



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the nine months ended September 30, 2017 prepared as of November 27, 2017, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2017 and the related notes thereto of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2017 Q3 Financial Statements**"), together with the audited consolidated financial statements for the year ended December 31, 2016 as well as the accompanying MD&A for the year then ended (the "**Annual MD&A**").

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

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

Forward-Looking Statements

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

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

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

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

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

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

General

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

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

properties in its mineral property portfolio, the Minillas Property and the Zacatecas Properties (which includes the Panuco Deposit).

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

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

2017 Highlights

- Selected operating and financial information for the first, second, and third quarters of 2017 and third and fourth quarters of 2016 is presented below:

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
Financial					
Revenue	\$1,798	\$2,641	\$2,085	\$1,874	\$3,026
Mine Operations Income (Loss) ⁽⁵⁾	\$(1,819)	\$(1,827)	\$(1,059)	\$(1,896)	\$786
Net Income (Loss)	\$(5,899)	\$(8,485)	\$1,490	\$(3,646)	\$(11,064)
Net Income (Loss) Per Share – Basic (\$/share)	(0.04)	(0.05)	0.01	(0.02)	(0.08)
Adjusted EBITDA ⁽⁵⁾	\$(1,628)	\$(1,390)	\$(848)	\$(1,560)	\$869
Operating ⁽¹⁾					
Material Processed (tonnes milled)	46,940	57,685	45,474	42,746	24,744
Silver Equivalent Produced (ounces) ⁽²⁾	231,162	270,659	223,968	200,122	164,924
Silver Equivalent Sold (payable ounces) ⁽³⁾	166,880	219,226	163,457	166,734	198,639
Production Cost per Tonne ^{(4) (7)}	62.91	59.15	54.93	72.33	69.47
Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	23.65	21.24	19.55	23.97	12.20
All-in Sustaining Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	28.14	24.62	24.56	26.15	15.88
Average Realized Silver Price per Ounce (\$/oz.) ^{(4) (6)}	16.85	17.17	17.31	16.55	19.10

⁽¹⁾ The Veta Grande Project commenced commercial production effective October 1, 2016 and therefore is not included in the 2016 Q3 operating results.

⁽²⁾ Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project as well as by the Veta Grande Project. Silver equivalent ounces produced in 2016 have been calculated using prices of \$14.50/oz., \$1,100/oz., \$0.76/lb and \$0.71/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project during the third quarter of 2016, and the Rosario Project as well as by the Veta Grande Project during the fourth quarter of 2016.

⁽³⁾ Silver equivalent sold ounces have been calculated using the realized silver prices stated in the table above, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project and Veta Grande Project.

⁽⁴⁾ The Company reports non-IFRS measures which include Production Cost per Tonne, Cash Cost per Silver Equivalent, All-in Sustaining Cost per Silver Equivalent and Average Realized Silver Price per Ounce. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section, below for definitions.

⁽⁵⁾ The Company reports additional non-IFRS measures which include Mine Operations Income (Loss) and Adjusted EBITDA. These additional financial disclosure measures are intended to provide additional information. Refer to the "Non-IFRS Measures – Additional Information" section for a reconciliation of Mine Operations Income (Loss) and Adjusted EBITDA to the quarterly financial statements.

⁽⁶⁾ Average realized silver price per ounce is prior to all treatment, smelting and refining charges.

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- On February 15, 2017 the Company filed on SEDAR an independent Technical Report dated as of January 31, 2017 titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" and subsequently filed on SEDAR with effective date of February 26, 2017 an amendment to the January 31, 2017 Technical Report;
 - On March 2, 2017 the Company completed a transaction (the "**ASC Transaction**") with Americas Silver Corporation ("**Americas Silver**") to assign 100% of its interest in the San Felipe project to Americas Silver for total consideration of \$7,000 cash plus applicable value added tax ("**VAT**"). The proceeds were used by the Company to make an approximate \$4,250 payment on the JMET Note (see section titled "*Pre-paid Silver Purchase*") as well as a \$2,000 (plus VAT) payment to Minera Hochschild Mexico, S.A. de C.V. ("**Hochschild**"), the optionor of the San Felipe project;
 - On March 28, 2017 the Company completed the sale (the "**First Majestic Transaction**") of its interest in the El Gachi property in Sonora State, Mexico to First Majestic Silver Corp. ("**First Majestic**") for total consideration of \$2,500 cash (plus applicable VAT). Of the total proceeds received by the Company, approximately \$757 was paid against the JMET Note (see section titled "*Pre-paid Silver Purchase*") and \$500 (plus applicable VAT) was paid to Hochschild;
 - On May 29, 2017 the Company entered into an agreement (the "**Membrillo Agreement**") pursuant to which the Company has acquired the exclusive right for five years (the "Exclusive Mining Right") to explore, develop and mine the Membrillo Prospect, a silver-zinc-lead-gold vein structure situated approximately four km from the Company's Rosario Project mill facility located near Charcas, San Luis Potosi, Mexico. The Exclusive Mining Right covers an area of approximately 500 hectares that is situated within the San Rafael concession;
 - On June 21, 2017 the Company signed an agreement (the "**Option Agreement**") with Minera Contracuna I, S.A. de C.V. and Vetalinda Compania Minera, S.A. de C.V. (together "**Contracuna**") pursuant to which Contracuna has granted Santacruz an option to purchase a 100% interest in the Veta Grande and Minillas properties, for aggregate cash consideration of \$15,500,000. The Company currently operates the properties on a 60%/40% net profits interest ("**NPI**") basis pursuant to an exclusive thirty-year right granted by Contracuna;
 - On July 28, 2017 and August 21, 2017 the Company closed respectively the first and second tranches of a private placement offering pursuant to which it issued in total 4,875,000 units for gross proceeds of \$791 (CAD\$975);
 - On August 16, 2017, the Company completed a transaction (the "**Gavilanes Transaction**") with Marlin Gold Mining Ltd. ("**Marlin**"), pursuant to which Marlin acquired 100% of the Company's interest in the Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes Project**") for cash consideration of \$3,500 plus applicable value added taxes. The Company has settled the outstanding balance owing on certain of the claims included in the Gavilanes Property (the "**Gavilanes Outstanding Balance**") by making a cash payment of \$500 and issuing 1,250,000 common shares of the Company to the property vendor. Marlin provided \$580 as a refundable deposit (the "**Deposit**") to fund the cash portion of the Gavilanes Outstanding Balance. On closing of the Gavilanes Transaction, the Deposit was deducted from the purchase price otherwise payable by Marlin;
 - On November 3, 2017 the Mexican Environmental Protection Agency (PROFEPA) requested that the Company's Mexican operating subsidiary, Impulsora Minera Santacruz, S.A. de C.V., hold the Veta Grande Mine Environmental License directly in its name and not under the terms of the agreement with Minera Contracuna I, S.A. de C.V. (see press release dated November 2, 2015). In connection with this matter PROFEPA issued a notice temporarily suspending operation of the Veta Grande mill until appropriate documentation was filed with regulatory bodies. On November 8, 2017 the Company submitted all appropriate documents to PROFEPA and the Secretariat of Environment and Natural Resources ("SEMARNAT"). On November 22, 2017 PROFEPA authorized the resumption of mill operations;
 - On November 27, 2017 the Company announced the appointment of Carlos Silva as Chief Operating Officer. Mr. Silva is a well-known and highly respected Mexican mining engineer with a degree from the University of Guanajuato, and additionally holds an MBA from ITESM (Instituto Tecnológico de Estudios Superiores Monterrey). He has more than 30 years' of experience working in the mining industry in Mexico with both senior and junior mining companies, the last 17 years of which were in senior management roles.

