acquisition of 50% of the outstanding shares of PCG Mining, S.A. de C.V. pursuant to a purchase agreement dated May 15, 2019 between the Company and Carlos Alberto Silva Ramos, as described in the Company's information circular dated August 22, 2019, be and the same is hereby ratified and approved;
- (2) notwithstanding the approval by the shareholders of the Company of this ordinary resolution, the board of directors of the Company is hereby authorized, by resolution at any time in its absolute discretion, to determine whether or not to proceed with the transaction referred to in the preceding resolution, without further approval, ratification or confirmation by the shareholders of the Company; and
- (3) any one director or officer of the Company be and is hereby authorized for and on behalf of the Company to execute and deliver all such documents and instruments and take all such other actions as such director or officer may determine necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents and instruments or the taking of such actions."

**Unless otherwise directed, the persons named in the enclosed Proxy intend to vote FOR the Transaction Resolution.**

If the Transaction Resolution is not approved at the Meeting, the Company will be unable to complete the Transaction pursuant to the Silva Purchase Agreement. As a result, the Company would continue to hold 50% of the outstanding shares of PCG which were previously acquired in the Arm's-Length Acquisition.

**ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Company at (604) 569-1609 to request copies of the Company's financial statements and MD&A.

Financial information is provided in the Company's comparative financial statements and MD&A for its most recently completed financial year which are filed on SEDAR.

**OTHER MATTERS**

Management of the Company is not aware of any other matter to come before the Meeting other than as set forth in the notice of Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote the Shares represented thereby in accordance with their best judgment on such matter.

DATED this 22nd day of August, 2019.

APPROVED BY THE BOARD OF DIRECTORS

“Arturo Prestamo Elizondo”

Arturo Prestamo Elizondo, President, Chief Executive Officer and Director

**SCHEDULE "A"**

**Excerpt of Summary from the Veta Grande Report  
See attached.**

# 1 SUMMARY

## 1.1 Introduction

This technical report presents an independent assessment of the Veta Grande project located in Zacatecas, Mexico. It includes an independent assessment and mineral resource estimate for the Panuco deposit located within the Zacatecas properties. The report supersedes three previous reports titled “Technical Report, Veta Grande Project, Zacatecas State, Mexico” dated May 17, 2016, “2016 Mineral Resource Estimate, Panuco Deposit, Zacatecas, Mexico” dated November 3, 2016, and “Technical Report, Veta Grande Project, Zacatecas State, Mexico” dated February 26, 2017. The effective date of this technical report is August 20, 2019.

Santacruz Silver Mining Ltd. contracted Van Phu Bui of ARC Geoscience Group Inc. to prepare an updated technical report for the Veta Grande project and Michael F. O’Brien of RockRidge Partnership & Associates to prepare an updated mineral resource estimate for the Panuco deposit. Both Bui and O’Brien are Qualified Persons as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101). The technical report and mineral resource estimate are prepared in accordance with NI 43-101. The effective date of the Panuco deposit mineral resource estimate is July 12, 2019.

Santacruz declared commercial production at the Veta Grande project on October 1, 2016 with initial mining activities focusing on the Veta Grande vein system from the Garcia underground mine and the La Canterra vein system from the Guadalupana underground mine. The decision to commence production at the Veta Grande project was not based on a feasibility study on mineral reserves demonstrating economic and technical viability. There is increased uncertainty and economic and technical risks of failure associated with this production decision.

The Panuco deposit is a low-sulfidation (silver-gold, ±lead+zinc) vein system located approximately five to twelve km north of the Veta Grande and La Cantera vein systems. The deposit consists of three vein structures: the Panuco Central vein, Panuco NW vein and Tres Cruces vein. The mineral resource estimate presented in this report for the Panuco deposit encompasses all three Panuco vein structures and includes mineralization defined by trenching and drilling over a surface distance of 2.4 km.

## 1.2 Location, Mining Concessions, Surface Rights and Permits

The Veta Grande project consists of 184 mining concessions covering an area of 8,944 hectares (22,102 acres) in the Zacatecas Mining District, Mexico. The project is centered near coordinate 751,119 m East and 2,527,830 m North (UTM Zone 13N – NAD27) on the 1:250,000 Zacatecas topographic map sheet F13-6. The Veta Grande project is divided into three concession groups, described as the Veta Grande properties, Minillas property and Zacatecas properties. Although the concession groups are mostly contiguous and have the possibility of sharing the same infrastructure, the nature of Santacruz’s initial ownership of each concession group are materially different. For this reason, the report describes the three groups as individual properties within one project area.

