MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

The following management's discussion and analysis of financial condition and results of operations ("**MD&A**") for the year ended December 31, 2016 prepared as of May 1, 2017, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 of Santacruz Silver Mining Ltd. (the "**Company**" or "**Santacruz**") (the "**2016 Annual Financial Statements**").

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

Forward-Looking Statements

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

Forward-looking information includes, but is not limited to, statements with respect to the future price of silver, gold and other metals and the effects thereof on the Company's mineral resources; statements relating to the potential mineralization and geological merits of the Company's Rosario mine and related mineral concessions (the "**Rosario Mine**" which is part of the "**Rosario Project**"), the Cinco Estrellas property ("**Cinco Estrellas Property**" which is part of the **Rosario Project**); the Gavilanes property (the "**Gavilanes Property**" or "**Gavilanes 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 Gavilanes Property, the Veta Grande Project, the Cinco Estrellas Property, 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 sufficient to expand the existing resources at the Gavilanes Property 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, the Gavilanes Project, 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 three exploration properties in its mineral property portfolio, the Gavilanes Project, 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 and the Cinco Estrellas Property 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.

2016 Highlights

- Selected operating and financial information for the three months and years ended December 31, 2016 and 2015 is presented below:

	Three months ended December 31,		Years ended December 31,	
	2016	**2015**	**2016**	**2015**
Financial				
Revenue	1,874	2,502	11,812	8,643
Mine Operations Income (Loss) [5]	(1,896)	(402)	(51)	(2,039)
Net Loss	(3,646)	(18,035)	(18,506)	(24,232)
Net Loss Per Share – Basic ($/share)	(0.02)	(0.17)	(0.14)	(0.23)
Adjusted EBITDA [5]	(1,560)	(188)	580	(2,172)
Operating [1]				
Material Processed (tonnes milled)	42,746	25,927	117,962	79,249
Silver Equivalent Produced (ounces) [2]	200,122	268,319	928,467	832,283
Silver Equivalent Sold (payable ounces) [3]	166,734	233,225	935,158	742,538
Production Cost per Tonne [4] [7]	72.33	88.14	79.59	92.63
Cash Cost per Silver Equivalent ($/oz.) [4] [7]	23.97	12.62	13.69	12.66
All-in Sustaining Cost per Silver Equivalent ($/oz.) [4] [7]	26.15	15.88	16.82	16.34
Average Realized Silver Price per Ounce ($/oz.) [4] [6]	16.55	17.00	17.23	17.02

(1) The Veta Grande Project commenced commercial production effective October 1, 2016 and therefore is not included in the 2015 operating results.

(2) Silver equivalent ounces produced in 2016 have been calculated using prices of US$14.50/oz., US$1,100/oz., US$0.76/lb and US$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 as well as by the Veta Grande Project during the fourth quarter of 2016. Silver equivalent ounces produced in 2015 have been calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb and US$1.09/lb for silver, gold, lead and zinc respectively applied to the metal content of the lead and zinc concentrates produced by the Rosario Project.

(3) Silver equivalent sold ounces in the fourth quarter of 2015 has been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see "*Pre-paid Silver Purchase*", below), and a realized silver price of US$16.55/oz for the fourth quarter of 2016. The annual figures have been calculated using a realized silver price of US$17.23/oz for 2016 and US$17.02/oz for 2015. These prices are applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project as well as from the Veta Grande Project in the fourth quarter of 2016.

(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 three months and years ended 2015 and 2016 Financial Statements.

(6) Average realized silver price per ounce is prior to all treatment, smelting and refining charges. The average realized silver price per ounce for the fourth quarter of 2015, and the first quarter of 2016, has been calculated after taking into account the additional funds received in the quarter from the MPPP that the Company put in place in connection with the JMET Agreement (see section titled "*Pre-paid Silver Purchase*", below).

(7) During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 operating results are considered abnormal and have not been included in the calculation of the annual 2015 per unit costs as there was nominal production during this time.