Outlook

During the first three quarters of 2017 management continued with its key objective of de-risking the Company's operations by assigning/selling the Company's interest in the San Felipe Project, the El Gachi Property, and the Gavilanes Property. The gross proceeds realized from the ASC Transaction, the First Majestic Transaction, and the Gavilanes Transaction, inclusive of the applicable IVA payments, amounted to \$19,140 of which approximately \$7,357 was paid to JMET to settle in full the amount owing to them under the JMET Note (see section titled "*Pre-paid Silver Purchase*"). In addition, the Company made payments, inclusive of IVA, to the underlying vendors of the properties, of \$3,480, with the residual funds used for working capital purposes.

In addition, in May the Company entered into the Membrillo Agreement pursuant to which it acquired the Exclusive Mining Right to explore, develop and mine the Membrillo Prospect. This transaction will provide further diversification of mineralized feed to the Rosario Project's mill thereby providing management much greater flexibility in developing and executing its operations plan at its Rosario Project.

Operationally, the Company's focus for the duration of 2017 will be to:

- Continue the systematic improvement and production increase of mining and milling operations at the Veta Grande Project and Rosario Project;
- Complete surface and if appropriate underground drilling campaigns at the Veta Grande Project, Cinco Estrellas Property and Membrillo Prospect to allow the calculation of mineral resource estimates at these properties as well as providing geological information for mine planning purposes; and
- As cashflows allow begin a systematic review of the remaining properties in the Company's mineral portfolio in Zacatecas including a drilling campaign at the Panuco Deposit;

The Company expects that once full mining operations are achieved at the Membrillo Prospect the combined daily production from the Membrillo Prospect and the Cinco Estrellas Property will range from 450 to 500 tpd with an additional 50 tpd of mineralized material being delivered to the Rosario Project mill facility from the Rosario Mine.

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

Pre-paid Silver Purchase

On October 2, 2014, the Company entered a Prepaid Silver Purchase Agreement with JMET, LLC ("JMET") (the "**JMET Agreement**") to receive gross proceeds of \$28,400 pursuant to which the Company agreed to sell to JMET 4,635,000 ounces of silver through August 2019, subject to certain adjustments relating to metal prices.

Various amendments were made to the JMET Agreement from November 27, 2014 through July 14, 2016 and certain payments were made against the outstanding balance in this period.

On July 14, 2016 the Company completed a restructuring (the "**Restructuring**") of the JMET Agreement, as amended, such that the Company no longer had any metal delivery obligations to JMET. In connection with the Restructuring, the Company made a \$7,777 payment against the outstanding indebtedness under the JMET Agreement, as amended, and issued JMET a new secured note in the amount of \$4,890 (the "**JMET Note**"), bearing interest at 14% per annum. The Company incurred transaction costs of \$100 in relation to the Restructuring. In addition, the Company also agreed to pay JMET \$1,500 of restructuring and finance fees, which fees were payable in 2019 and were secured by all of the assets of the Company.

Also pursuant to the Restructuring, the Company issued 3,750,000 warrants to JMET (the "JMET Warrants"). Each JMET Warrant was exercisable to acquire one common share of the Company at a price of CAD\$0.55 per share and expired on December 31, 2018.

As a result of the successful completion of the ASC Transaction and the First Majestic Transaction the outstanding balance of the JMET Note (\$4,890) was repaid in full. In addition, in connection with the completion of the Gavilanes Transaction, the outstanding balance owing to JMET with respect to restructure fees (\$1,500) was settled in full with a payment of \$1,200. Further, upon making the final payment to JMET for restructuring fees, JMET tendered to the Company the JMET Warrants for cancellation.

Review of Consolidated Operating Results

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
Material Processed (tonnes milled)					
Rosario Project	18,956	27,967	18,723	16,636	24,744
Veta Grande Project	27,984	29,718	26,751	26,110	-
Consolidated	46,940	57,685	45,474	42,746	24,744
Silver Equivalent Produced (ounces) ⁽¹⁾					
Rosario Project	127,689	124,717	115,240	99,749	164,924
Veta Grande Project	103,473	145,942	108,728	100,373	-
Consolidated	231,162	270,659	223,968	200,122	164,924
Silver Equivalent Sold (payable ounces) ⁽²⁾					
Rosario Project	93,349	96,546	99,535	85,860	198,639
Veta Grande Project	73,531	122,680	63,922	80,874	-
Consolidated	166,880	219,226	163,457	166,734	198,639
Cash Cost of Production per Tonne ⁽³⁾					
Rosario Project	68.58	68.80	53.94	69.67	69.47
Veta Grande Project	59.07	50.07	55.62	74.03	-
Consolidated	62.91	59.15	54.93	72.33	69.47
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾					
Rosario Project	20.40	24.64	15.93	18.60	12.20
Veta Grande Project	27.77	18.57	25.19	29.66	-
Consolidated	23.65	21.24	19.55	23.97	12.20
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾					
Rosario Project	24.33	28.69	19.91	20.96	15.88
Veta Grande Project	32.98	21.42	31.79	31.65	-
Consolidated	28.14	24.62	24.56	26.15	15.88
Average Realized Silver Price per Ounce (\$/oz) ⁽³⁾					
Rosario Project	16.84	17.08	17.20	16.62	19.10
Veta Grande Project	16.85	17.24	17.49	16.47	-
Consolidated	16.85	17.17	17.31	16.55	19.10

* Commercial production at the Veta Grande Project was declared effective October 1, 2016. Accordingly, production from the Veta Grande Project is not included in the Q3 2016 figures presented in the table.

(1) Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project as well as by the Veta Grande Project. Silver equivalent ounces produced in 2016 have been calculated using prices of \$14.50/oz., \$1,100/oz., \$0.76/lb and \$0.71/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project during the third quarter of 2016, and the Rosario Project as well as by the Veta Grande Project during the fourth quarter of 2016.

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

(3) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the

mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-IFRS Measures" section, below for definitions.

Operations Overview

Total silver equivalent production for Q3 2017 decreased by 15% to 231,162 ounces as compared to 270,659 ounces in Q2 2017. This decrease is due to a 29% decrease (42,469 ounces) in production at the Veta Grande Project to 103,473 ounces offset by a 2% increase (2,972 ounces) in production at the Rosario Project. As compared to total silver equivalent production for Q3 2016, Q3 2017 production increased by 40% due to the commencement of production at the Veta Grande Project in Q4 2016 offset by lower comparative production from the Rosario Project.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 6% in Q3 2017 to \$62.91/t as compared to \$59.15/t in Q2 2017. This change in unit costs reflects an 18% increase in unit cash production costs at the Veta Grande Project. Compared to Q3 2016, the cash cost per tonne decreased by 9%, with a 1% decrease in the cash cost of production per tonne from the Rosario Project along with an additional positive contribution from the cash cost of production per tonne realized at the Veta Grande Project.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 11% in Q3 2017 to \$23.65/oz as compared to \$21.24/oz in Q2 2017. This change in unit costs reflects a 50% increase in unit cash production costs at the Veta Grande Project and a 17% decrease in unit cash production costs at the Rosario Project. Compared to Q3 2016, cash cost of production per silver equivalent ounce sold increased by 94%, which resulted from a 67% increase at the Rosario Project, along with a cash cost of production per silver equivalent ounce sold of \$27.77/oz from the production at the Veta Grande Project.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 14% in Q3 2017 to \$28.14/oz as compared to \$24.62/oz in Q2 2017. This change in unit costs reflects a 54% increase in unit cash production costs at the Veta Grande Project, offset by a 15% decrease in unit cash production costs at the Rosario Project. Compared to Q3 2016, all-in sustaining cash cost of production per silver equivalent ounce sold increased by 78%, with a 53% increase from the Rosario Project along with an all-in sustaining cost of production per silver equivalent ounce sold at Veta Grande of \$32.98/oz.