Santacruz acquired the Veta Grande and Minillas properties through a Business Alliance Agreement with Minera Contracuña I, S.A. de C.V. on Oct 27, 2015. The agreement was subsequently amended on December 2, 2015 to include three additional concessions along the La Cantera vein structure (concession title 67352, 66826, and 165558). On June 14, 2017 and as revised on December 13, 2017 and further

revised on March 28, and August 27, 2018 Santacruz entered into an option agreement with Contracruña whereby Santacruz was granted an option to purchase a 100% interest in the Veta Grande and Minillas properties, for aggregate cash payments of \$17,100,000 spread over a five-year period. The amended option agreement grants Contracruña a 1% net smelter royalty ("NSR") that commences December 14, 2022. Santacruz has the right to acquire the NSR at any time by paying Contracruña US\$1,500,000.

Santacruz acquired the Zacatecas properties through an option agreement with Golden Minerals Company on May 2, 2016 for aggregate cash considerations of US \$1,500,000. Option payment obligation required of Santacruz were satisfied in October of 2018. The Zacatecas properties is subject to a 2% royalty and a 1% royalty for minerals mined from the SAN GIL and SAN SABIANO concessions, respectively.

On November 30, 2017 Santacruz entered into a binding letter of intent with Carrizal Mining, S.A. de C.V., a private Mexican mining company, pursuant to which Carrizal Mining may acquire a 20% working interest in the Veta Grande project, by wholly funding the cost to increase the capacity of the Vetagrande mineral processing facility to 750 tpd and the cost to conduct up to 20,000 m of near mine exploration drilling at the Garcia, Armados and Navidad mine areas. The required earn-in expenditures were completed on May 22, 2019 and a 20:80 joint venture between Carrizal Mining (20%) and Santacruz (80%) was formed.

On May 21, 2019 Santacruz has entered into a purchase agreement to acquire 100% of the outstanding shares of PCG Mining S.A. de C.V. for aggregate cash considerations of US \$1,100,000 and the issuance of 30 million Santacruz shares. PCG is a holding company that owns 100% of the outstanding shares of Carrizal Mining. As at the date of this technical report, Santacruz has acquired 50% of the outstanding shares of PCG. Through the completion of the purchase agreement, which is subject to receipt of necessary shareholder and regulatory approvals, Santacruz will indirectly own Carrizal Mining's 20% interest in the Veta Grande project.

Through the initial Business Alliance Agreement, Santacruz holds the necessary surface rights and environmental permits to carry out surface and underground exploration activities, underground development and extraction activities at Veta Grande and La Cantera vein systems, and to operate the Vetagrande mineral processing facility. In addition, Santacruz received an updated Environmental Use License on November 17, 2017 and authorization to conduct surface exploration activities, including drilling, in Garcia and Armados mine area (valid until January 16, 2021), Navidad mine area (July 3, 2021) and within the Minillas concessions (valid until January 21, 2022). Santacruz has not received authorization to carry out exploration work and have not obtained surface rights agreements with surface landowners (Ejidos) within the Zacatecas properties. The Panuco deposit is situated within the north-central area of the Zacatecas properties and centered on concession title 233300 (Panicu).

There are no known environmental liabilities associated with exploration, mining and mineral processing activities for the Veta Grande project or with the area immediate to the Panuco deposit. Activities related to the tailings storage facilities and Vetagrande mineral processing plant are managed through conditions set forth by the aforementioned environmental permit.

### **1.3 Exploration and Drilling**

Santacruz has collected 472 surface rock samples (channel, chip and grab samples) on various vein exposures within the project area. From underground workings, a total of 2,808 underground channel

samples have been collected from at least five veins (La Cantera, Veta Grande, Armados, San Jose, and La Flor) from five underground workings (Armados, Garcia, Guadalupana, La Mecha and Cigarrero).

In August of 2016 Santacruz collected 41 chip samples across the width of the Panuco NW, Panuco Central and Tres Cruces veins. No other exploration activities have been conducted by Santacruz and the company has not performed drilling on the Panuco deposit.