- In early January 2016, the Company began commissioning the Veta Grande milling facility circuits and made the first lead and zinc concentrate deliveries in early February;
- On May 4, 2016 the Company entered into an option agreement to acquire from Golden Minerals Company ("**Golden Minerals**") certain mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the "**Zacatecas Properties**") consisting of 149 concessions covering approximately 7,800 hectares;
- On May 17, 2016 the Company filed on SEDAR an independent Technical Report titled "Technical Report, Veta Grande Project, Zacatecas State, Mexico" (the "**Original Zacatecas Report**"), for the Veta Grande Project located in Zacatecas, Mexico. The Veta Grande Project includes the Veta Grande Mine and Minillas property held under the agreement with Contracuña, 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 the Canadian Institute of Mining, Metallurgy, and Petroleum Standards (the "**CIM Standards**"), by independent qualified persons. The report was completed by Van Phu Bui, P.Geo. and Gilles R. Dessureau, P.Geo. of ARC Geoscience Group;
- On July 14, 2016 the Company closed a public offering of units (the "**Offering**") through a syndicate of agents and completed the restructuring of its silver loan agreement with JMET, LLC ("**JMET**"). The restructuring amends the Amended JMET Agreement (see section titled "*Pre-paid Silver Purchase*", below) such that the Company no longer has any metal delivery obligations to JMET;
- On September 7, 2016 the Company acquired the exclusive right for 15 years to explore, develop and mine the Cinco Estrellas Property (which is part of the Rosario Project), a gold-silver project situated approximately 40 km from the Company's Rosario Mine located near Charcas, San Luis Potosi, Mexico;
- Effective October 1, 2016 the Company declared commercial production at its Veta Grande Project after the milling facility throughput achieved 395 tonnes per day ("tpd") (80% of design capacity) over the prior 30-day period with metal recoveries of approximately 85% of design rates;
- On November 17, 2016 the Company filed on SEDAR a Technical Report containing a resource estimation for the Panuco Deposit dated November 2, 2016 titled "2016 Mineral Resource Estimate, Panuco Deposit, Zacatecas, Mexico". The Panuco Deposit has an 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;
- 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 "*The Offering*") 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 "*The Offering*") and $500 (plus applicable VAT) was paid to Hochschild.

The Offering

Pursuant to the Offering on July 14, 2016 the Company issued 37,975,000 units at a price of CAD$0.40 per unit for total gross proceeds of CAD$15,190. Each unit consisted of one common share and one-half of a common share purchase warrant. Each full warrant entitles the holder to acquire one common share at a price of CAD$0.55 per share until January 14, 2019.

The Company used $7,777 from the net proceeds of the Offering to make a partial payment to JMET of the outstanding indebtedness under the Amended JMET Agreement and issued JMET a new secured note in the amount of $4,890 (the "**JMET Note**"), representing the remaining indebtedness to JMET after giving effect to the restructuring of the JMET silver loan agreement.

Pre-paid Silver Purchase

On October 2, 2014, the Company entered a Prepaid Silver Purchase Agreement with 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.

On November 27, 2014, the terms of the JMET Agreement were amended (the "**Amended JMET Agreement**") such that, among other things, the Company repaid $9,000 to JMET and agreed to repay a further $7,000 on or before April 1, 2015. In addition, the amount of silver to be delivered by the Company to JMET was decreased to 2,600,000 ounces.

In connection with the original JMET Agreement and the Amended JMET Agreement, the Company entered into a minimum price protection program ("**MPPP**") for certain of its metal production in 2015 and Q1 2016, and in the case of silver had additionally set a floor price for certain of its silver production for the last three quarters of 2016.

The cost to establish the MPPP was approximately $6,300. The MPPP was monetized, if applicable, at each month end from January 2015 to April 2016 and in May 2016 the Company monetized the residual MPPP for $438 of proceeds.