Rosario Project, Charcas, San Luis Potosi, Mexico

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

Rosario Mine

The mineral property that forms the Rosario Mine comprises the Rey David and San Rafael mining concessions. The concessions cover 500 hectares. The Company has no further vendor payments to make on the concessions except for certain net smelter return royalty ("NSR") obligations and an annual fee of \$40.

Cinco Estrellas Property

Pursuant to an option agreement dated September 7, 2016, the Company was granted an option to acquire a 100% interest in the Cinco Estrellas property located in Charcas, San Luis Potosí, Mexico for the sum of \$130 (\$120 paid). The property is subject to a 2.5% NSR.

Membrillo Prospect

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

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

Rosario Project Production and Operating Results

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
Material Processed (tonnes milled)	18,956	27,967	18,723	16,636	24,744
Silver Equivalent Produced (ounces) ⁽¹⁾	127,689	124,717	115,240	99,749	164,924
Silver Equivalent Sold (payable ounces) ⁽²⁾	93,349	96,546	99,535	85,860	198,639
Production - Silver (ounces)	26,274	33,181	34,556	39,900	76,168
- Gold (ounces)	328	298	195	179	86
- Lead (tonnes)	49	40	45	62	121
- Zinc (tonnes)	449	408	382	364	643
Average Grade - Silver (g/t)	51	42	66	81	102
- Gold (g/t)	0.67	0.43	0.43	0.55	0.16
- Lead (%)	0.31	0.18	0.29	0.42	0.55
- Zinc (%)	2.61	1.76	2.37	2.62	3.56
Metal Recovery - Silver (%)	85.0	87.3	86.3	91.8	94.2
- Gold (%)	79.7	77.1	75.1	61.3	66.4
- Lead (%)	83.2	80.2	81.4	87.5	88.5
- Zinc (%)	90.7	82.9	86.0	83.4	72.9
Cash Cost of Production per Tonne (\$/t) ⁽³⁾	68.58	68.80	53.94	69.67	69.47
Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	20.40	24.64	15.93	18.6	12.20
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽³⁾	24.33	28.69	19.91	20.96	15.88

⁽¹⁾ Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project. Silver equivalent ounces produced in 2016 have been calculated using prices of \$14.50/oz., \$1,100/oz., \$0.76/lb. and \$0.71/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project.

⁽²⁾ Silver equivalent sold ounces have been calculated using realized silver prices of \$16.84 in Q3 2017, \$17.08 in Q2 2017 and \$17.20 in Q1 2017, \$16.62 in Q4 2016, and \$19.10 in Q3 2016, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project.

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

Operations Overview

In Q3 2017 silver equivalent production from the Rosario Project increased by 2% (2,972 ounces) compared to Q2 2017. Compared to Q3 2016, the silver equivalent production decreased by 23% from 164,924 ounces to 127,689 ounces. The decrease reflects the 23% decrease in tonnes milled.

The low metal grades realized in the previous quarter Q2 2017 arose in large part to working capital constraints that prevented the timely repair and maintenance of certain mine production equipment, primarily underground scooptrams. The reduced availability of the scooptrams during Q2 delayed the completion of production stopes at

both the Membrillo Prospect and Cinco Estrellas Property resulting in a lower production rate for a significant part of the quarter consisting mostly of lower grade development material.

At the Rosario Mine, working capital constraints restricted the operations team from accessing high grade production areas due to the lack of availability of necessary ground support materials.

The low production level realized in Q3 2017 reflects the lack of availability of certain production equipment and a heavier than normal rainy season that negatively impacted production in both August and September. With the completion of the Gavilanes Transaction the Company has been able to put all production equipment back in service. Similarly, ground support materials were on hand at the Rosario Mine by the end of August.

This diversification of feed to the Rosario Project's mill gives management much greater flexibility in developing and executing its operations plan at its Rosario Project.

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

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed was virtually unchanged in Q3 2017 (\$68.58/t) as compared to Q2 2017 (\$68.80/t). The Q3 unit costs were higher than expected due to the low production volume. Compared to Q3 2016, cash cost of production per tonne stayed consistent as the percentage decrease in cash cost of production was matched by an equivalent percentage decrease in production tonnage.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 17% in Q3 2017 to \$20.40/oz as compared to \$24.64/oz in Q2 2017. This change in unit costs is due primarily to the 32% decrease in mineralized material processed that resulted in a \$607 (32%) decrease in production costs. The silver equivalent sold decreased by 3,197 ounces due to the decrease in mineralized material processed offset by the higher head grade of silver, gold, lead, and zinc. Compared to Q3 2016, cash cost of production per silver equivalent ounce increased by 67% reflecting the significantly lower head grades of silver, lead and zinc and lower recoveries of silver and lead realized in Q3 2017.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 15% in Q3 2017 to \$24.33/oz as compared to \$28.69/oz in Q2 2017. This change in unit costs is again due to the decrease (32%) in production costs during the quarter offset by a 3% decrease in payable ounces sold. Compared to Q3 2016, all-in sustaining cash cost of production per silver equivalent ounce increased by 53% reflecting significantly lower head grades of silver, lead and zinc and lower recoveries of silver and lead offset by a higher recovery of zinc realized in Q3 2017.

Veta Grande Project, Veta Grande, Zacatecas, Mexico

Contracuña Agreement

On November 2, 2015, the Company entered into a definitive agreement (the "Contracuña Agreement") with Minera Contracuña I, S.A. de C.V. and Vetalinda Compania Minera, S.A. de C.V. (together "Contracuña"), pursuant to which Contracuña granted the Company the right for thirty years to explore, mine and operate Contracuña's Veta Grande and Minillas Properties. Both mineral properties are prospective for silver, gold, zinc, and lead, and cover approximately 1,100 hectares within the State of Zacatecas, in central Mexico.

The Contracuña Agreement has an initial term of 15 years, with an additional 15 year term extension, at the Company's option. Consideration for the Contracuña Agreement was \$500 (paid). During the term of the Contracuña Agreement a 40% net profits interest basis ("NPI") will be paid to Contracuña. In the event the price of silver is greater than \$22.00 per ounce, the NPI increases to 45%.

On June 21, 2017 the Company and Contracuña signed an agreement (the "Option Agreement") pursuant to which Contracuña has granted Santacruz an option to purchase a 100% interest in the Veta Grande and Minillas properties, for aggregate cash consideration of \$15,500. Details of the payment schedule per the Option Agreement are as follows:

- \$2,500 on or before December 14, 2017 (payment date denoted as the "Initial Payment Date");
- \$2,500 on the 12 month anniversary of the Initial Payment Date;
- \$3,000 on the 24 month anniversary of the Initial Payment Date;
- \$4,000 on the 36 month anniversary of the Initial Payment Date; and
- \$3,500 on the 48 month anniversary of the Initial Payment Date.