Between January 24, 2018 and March 26, 2019 Santacruz completed 43 diamond drill holes totaling 13,665.60 m as part of the Phase 1 drill program related to the Carrizal Mining Option Agreement earn in. The work was designed to test for mineralization in proximity to and below the lowest known levels of the Armados, Garcia and Navidad underground workings. Significant mineralized intersections were encountered at the Veta Grande vein in the northwest area of and below the Garcia mine workings. At this location, assay results range from no significant intersections in VG18-009 up to 280.10 g/t Ag over 1.59 m true thickness in drill hole VG19-014A. Drilling within the Armados mine from the general ramp below Level-4 resulted in several significant intersections into the Armados vein that range from 129.67 g/t Ag to 235.69 g/t Ag over approximated true widths that range between 1.00 m to 3.76 m. Intersections into the Navidad vein range from trace Au and Ag up to 668.64 g/t Ag over 1.95 m true width in NA18-006. While Au concentration are generally low, Pb- and Zn-rich intersections appear more common than drill hole intersections from the Armados and Garcia mine areas. Overall, the Phase 1 drill program was successful at identifying additional mineralization below the known workings in each mine area tested.

#### **1.4 Data Verification and Site Visit**

During a site visit between July 9-10, 2019, ARC reviewed drill collar locations and mineralized drill core intersections for the 2018/2019 Phase 1 drill program completed at the Garcia, Armados and Navidad mine areas. ARC collected five quarter-core samples to verify the presence of mineralization. The five verification samples returned analytical results that include silver concentrations ranging between 10.20 g/t Ag to 575.30 g/t Ag. ARC performed a 10% quality control check on collar locations, mineralized drill core sample intervals, and geological descriptions. No material discrepancies were identified and ARC has no reason to doubt the authenticity and quality of the information. During the same site visit, ARC confirmed that no additional work has been performed on the Panuco deposit since the initial surface sampling program completed by Santacruz in 2016 and the authors site visit on August 16-19, 2016.

#### **1.5 Geology and Mineralization**

The Veta Grande project is located near the southeastern boundary of the Sierra Madre Occidental physiographic province in north-central Mexico, within the State of Zacatecas and constitutes a portion of the Zacatecas Mining District and Mexican Silver Belt. The Zacatecas Mining District is comprised of three Mesozoic formations that are subsequently covered by Paleocene volcanic rocks and Quaternary cover.

The project concession boundaries covers a number of northwest-southeast striking, southwest dipping, low-sulphidation epithermal silver (+gold+lead+zinc) vein systems including Veta Grande, La Cantera and Panuco, among others. On surface, the veins can be traced over a distance of 2.4-3.0 km. Veins range from less than 1 m to over 30 m thick and consist of quartz, chalcedony, calcite and pyrite, often showing banded, colloform, crustiform, vuggy and/or brecciated textures. The dominant sulfide minerals include

sphalerite and galena along with argentite and native silver, and they occur as disseminations, bands, or zones of massive sulfide. Alteration around the veins ranges from weak to moderate pervasive silicification to narrow zones (1-5 m) of weak argillic and propylitic alteration immediately surrounding the veins. Locally, the veins are generally hosted within mafic to intermediate coherent volcanic rocks, intermediate volcanic tuffs and volcanosedimentary rocks, and clastic sediments. These units are subsequently cut by younger diorite to quartz-diorite dykes.

## 1.6 Mineral Resources

As at the effective date of this report, the Panuco deposit is the only mineral resource estimate calculated and reported for the Veta Grande project. Current mining operations at the Veta Grande vein system is being conducted in the absence of a mineral resource estimate. The Panuco mineral resource estimate has been changed since the previous technical report (with effective date of January 31, 2017). This is due to improvements in the geometric modelling process applied to develop the geometry of the veins and the consequent changes to the sample selections and compositing for the current estimation. The implicit modelling process applied to the current estimate better reflects the likely geometries of the veins than the former sectional interpretations. This has resulted in a more coherent selection of vein samples for the estimation. The application of dynamic anisotropy to the variogram and search orientations, combined with less angular vein geometry, provide improved spatial grade estimation with good correspondence between composite and block grade averages.