On April 1, 2015, the Company repaid $2,000 of the $7,000 due pursuant to the Amended JMET Agreement and further amended the Amended JMET Agreement to extend the repayment of the remaining $5,000 until December 31, 2015. The Company also agreed that all payments received from JMET under the revised price protection program would be offset against the remaining cash principal balance due December 31, 2015.

On July 15, October 27, December 15, 2015, April 22, 2016 and June 14, 2016, the Amended JMET Agreement was further amended. As a result of these amendments, the Company was to sell to JMET 2,644,625 ounces of silver through October 2019 at the spot price less US$10. The Company incurred transaction costs of $94 in 2015 and $21 in 2016 in relation to these amendments. Further, the Company agreed to pay JMET $100 (paid) on or before April 30, 2016 and another $100 (paid) on or before May 30, 2016. The repayment date for the $3,040 balance due to be paid on December 31, 2015 was also deferred until August 25, 2016.

As the change in future payment terms was not determined to be substantial, each amendment which occurred in 2015 and up to June 14, 2016 was recorded as a debt modification. Accordingly, the effective interest rate on the silver loan was recalculated at each amendment date based on the carrying value of the debt and the expected future payment terms and no gain or loss was recorded through profit and loss.

During the year ended December 31, 2015, the Company received cash payments of $224 under the revised price protection plan and applied $2,910 against the current portion of the silver loan upon settlement of 1,183,680 ounces of silver, 2,730 ounces of gold, 1,860 tonnes of lead and 3,900 tonnes of zinc.

During the year ended December 31, 2016, the Company applied $1,777 against the current portion of the silver loan upon settlement of 1,262,856 ounces of silver, 495 tonnes of lead and 1,038 tonnes of zinc. In addition, a lump sum repayment of $1,004 was made on April 20, 2016, with $200 applied against the April and May restructure fees, and $804 applied against the remaining cash principal balance.

The Company completed a restructuring of the Amended JMET Agreement on July 14, 2016. Pursuant to the

restructuring, among other things, the silver loan obligation due at that time in the amount of $20,085 was settled in full by a cash payment by the Company of $7,777, the issuance by the Company of the JMET Note in the amount of $4,890, the issuance by the Company of 3,750,000 warrants, and the agreement by the Company to pay $1,500 of restructure and other fees to JMET in 2019. The Company incurred transaction costs of $100 in relation to the restructuring. In addition, under the terms of the JMET Note the Company no longer had any metal delivery obligations to JMET.

The JMET Note bore interest at a rate of 14% per annum, payable quarterly in arrears commencing September 30, 2016, with principal repayments of $500 per quarter commencing September 30, 2017 and ending on December 31, 2019. As a result of the successful completion of the ASC Transaction and the First Majestic Transaction, the JMET Note was repaid in full during the first quarter of 2017.

The Company also agreed to pay JMET $1,500 of restructuring and finance fees, which fees were payable in 2019. As a result of the successful completion of the ASC Transaction and the First Majestic Transaction, the restructuring and finance fees are now due to JMET as to $500 at the end of September and December 2017 and March 2018 respectively.

Also pursuant to the restructuring, the Company issued 3,750,000 warrants to JMET (the "**JMET Warrants**"). Each JMET Warrant is exercisable to acquire one common share of the Company at a price of CAD$0.55 per share and which will expire on December 31, 2018; provided that, if the volume weighted average price of the Company's common shares for any consecutive 20-day trading period on the TSX-V equals or exceeds CAD$0.88, the Company has the right to deem the JMET Warrants to be exercised.

The restructuring of the Amended JMET Agreement was accounted for as an extinguishment of debt as the change in expected payment terms was determined to be substantial. As a result, the Company derecognized the debt that arose from the Amended JMET Agreement and recognized the debt as a result of the restructuring. As a result of the restructuring the Company recognized a gain on settlement of debt of $6,377.