Starting on the Initial Payment Date, the Company will be entitled to 100% of the cash flows generated from mining operations conducted on the Veta Grande and Minillas properties. In the event that the Option agreement is terminated, the 40% NPI will revert to Contracuña from the date of termination.

Veta Grande Project Production and Operating Results

	2017	2017	2017	2016
	Q3	Q2	Q1	Q4
Material Processed (tonnes milled) ⁽¹⁾	27,984	29,718	26,751	26,110
Silver Equivalent Produced (ounces) ^{(1) (2)}	103,473	145,942	108,728	100,373
Silver Equivalent Sold (payable ounces) ^{(1) (3)}	73,531	122,680	63,922	80,874
Production - Silver (ounces) ⁽¹⁾	61,960	56,062	57,598	28,027
- Gold (ounces) ⁽¹⁾	66	174	131	106
- Lead (tonnes) ⁽¹⁾	99	198	99	220
- Zinc (tonnes) ⁽¹⁾	146	317	177	362
Average Grade - Silver (g/t)	107	102	117	57
- Gold (g/t)	0.17	0.26	0.22	0.17
- Lead (%)	0.51	0.78	0.53	1.02
- Zinc (%)	0.77	1.30	1.09	1.75
Metal Recovery - Silver (%)	64.5	63.8	57.2	58.1
- Gold (%)	43.5	81.8	68.6	72.0
- Lead (%)	69.8	87.2	69.4	82.6
- Zinc (%)	67.4	76.7	60.7	79.1
Cash Cost of Production per Tonne (\$/t) ⁽⁴⁾	59.07	50.07	55.62	74.03
Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	27.77	18.57	25.19	29.66
All-in Sustaining Cash Cost per Silver Equivalent (\$/oz.) ⁽⁴⁾	32.98	21.42	31.79	31.65

* Commercial production at the Veta Grande Project was declared effective October 1, 2016.

(1) During the fourth quarter of 2016 and the first, second, and third quarters of 2017 no amount of the production proceeds was payable to Contracuña under the 40% NPI as to date Santacruz has not yet recouped 100% of its capital investment in the project.

(2) Silver equivalent ounces produced in the fourth quarter of 2016 have been calculated using prices of \$14.50/oz., \$1,100/oz., \$0.76/lb. and \$0.71/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project. Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Veta Grande Project

(3) Silver equivalent sold ounces have been calculated using realized silver prices of \$16.85 in Q3 2017, \$17.24 in Q2 2017, \$17.49 in Q1 2017, and \$16.47 in Q4 2016, applied to the payable metal content of the lead and zinc concentrates sold from the Veta Grande Project.

(4) The Company reports non-IFRS measures which include Cash Cost per Silver Equivalent, All-in Sustaining Cash Cost per Silver Equivalent, Cash Cost of Production per Tonne, and Average Realized Silver Price per Ounce. These measures are widely used in the

mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "*Non-IFRS Measures*" section for definitions.

Operations Overview

During the fourth quarter of 2016 mineralized material from previously mined stopes ("Chorros") within the Veta Grande Prospect was identified and accessed from old workings below Level 3 at the Garcia mine.

Mineralized material from the Chorros will be a primary source of mill feed to the Veta Grande milling facility in 2017, combined with mineralized material from other mine working faces recently developed at the Garcia mine. At present the Company is extracting mineralized material from seven Chorros and is developing a new Chorro approximately every five days. Production from the Chorros ranges from 3,000 tonnes to 8,000 tonnes of mineralized material. Management estimates that on average each Chorro yields 4,000 tonnes of mineralized material. As such the Company is currently developing access to mineralized material for approximately twice as much material as is presently being milled.

In connection with development of the Chorros, in early August the Company completed driving an access ramp to a vertical depth of 180 metres (Level 6) from the current workings at the Veta Grande vein, the largest of the vein systems contained within the Garcia mine. By the end of 2017 the Company expects to have completed driving the access ramp to a depth of 210 metres (Level 7).

In early November the Company encountered two sections of unmined Veta Grande vein at Level 6 both believed to be pillars left by previous mine operators. Preliminary assay results from chip samples collected across the in situ vein material in the pillars returned higher grades than grades currently being realized from the Chorros. In addition, the bulk density of the in situ vein material is expected to be greater than the bulk density of the Chorros as the Chorros are comprised of unconsolidated mineralized material and void space.

Due to working capital constraints, the Company has deferred the installation of the 1,250 tonne-per-day ball mill, 4,000 tonne-per-day crushing circuit and 4,000 tonne-per-day zinc thickener and filter press until the funding for such is available. As an interim solution the Company is investigating the possibility of moving a 280 tpd ball mill from the Rosario mill to the Veta Grande mill. This initiative together with some modest capital expenditures at the current crusher would increase the milling capacity at the Veta Grande facility to approximately 700 to 750 tpd at a substantially lower capital cost.

On November 3, 2017 the Mexican Environmental Protection Agency (PROFEPA) requested that the Company's Mexican operating subsidiary, Impulsora Minera Santacruz, S.A. de C.V., hold the Veta Grande Mine Environmental License directly in its name and not under the terms of the agreement with Minera Contracuña I, S.A. de C.V. (see press release dated November 2, 2015). In connection with this matter PROFEPA issued a notice temporarily suspending operation of the Veta Grande mill until appropriate documentation was filed with regulatory bodies. On November 8, 2017 the Company submitted all appropriate documents to PROFEPA and the Secretariat of Environment and Natural Resources ("SEMARNAT"). On November 22, 2017 PROFEPA authorized the resumption of mill operations.

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

Veta Grande Production

In Q3 2017 silver equivalent production from the Veta Grande Project decreased by 29% (42,469 ounces) compared to Q2 2017. The decrease reflects a 6% decrease in tonnes milled combined with decreased head grades and recoveries for gold, lead, and zinc.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed increased by 18% in Q3 2017 to \$59.07/t as compared to \$50.07/t in Q2 2017. The increase in unit costs is due to the increase in cash costs of production of 11% as well as a 6% decrease in tonnes milled. The increase in cash costs of production reflects a combination of the foreign exchange impact of a strengthened Mexican peso versus US dollar in Q3 2017 as well as increased costs for stope development at the Armados vein. Throughput tonnage at the mill was lower as significant maintenance was carried out on one of the ball mills over an approximate three week period.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold increased by 50% in Q3 2017 to \$27.77/oz as compared to \$18.57/oz in Q2 2017. This change in unit costs reflects in part the cash operating cost increase described above as well as a 40% decrease in silver equivalent ounces sold, offset by a decrease in treatment, smelting and refining costs during the quarter. The decrease in silver equivalent ounces sold is a result of mining Chorros containing lower grade mineralized material as well as experiencing reduced mill feed from the higher grade Armados vein.

All-In Sustaining Cash Cost per Silver Equivalent Ounce

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 54% in Q3 2017 to \$32.98/oz as compared to \$21.42/oz in Q2 2017. This change in unit costs occurred for the same reasons as the increase in cash operating cost per silver equivalent ounce sold occurred.