For the mineral resource estimate, the mineralized solids were filled using rotated block models with blocks measuring 20 m along strike and dip, and 1 m across strike. Sub-cells with precise boundary location were used to fill the models to represent accurate volumes when compared to the modelled vein solids. A slightly different rotation was applied to each vein block model to provide a best-fit for each particular vein strike and dip. Average specific gravity of 2.74 was applied to the vein portions of blocks while a value of 2.68 was assigned to the waste portions. Grades for gold, silver, lead and zinc were interpolated into blocks containing some percentage of veins by Ordinary Kriging (OK), in the case of the Panuco Central vein, and Inverse Distance Squared, in the case of Panuco NW and Tres Cruces vein. Each vein was estimated separately using only composites from that vein. Due to the sparsity of drill hole data both drill hole and surface trench composites were used. A comparison was made between the vein composites and the estimated blocks. The results show reasonable agreement with no bias indicated. The density of the data for all three veins and insufficient data to establish semivariograms for the Panuco NW and Tres Cruces veins has led to classifying all estimated blocks as Inferred.

An economic assessment or similar study has not been completed for the Panuco deposit and an economic cut-off value is unknown. The authors are of the opinion that based on the mineralization characteristics, grade, location and other factors described in this report the Panuco deposit has similarities to the Veta Grande vein system, which is located five km south of the Panuco deposit. Mining operations are currently conducted at a cut-off value of 100 g/t Ag.

Considering a cut-off value of 100.0 g/t AgEq for the Panuco deposit, the inferred mineral resource estimate results in 3,954,729 tonnes grading 136.00 g/t Ag, 0.14 g/t Au, 0.012% Pb and 0.110% Zn or 153.20 g/t AgEq. This equates to 19,472,901 ounces of AgEq as shown in Table 1-1.

**Table 1-1: Resource classed as Inferred within all mineralized Veins**

Cut Off AgEq (g/t)	Tonnes > Cut-off t (m)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	AgEq (g/t)	AgEq (Ozs)
70	5,633,142	117.66	0.13	0.010	0.088	133.0	24,079,401
75	5,405,259	119.98	0.13	0.010	0.090	135.5	23,548,065
80	5,142,065	122.60	0.14	0.011	0.094	138.5	22,892,412
90	4,477,091	129.62	0.14	0.011	0.102	146.4	21,069,521
<b>100</b>	<b>3,954,729</b>	<b>136.00</b>	<b>0.14</b>	<b>0.012</b>	<b>0.110</b>	<b>153.2</b>	<b>19,472,901</b>
115	3,196,451	145.94	0.15	0.012	0.118	163.9	16,847,056
125	2,512,119	156.72	0.15	0.013	0.126	175.8	14,199,767
140	1,921,356	169.60	0.16	0.014	0.126	189.3	11,696,524
150	1,505,278	181.28	0.17	0.014	0.124	201.5	9,753,081
175	915,428	207.87	0.18	0.014	0.108	228.2	6,715,702

Recoveries are based on actual recoveries from the Vetegrande mineral processing facility which is currently processing material from the nearby Veta Grande vein system.

The metal prices used in the silver equivalent estimate are listed below.

Gold price \$1350/oz	Recovery - 52.2 %	Factor = Au *Rec*Price/31.1035 = 22.66
Silver price \$16/oz	Recovery - 62.1 %	Factor = Ag *Rec*Price/31.1035 = 0.32
Lead price \$0.90/lb	Recovery - 87.9 %	Factor = Pb% * 22.046223 * Rec * Price = 17.44
Zinc price \$1.10/lb	Recovery - 78.6 %	Factor = Zn% * 22.046223 * Rec * Price = 19.06

$$GMV = (Au * Rec * Price / 31.1035) + (Pb\% * 22.0462 * Rec * Price) + (Ag * Rec * Price / 31.1035) + (Zn\% * 22.0462 * Rec * Price)$$

$$AgEq = GMV / Ag Factor = GMV / 0.32$$

## 1.7 Conclusions and Recommendations

The Veta Grande project contains both advanced stage mining areas and exploration stage targets where low-sulfidation epithermal quartz veins host silver (+gold+lead+zinc) mineralization. The 2018/2019 Phase 1 drill program successfully tested the down dip extension of the Veta Grande, Armados veins and Navidad veins. The proximity of the Garcia mine to the mineral processing plant and encouraging results realized in drill holes VG19-010 and VG19-014a continue to make the Garcia mine an attractive target. A proposed drilling program consisting of 9 diamond drill holes totaling approximately 5,780 m is recommended for an estimated cost of US \$976,820.

The Panuco deposit merits additional work based on the restated mineral resource estimate. A drilling program consisting of 9,500 m of diamond drilling, metallurgy test work and trenching is recommended for an estimated cost of US \$1.8 million.