Review of Consolidated Operating Results

	Three months ended December 31,		Years ended December 31,	
	2016	2015*	2016	2015*
Material Processed (tonnes milled)				
Rosario Project	16,636	25,927	91,852	79,249
Veta Grande Project	26,110	-	26,110	-
Consolidated	**42,746**	**25,927**	**117,962**	**79,249**
Silver Equivalent Produced (ounces) [(1)]				
Rosario Project	99,749	268,319	828,094	832,283
Veta Grande Project	100,373	-	100,373	-
Consolidated	**200,122**	**268,319**	**928,467**	**832,283**
Silver Equivalent Sold (payable ounces) [(2)]				
Rosario Project	85,860	233,225	854,284	742,538
Veta Grande Project	80,874	-	80,874	-
Consolidated	**166,734**	**233,225**	**935,158**	**742,538**
Cash Cost of Production per Tonne[(3) (4)]				
Rosario Project	69.67	88.14	81.17	92.63
Veta Grande Project	74.03	-	74.03	-
Consolidated	**72.33**	**88.14**	**79.59**	**92.63**
Cash Cost per Silver Equivalent ($/oz.) [(3) (4)]				
Rosario Project	18.60	12.62	12.18	12.66
Veta Grande Project	29.66	-	29.66	-
Consolidated	**23.97**	**12.62**	**13.69**	**12.66**
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) [(3) (4)]				
Rosario Project	20.96	15.88	15.42	16.34
Veta Grande Project	31.65	-	31.65	-
Consolidated	**26.15**	**15.88**	**16.82**	**16.34**
Average Realized Silver Price per Ounce ($/oz) [(3)]				
Rosario Project	16.62	17.00	17.30	17.02
Veta Grande Project	16.47	-	16.47	-
Consolidated	**16.55**	**17.00**	**17.23**	**17.02**

* Commercial production at the Veta Grande Project was declared effective October 1, 2016. Accordingly, production from the Veta Grande Project before this date is not included in the 2015 figures presented in the table.

(1) Silver equivalent ounces produced in 2016 have been calculated using prices of US$14.50/oz., US$1,100/oz., US$0.76/lb. and US$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 as well as by the Veta Grande Project during the fourth quarter of 2016. Silver equivalent ounces produced in 2015 have been calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb. and US$1.09/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 in the fourth quarter of 2015 has been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see *"Pre-paid Silver Purchase*", below), and a realized silver price of US$16.55/oz for the fourth quarter of 2016. The annual figures have been calculated using a realized silver price of US$17.23/oz for 2016 and US$17.02/oz for 2015. These prices are applied to the payable metal content of the lead and zinc concentrates sold from the Rosario Project as well as from the Veta Grande Project in the fourth quarter of 2016.

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

(4) During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 operating results are considered abnormal and have not been included in the calculation of the annual 2015 per unit costs as there was nominal production during this time.

Production
In 2016 silver equivalent production increased by 12% to 928,467 ounces from 832,283 ounces in 2015. This increase reflects in part production from the Veta Grande Project that commenced commercial production effective October 1, 2016 and in part the fact that there was only nominal production during the first quarter of 2015 at the Rosario Project due to a tailings discharge pipe malfunction.

Total silver equivalent production for the fourth quarter decreased by 25% to 200,122 ounces as compared to 268,319 ounces in 2015. This decrease is due to a 63% decrease (168,570 ounces) in production at the Rosario Project to 99,749 ounces partially offset by commencement of production at the Veta Grande Project in the amount of 100,373 ounces. As compared to total silver equivalent production for the third quarter, fourth quarter production increased by 21% reflecting a 40% decrease in production at the Rosario Project partially offset by the commencement of production at the Veta Grande Project.

Cash Cost per Tonne
Cash cost of production per tonne of mineralized material processed decreased by 14% in 2016 to $79.59/t as compared to $92.63/t in 2015. This positive change in unit costs reflects a 12% decrease in unit cash production costs at the Rosario Project with an additional positive contribution from the initial unit production costs realized at the Veta Grande Project.