Technical Reports

May 17, 2016

On May 17, 2016 the Company filed on SEDAR the Original Zacatecas Report, for the Veta Grande Project located in Zacatecas, Mexico. For purposes of the Original Zacatecas Report, the Veta Grande Project was defined to include: the Veta Grande and Minillas Properties held under the agreement with Contracruña, and the Zacatecas Properties held under option from Golden Minerals Company. The Original Zacatecas Report, with an effective date of May 17, 2016, was prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geol. and Gilles R. Dessureau, P.Geol. of ARC Geoscience Group.

The Original Zacatecas Report noted that the Veta Grande Project mineral prospects were located in the Mexican Silver Belt and cover an area of 8,944 hectares (22,101 acres) in the Zacatecas Mining District, Zacatecas, Mexico, including two significant vein systems known for silver mineralization in the district: La Cantera and Veta Grande, both of which have extensive artisanal and small scale mining histories.

Oxide and sulfide bearing quartz veins within the La Cantera and Veta Grande vein systems strike northwest-southeast, generally dip southwest, and are characterized as low-sulfidation epithermal silver (+lead+zinc+gold) veins. They range in thickness from less than 1 m to over 30 m, average between 2-10 m, and in some instances have been traced along surface for several kilometres.

The Original Zacatecas Report characterized the Veta Grande Project as an intermediate stage mineral exploration project for the following reasons: access to past underground workings for continued exploration, a permitted mineral processing facility for 500 tpd with current operating capacity of approximately 700 tpd, and good infrastructure being situated between the municipality of Veta Grande and the state capital of Zacatecas. The project has access to electric power, highways and paved roads, civil amenities, and a local skilled labor force.

November 17, 2016

On November 17, 2016 the Company filed on SEDAR an independent Technical Report titled "2016 Mineral Resource Estimate, Panuco Deposit, Zacatecas, Mexico" (the "Panuco Report"), for the Panuco deposit located in Zacatecas, Mexico. The Panuco Report, with an effective date of October 5, 2016, was prepared in accordance with

CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geo. of ARC Geoscience Group and Gary H. Giroux, P.Eng. of Giroux Consultants Ltd.

The report contained an estimated inferred mineral resource of 16,342,456 AgEq ounces grading 192.40 g/t AgEq (or 181.0 g/t Ag, 0.17 g/t Au, 0.02 % Pb, and 0.04 % Zn) at a cut-off grade of 100 g/t AgEq. The report noted that the Panuco deposit is a low sulfidation (silver-gold, ±lead-zinc) vein system comprised of three vein structures: Panuco Central vein, Panuco NW vein and Tres Cruces vein. The Mineral Resource Estimate presented in the report encompasses all three vein structures and includes mineralization defined by trenching and drilling over a distance of 2.4 km. The report also noted that the Panuco resource sits outside of currently mined areas of the Veta Grande and La Cantera vein systems and is the first indication of mineral resource growth potential in the Veta Grande project area. The veins are open along strike and down dip, providing numerous drill targets to further clarify resource potential. A drill program was recommended to continue to explore and expand the resource base.

February 15, 2017

On February 15, 2017 the Company filed on SEDAR an independent Technical Report titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" (the "Expanded Zacatecas Report"), with an effective date of January 31, 2017, prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, of ARC Geoscience Group and Gary H. Giroux, P.Eng. of Giroux Consultants Ltd.

The Expanded Zacatecas Report updated the geological information contained in the Report (SEDAR filed on May 17, 2016) and combined this information with the resource estimate and associated information contained in the Panuco Report (SEDAR filed on November 17, 2016).

February 28, 2017

On February 28, 2017 the Company filed on SEDAR an independent Technical Report titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" (the "Amended Zacatecas Report"), with an effective date of January 31, 2017, prepared in accordance with CIM Standards, by independent qualified persons. The report was completed by Van Phu Bui, P.Geo. of ARC Geoscience Group and Gary H. Giroux, P.Eng. of Giroux Consultants Ltd.

The Amended Zacatecas Report was filed at the request of the BC Securities Commission to clarify certain matters contained in the Expanded Zacatecas Report. The amendments did not include new data or other inputs and there was no material change to any interpretations, results or conclusions.

Copies of the reports are available on SEDAR or the Company's website, www.santacruzsilver.com

Financial Results

Review of Operations

Three months ended September 30, 2017

	2017		2016
	Q3	Q2	Q3
Revenue	\$1,798	\$2,641	\$3,026
Cost of sales			
Production costs	(2,933)	(3,534)	(1,655)
Depletion and amortization	(684)	(934)	(585)
	(3,617)	(4,468)	(2,240)
Gross margin	(1,819)	(1,827)	786
Operating expenses			
Administrative	(86)	(97)	(138)
Management and consulting fees	(102)	(99)	(73)
Professional fees	(196)	(184)	(171)
Share-based payments	-	-	(8)
Other	(116)	(117)	(122)
	(500)	(497)	(512)
Impairment	(4,350)	(5,284)	(16,688)
Interest earned and other finance income			
Interest earned	1	1	-
IVA recovery inflationary gain	13	20	-
Change in fair value of derivative assets	42	459	-
Gain on settlement of debt	-	-	6,377
Foreign exchange gain	934	-	259
	990	480	6,636
Interest expense and other finance expenses			
Accretion of decommissioning and restoration provision	(8)	(9)	(9)
Foreign exchange loss	-	(1,232)	-
Change in fair value of derivatives	-	-	(2,000)
Interest expense on loan payable	-	(17)	(6)
Interest expense on silver loan	-	-	(131)
Interest expense on JMET note	(175)	(47)	-
	(183)	(1,305)	(2,146)
Income tax (expense) recovery	(37)	(52)	860
Net (loss) income for the period	\$(5,899)	\$(8,485)	\$(11,064)

The Company recorded a net loss of \$5,899 (\$0.04 per share) for the three months ended September 30, 2017 compared to a net loss of \$11,064 (\$0.08 per share) for the three months ended September 30, 2016. The decrease in net loss relates largely to an impairment charge of \$16,688 recorded with respect to the San Felipe Property during Q3 2016, offset by a gain on settlement of debt of \$6,377 realized during the same quarter, compared to an impairment charge of \$4,350 on the Rosario Project during the three months ended September 30, 2017.

Revenues in Q3 2017 of \$1,798 arose in part from the Rosario Project (\$957) and in part from the Veta Grande Project (\$841) and decreased by \$1,228 (41%) as compared to the three months ended September 30, 2016 primarily

as a result of a 24% decrease in the silver equivalent ounces sold combined with decrease in the realized silver price. The silver equivalent ounces sold at the Rosario Project decreased by 105,290 ounces, offset by the silver equivalent ounces sold at the Veta Grande Project (73,531 ounces). Compared to Q2 2017, revenue decreased by \$843 (32%) due largely to a 24% decrease in silver equivalent ounces sold, primarily relating to the reduced silver equivalent ounces sold at the Veta Grande Project.

Production costs of \$2,933 recorded during the current quarter increased by \$1,278 as compared to the three months ended September 30, 2016. The increase reflects the production from the Veta Grande Project in Q3 2017 (\$1,644) offset in part by a decrease in production costs (\$366) at the Rosario Project due to lower production. Compared to the second quarter of 2017, the production costs decreased by \$601. This decrease is virtually all due to a 32% decrease in the tonnes milled at the Rosario Project.

Amortization and depletion expenses in the three months ended September 30, 2017 amounted to \$684 (2016 - \$585). These expenses are based on the assets associated with the commercial mining activities at the Rosario Project as well as the Veta Grande Project in the third quarter of 2017 whereas in Q3 2016 only the assets at the Rosario Project were being amortized and depleted. Further, as these charges are directly related to the number of tonnes milled during the period, which increased due to the addition of the Veta Grande Project, the Q3 2017 charges increased as compared to Q3 2016. Compared to the second quarter of 2017, the amortization and depletion expense decreased by 17% directly related to the decrease in tonnes milled during the period.

The operations for the three months ended September 30, 2017 resulted in a negative gross margin of \$1,819 (2016 – positive gross margin of \$786). This decrease in gross margin is primarily the result of decreased revenues during the current quarter as discussed above, along with an increase in expenses due to the addition of the Veta Grande Project. Compared to the second quarter of 2017, the gross margin remained constant with an increase of less than 1%.

During the three months ended September 30, 2017, an impairment of \$4,350 was recognized on the Rosario Project compared to an impairment of \$16,688 recognized on the San Felipe Property during the three months ended September 30, 2016.

Interest earned and other finance income decreased by \$5,646 for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to a gain on settlement of debt of \$6,377 recognized in the fiscal 2016 period in connection with the settlement of the silver loan that had been put in place under the JMET Agreement, offset by an increase in the foreign exchange gain of \$675 during the three months ended September 30, 2017. Compared to the second quarter of 2017, the interest earned and other finance income increased by \$510 due to the foreign exchange gain of \$934 offset by a decrease in the change in fair value of derivatives of \$417. The change in fair value of derivatives arose primarily from an unrealized gain on certain forward foreign exchange contracts the Company entered into to purchase Mexican pesos.

Interest expense and other finance expenses of \$183 (2016 - \$2,146) decreased mostly due to the change in fair value of the derivatives of \$2,000 recorded during the three months ended September 30, 2016 (2017 - \$nil). The change in fair value of derivatives recorded in the fiscal 2016 period relates in part to a charge arising from the previously referenced forward foreign exchange contracts to purchase Mexican pesos and in part from the derivative assets held in connection with the JMET Agreement.

Compared to the second quarter of 2017, interest expense and other finance expenses decreased by \$1,122 largely due to the foreign exchange loss recognized during Q2 2017 of \$1,232.

The income tax expense increased compared to the prior year period with an income tax expense of \$37 recorded in Q3 2017 as compared to an income tax recovery of \$860 in the same period of 2016. The income tax recovery

in the prior period quarter resulted mostly due to a decrease in the deferred tax liability from the impact of the impairment charge recorded during the quarter.

Nine Months Ended September 30, 2017

	Nine Months Ended September 30	
	2017	2016
Revenue	\$6,524	\$9,938
Cost of sales		
Production costs	(8,918)	(6,293)
Depletion and amortization	(2,311)	(1,800)
	(11,229)	(8,093)
Gross margin	(4,705)	1,845
Operating expenses	(1,480)	(1,896)
Impairment	(9,634)	(16,688)
Interest earned and other finance income		
Change in fair value of derivative assets	3,809	-
Gain on settlement of debt	-	6,377
Foreign exchange gain	-	668
Other	466	175
	4,275	7,220
Interest expense and other finance expenses		
Foreign exchange loss	(839)	-
Change in fair value of derivatives	-	(3,911)
Interest expense on silver loan	-	(2,057)
Interest expense on JMETS note	(489)	-
Other	(53)	(87)
	(1,381)	(6,055)
Income tax recovery	31	714
Net loss for the period	\$(12,894)	\$(14,860)

	Nine Months Ended September 30		
	2017		2016
	Rosario	Veta Grande	Rosario
Material Processed (tonnes milled)	65,646	84,453	75,216
Silver Equivalent Produced (ounces) ⁽¹⁾	367,646	358,143	728,345
Silver Equivalent Sold (payable ounces) ⁽²⁾	289,430	260,133	768,424
Production - Silver (ounces)	94,011	175,620	385,938
- Gold (ounces)	821	371	318
- Lead (tonnes)	134	396	643
- Zinc (tonnes)	1,239	640	2,271
Average Grade – Silver (g/t)	51.6	104.4	171.3
- Gold (g/t)	0.50	0.21	0.18
- Lead (%)	0.25	0.61	0.93
- Zinc (%)	2.18	1.13	3.60
Metal Recovery – Silver (%)	86.2	61.9	93.2
- Gold (%)	77.6	65.9	72.9
- Lead (%)	81.7	77.0	92.2
- Zinc (%)	86.6	67.2	83.9

⁽¹⁾ Silver equivalent ounces produced in 2017 have been calculated using prices of \$16.00/oz., \$1,150/oz., \$1.00/lb. and \$1.15/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project and Veta Grande project. Silver equivalent ounces produced in 2016 have been calculated using prices of \$14.50/oz., \$1,100/oz., \$0.76/lb. and \$0.71/lb. for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project.

⁽²⁾ Silver equivalent sold ounces have been calculated using realized silver prices of \$17.11 in 2017 and \$17.38 in 2016, applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project in 2016 and 2017 and the Veta Grande Project in 2017.

The Company recorded a net loss of \$12,894 (\$0.08 per share) for the nine months ended September 30, 2017, compared to the net loss of \$14,860 (\$0.12 per share) for the nine months ended September 30, 2016. Significant factors that led to the decrease in loss recorded in the 2017 period as compared to the 2016 period include a decrease in gross margin of \$6,550; a decrease in the impairment charge of \$7,054; and an increase in the net amount of interest and other finance income of \$1,729.

Revenues for the nine months ended September 30, 2017 of \$6,524 arose in part from the Rosario Project (\$3,343) and in part from the Veta Grande Project (\$3,181) and decreased by \$3,414 (34%) as compared to the same period in 2016 primarily as a result of a 28% decrease in the silver equivalent ounces sold combined with a decrease in the realized silver price. The silver equivalent ounces sold at the Rosario Project decreased by 478,994 ounces (62%), offset by the silver equivalent ounces sold at the Veta Grande Project (260,133 ounces).

Production costs of \$8,918 recorded during the nine months ended September 30, 2017 increased by \$2,625 as compared to the same period in 2016. The increase reflects the addition of the Veta Grande Project production costs (\$4,639) in the fiscal 2017 period offset in part by a decrease in production costs (\$2,014) at the Rosario Project due to lower production.

Amortization and depletion expenses in the nine months ended September 30, 2017 amounted to \$2,311 (2016 - \$1,800). For the fiscal 2017 period these expenses are based on the assets associated with the commercial mining activities at the Rosario Project as well as the Veta Grande Project whereas in the fiscal 2016 period only the assets at the Rosario Project were being amortized and depleted. Further, as these charges are directly related to the number of tonnes milled during the period, which increased due to the addition of the Veta Grande Project, the fiscal 2017 period charges increased as compared to the fiscal 2016 period.

The operations for the nine months ended September 30, 2017 resulted in a negative gross margin of \$4,705 (2016 – positive gross margin of \$1,845). This decrease in gross margin is primarily the result of decreased revenues during the current quarter as discussed above, along with an increase in expenses due to the addition of the Veta Grande Project.

Operating expenses were lower in the current fiscal period primarily because of the share-based payment expense which was \$386 in the fiscal 2016 period but only \$1 in the 2017 fiscal period. This arose because 4,500,000 options were granted during the nine months ended September 30, 2016 compared to nil in the nine months ended September 30, 2017.

The nature of the items that had significant variances in the interest earned and other finance income as well as the interest expense and other finance expenses are as follows:

- the change in fair value of derivatives for the fiscal 2017 period (income of \$3,809) relates to an unrealized gain on certain forward foreign exchange contracts the Company entered into to purchase Mexican pesos. In the fiscal 2016 period (expense of \$3,911) the change in fair value relates in part to a charge arising from the previously referenced forward foreign exchange contracts to purchase Mexican pesos and in part from the derivative assets held in connection with the JMET Agreement;
- the gain on settlement of debt in the 2016 fiscal period relates to the Restructuring of the JMET Agreement;
- in the fiscal 2016 period the silver loan put in place under the JMET Agreement was settled in full and as such no interest was expensed in fiscal 2017 (2016 - \$2,057);
- in the fiscal 2016 the interest expense related to the JMET Note was nominal whereas in the fiscal 2017 period the debt facility was outstanding for several months before being settled in full.

Summary of Quarterly Results

	THREE MONTHS ENDED			
(Expressed in thousands of US Dollars except per share amounts)	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
	\$	\$	\$	\$
Revenues	1,798	2,641	2,085	1,874
Cost of sales	3,617	4,468	3,144	3,770
Administrative expenses	500	497	483	323
Net income (loss) ⁽²⁾⁽³⁾	(5,899)	(8,485)	1,490	(3,646)
Net income (loss) per share ⁽¹⁾	(0.04)	(0.05)	0.01	(0.02)
	THREE MONTHS ENDED			
	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Revenues	3,026	3,375	3,537	2,502
Cost of sales	2,240	2,778	3,075	2,904
Administrative expenses	512	586	798	366
Net loss ⁽⁴⁾⁽⁵⁾	(11,064)	(796)	(3,000)	(18,035)
Net loss per share ⁽¹⁾	(0.08)	(0.01)	(0.03)	(0.17)

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

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

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

⁽⁴⁾ The Q3 2016 net loss includes an impairment of the San Felipe Project of \$15,615 and a gain on settlement of debt of \$6,377.

⁽⁵⁾ The Q4 2015 net loss includes an impairment of the San Felipe Project of \$19,426.

Resource and Exploration Update

Zacatecas Properties, Zacatecas City, Zacatecas, Mexico

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

The Zacatecas Mining District is located in the central part of Mexico, in the main Mexico Silver Belt. The Zacatecas Properties are located at the periphery of the Zacatecas, Veta Grande, Guadalupe, Pánuco, and Morelos municipalities in the state of Zacatecas, Mexico and consist of 149 concessions covering approximately 7,800 hectares and is part of the Veta Grande Project

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

When combined with the Company's existing exploration and mining rights acquired under the agreement with Contracuña the Company now controls approximately 8,900 hectares in the historic and prolific silver mining belt of Zacatecas. The neighbouring area includes such mines as the Fresnillo Silver Mine operated by Fresnillo, the Madero Mine operated by Peñoles, and the Cozamin Mine operated by Capstone Mining Corporation.

Current Exploration Activities

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

Manillas Property, Genaro Codina, Zacatecas, Mexico

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

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

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

Non-IFRS Measures

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

Cash Cost per Silver Equivalent Ounce and Production Cost per Tonne

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

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Production costs	1,289	1,896	1,094	1,154	1,655
Inventory change	11	28	(84)	5	64
Cash Cost of Production (A)	1,300	1,924	1,010	1,159	1,719
Production costs	1,289	1,896	1,094	1,154	1,655
Concentrate treatment, smelting and refining cost	615	483	492	443	768
Cash Cost of Silver Equivalent Sold (B)	1,904	2,379	1,586	1,597	2,423
Material processed (tonnes milled) (C)	18,956	27,967	18,723	16,636	24,744
Cash Cost of Production per Tonne (A/C)	68.58	68.80	53.94	69.67	69.47
Silver Equivalent Sold (payable ounces) (D)	93,349	96,546	99,535	85,860	198,639
Cash Cost per Silver Equivalent Ounce (B/D)	20.40	24.64	15.93	18.60	12.20

Veta Grande Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Production costs	1,644	1,638	1,357	1,957
Inventory change	9	(150)	131	(24)
Cash Cost of Production (A)	1,653	1,488	1,488	1,933
Production costs	1,644	1,638	1,357	1,957
Concentrate treatment, smelting and refining cost	398	640	253	442
Cash Cost of Silver Equivalent Sold (B)	2,042	2,278	1,610	2,399
Material processed (tonnes milled) (C)	27,984	29,718	26,751	26,110
Cash Cost of Production per Tonne (A/C)	59.07	50.07	55.62	74.03
Silver Equivalent Sold (payable ounces) (D)	73,531	122,680	63,922	80,874
Cash Cost per Silver Equivalent Ounce (B/D)	27.77	18.57	25.19	29.66

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

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

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

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

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Production costs	1,289	1,896	1,094	1,154	1,655
Concentrate treatment, smelting and refining cost	615	483	492	443	768
Sustaining capital expenditures	-	42	-	26	79
Deferred ramp expenditures	109	91	146	6	134
General and administrative expenses	250	249	241	162	502
Share-based payments	-	-	1	-	8
Accretion of decommissioning and restoration provision	8	9	8	9	9
All-in Sustaining Cost	2,271	2,770	1,982	1,800	3,155
Silver Equivalent Sold (payable ounces)	93,349	96,546	99,535	85,860	198,639
All-in Sustaining Cost per Silver Equivalent Ounce Sold	24.33	28.69	19.91	20.96	15.88

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Production costs	1,644	1,638	1,357	1,957
Concentrate treatment, smelting and refining cost	398	640	253	442
Sustaining capital expenditures	-	16	-	-
Deferred ramp expenditures	133	86	182	-
General and administrative expenses	250	248	240	161
All-in Sustaining Cost	2,425	2,628	2,032	2,560
Silver Equivalent Sold (payable ounces)	73,531	122,680	63,922	80,874
All-in Sustaining Cost per Silver Equivalent Ounce Sold	32.98	21.42	31.79	31.65

Average Realized Silver Price per Ounce

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

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

Rosario Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenues (as reported)	957	1,166	1,220	984	3,026
Add back: Treatment, smelting and refining charges	615	483	492	443	768
Gross Revenues	1,572	1,649	1,712	1,427	3,794
Silver Equivalent Sold (ounces)	93,349	96,546	99,535	85,860	198,639
Avg Realized Price per Ounce of Silver Equivalent Sold⁽¹⁾	16.84	17.08	17.20	16.62	19.10
Avg Market Price per Ounce of Silver per London Silver Fix	16.83	17.26	17.42	17.18	19.62

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Revenues (as reported)	841	1,475	865	890
Add back: Treatment, smelting and refining charges	398	640	253	442
Gross Revenues	1,239	2,115	1,118	1,332
Silver Equivalent Sold (ounces)	73,531	122,680	63,922	80,874
Avg Realized Price per Ounce of Silver Equivalent Sold	16.85	17.24	17.49	16.47
Avg Market Price per Ounce of Silver per London Silver Fix	16.83	17.26	17.42	17.18

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

Non-IFRS Measures – Additional Information

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

Mine Operations Income (Loss)

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

EBITDA and Adjusted EBITDA

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

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

The following table provides a reconciliation of EBITDA and Adjusted EBITDA for the 2016 Q3 and Q4 periods and 2017 Q1, Q2, and Q3 period to the respective financial statements:

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Net income (loss) for the period as reported	(5,899)	(8,485)	1,490	(3,646)	(11,064)
Income tax expense (recovery)	37	52	(120)	433	(860)
Interest earned and other finance income and gain on settlement of debt	(56)	(480)	(3,739)	3	(6,377)
Interest expense and other finance expenses	-	-	-	1,883	2,131
Interest expense on JMET note	175	47	267	-	-
Interest expense on loan payable	-	17	11	7	6
Accretion expense	8	9	8	9	9
Amortization and depletion of mineral properties, plant and equipment	691	934	693	659	587
EBITDA	(5,044)	(7,906)	(1,390)	(652)	(15,568)
Impairment of exploration and evaluation properties	4,350	5,284	-	(1,073)	16,688
Foreign exchange	(934)	1,232	541	165	(259)
Share-based payments	-	-	1	-	8
Adjusted EBITDA	(1,628)	(1,390)	(848)	(1,560)	869

Loan Payable

On December 22, 2015, the Company entered into a short-term loan facility (the "**Loan**") with Trafigura Mexico, S.A. de C.V. ("**Trafigura**") in the principal amount of \$725. The Loan bears interest at LIBOR plus 10%, payable monthly in arrears, with the principal to be repaid in six equal monthly installments commencing January 31, 2016. The Loan has been secured by certain personal assets of the CEO of the Company. The principal amount of \$725 has been paid in full.

Trafigura advanced an additional \$200 on January 13, 2017, \$150 on January 31, 2017, \$200 on April 11, 2017 and \$300 on May 25, 2017 to the Company. \$836 of the principal payments remain unpaid and the Company is currently re-negotiating the extension of the outstanding payments.

In connection with this personal guarantee of the Loan, the Company agreed to issue 3,000,000 bonus warrants to the CEO. On January 11, 2016, the Company issued the 3,000,000 bonus warrants, each of which was exercisable to purchase one common share for a price of CDN\$0.15 and would expire January 11, 2017. All 3,000,000 bonus warrants were exercised during the year ended December 31, 2016. The fair value of the bonus warrants (\$59) was estimated using the Black Scholes option-pricing model and was recorded against the balance of the loan payable.

Use of Proceeds from Financings

The Company will use the net proceeds of \$751 (CDN\$935) from the July 28, 2017 public offering of units for general working capital and corporate purposes.

The Company used the net proceeds of \$11,073 (CDN\$14,279) from the July 14, 2016 public offering of units as follows:

	Original Estimated Expenditure	Approximate Actual Expenditure
Silver pre-payment restructuring	6,000	6,000
Additional partial payment of indebtedness to JMET	1,777	1,777
Costs of the offering	155	288
General working capital	3,141	3,008
	11,073	11,073

Capital Expenditures

The Company spent \$4,576 on its mineral properties during the nine months ended September 30, 2017 including the payment made to Hochschild for the sale of San Felipe and El Gachi properties in the amount of \$2,500 plus \$388 of mining taxes and ejido payments on the same properties.

Liquidity and Capital Resources and Going Concern

As at September 30, 2017, the Company had cash and cash equivalents of \$22 (December 31, 2016 – \$40) and a working capital deficiency of \$8,417 (December 31, 2016 – \$11,668). During the nine months ended September 30, 2017, net cash used in operating activities was \$2,989, net cash provided by investing activities was \$8,015 including costs relating to the exploration activities on its mineral properties; and net cash used for financing activities was \$5,095.

During the year ended December 31, 2016, the Company entered into a series of forward contracts to purchase Mexican pesos in exchange for a total of \$42,000 at 18.874 Mexican pesos per US dollar over the time period from October 31, 2016 to December 31, 2017 inclusive. All of the outstanding forward contracts settled during the nine months ended September 30, 2017. A loss of \$145 was incurred in connection with the settlement of the contracts.

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

At September 30, 2017, in addition to the working capital deficiency referenced above, the Company had accumulated an inception to date deficit of \$85,316. The working capital deficiency and accumulated deficit indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As a result, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows from operations, and/or to raise adequate funding through equity or debt financings to discharge its liabilities as they come due. The Company has a capital management process in place to safeguard the Company's ability to continue as a going concern. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Transactions with Related Parties

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

- Malaspina Consultants Inc., a company owned by Robert McMorran, the Chief Financial Officer
- Larry M. Okada Inc., a company owned by Larry Okada, a director of the Company

During the three and nine months ended September 30, 2017 and 2016, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Accounting and corporate secretarial fees ⁽¹⁾	41	72	156	249
Directors' fees ⁽²⁾	14	19	40	51
Management fees ⁽³⁾	46	46	138	174
Share-based payments	-	-	-	293
Salaries and benefits capitalized ⁽³⁾	-	30	-	94

⁽¹⁾ The charge includes accounting and corporate secretarial fees paid to Malaspina Consultants Inc.

⁽²⁾ The charge includes directors' fees paid to Federico Villaseñor, Roland Löhner, and Larry Okada.

⁽³⁾ The charge in 2017 includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer. In 2016 the charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, as well as salaries and benefits paid to César Maldonado, former Chief Operating Officer.

At September 30, 2017, directors and officers or their related companies were owed \$200 (December 31, 2016 – \$227) in respect of the services rendered. These are non-interest bearing with standard payment terms.

In connection with the personal guarantee of the Loan by the CEO of the Company, the Company issued 3,000,000 bonus warrants to the CEO, each of which was exercisable to purchase one common share for a price of CDN\$0.15 expiring January 11, 2017. All 3,000,000 bonus warrants were exercised during the year ended December 31, 2016.

The Company entered into certain mining equipment leases expiring between 2017 and 2020 with an interest rate between 6.5% and 10.5% per annum. \$252 of lease payments were paid during the nine months ended September 30, 2017 and \$1,197 of the leases payable outstanding at September 30, 2017 were owed to a company owned by the CEO of the Company.

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

Financial Instruments

Fair Value and Classification of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, loan payable, leases, and the JMETS note. Cash and cash equivalents, and trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, loan payable, leases, and the JMETS note are classified as other financial liabilities, which are measured at amortized cost. The carrying values of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Off-balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("**IFRS 15**") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact that the new guidance is expected to have on its consolidated financial statements.

IFRS 9, *Financial Instruments* ("**IFRS 9**") addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through P&L. The standard introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is in the process of assessing IFRS 9's impact on its financial statements.

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

Outstanding Share Data

Authorized share capital: Unlimited number of Common Shares

All share information is reported as of November 27, 2017 in the following table.

Issued and Outstanding Common Shares				174,420,984
	Expiry Date	Exercise Price (CDN\$)		
Options	February 10, 2021	0.15	3,900,000	3,900,000
Warrants	January 14, 2019	0.55	18,965,000	
	January 28, 2020	0.28	4,675,000	
	February 21, 2020	0.28	200,000	23,840,000
Fully Diluted				202,160,984

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

Certificate with respect to the financial information contained in the consolidated financial statements for the nine months ended September 30, 2017 and this accompanying MD&A (together, the "Interim Filings").

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

Risks and Uncertainties

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

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

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

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

Additional Disclosure for Venture Issuers without Significant Revenue

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

Qualified Persons

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

Other Information

Additional information related to the Company, including the Company's annual information form, is available on SEDAR at www.sedar.com and on the Company's website, www.santacruzsilver.com.