Cash cost of production per tonne of mineralized material processed decreased by 18% in the fourth quarter of 2016 to $72.33/t as compared to $88.14/t in 2015. This positive change in unit costs reflects a 21% decrease in unit cash production costs at the Rosario Project. In addition, the unit cash production costs from the initial production at the Veta Grande Project were 6% more than those realized at the Rosario Project.

Cash Cost per Silver Equivalent Ounce
Cash cost of production per silver equivalent ounce sold increased by 8% in 2016 to $13.69/oz as compared to $12.66/oz in 2015. This change in unit costs reflects an 4% decrease in unit cash production costs at the Rosario Project that were more than offset by the unit cash production costs ($29.66/oz) that were realized from the initial production at the Veta Grande Project.

Cash cost of production per silver equivalent ounce sold increased by 90% in the fourth quarter of 2016 to $23.97/oz as compared to $12.62/oz in 2015. This change in unit costs reflects a 47% increase in unit cash production costs at the Rosario Project that were more than offset by the unit cash production costs realized from the initial 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 3% in 2016 to $16.82/oz as compared to $16.34/t in 2015. This change in unit costs reflects a 6% decrease in unit cash production costs at the Rosario Project with an additional positive contribution from the initial unit production costs realized at the Veta Grande Project.

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 65% in the fourth quarter of 2016 to $26.15/oz as compared to $15.88/t in 2015. This change in unit costs reflects a 32% increase in unit cash production costs at the Rosario Project with the additional variance arising from the initial unit production costs realized at the Veta Grande Project.

Rosario Project, Charcas, San Luis Potosi, Mexico

The Rosario Project currently includes the Rosario Mine and the Cinco Estrellas Property 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 part of 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.

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 by making cash payments of $130.

To date the Company has paid the property vendor $115 and is required to pay an additional $15 in three monthly installments of $5 following which no further cash payments are due to the vendor. The property is subject to a 2.5% NSR.

Rosario Project Production and Operating Results

	Three months ended December 31,		Years ended December 31,	
	2016	**2015**	**2016**	**2015**
Material Processed (tonnes milled)	16,636	25,927	91,852	79,249
Silver Equivalent Produced (ounces) (1)	99,749	268,319	828,094	832,283
Silver Equivalent Sold (payable ounces) (2)	85,860	233,225	854,284	742,538
Production - Silver (ounces)	39,900	143,937	425,838	471,893
- Gold (ounces)	179	103	496	336
- Lead (tonnes)	62	254	705	781
- Zinc (tonnes)	364	673	2,635	1,896
Average Grade – Silver (g/t)	81	178	155	194
– Gold (g/t)	0.55	0.15	0.25	0.17
– Lead (%)	0.42	1.04	0.84	1.08
– Zinc (%)	2.62	2.81	3.42	2.66
Metal Recovery – Silver (%)	91.8	97.0	93.0	95.5
– Gold (%)	61.3	80.5	68.3	77.8
– Lead (%)	87.5	93.8	83.9	91.0
– Zinc (%)	83.4	92.2	91.8	90.0
Cash Cost of Production per Tonne (3) (4)	69.67	88.14	81.17	92.63
Cash Cost per Silver Equivalent ($/oz.) (3) (4)	18.60	12.62	12.18	12.66
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) (3) (4)	20.96	15.88	15.42	16.34

(1) Silver equivalent ounces produced in 2016 have been calculated using prices of US$14.50/oz., US$1,100/oz., US$0.76/lb. and US$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. Silver equivalent ounces produced in 2015 have been calculated using prices of US$17.75/oz., US$1,250/oz., US$0.83/lb. and US$1.09/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 in the fourth quarter of 2015 has been calculated using a realized silver price of US$17.00/oz., after giving effect to the MPPP (see "*Pre-paid Silver Purchase*", below), and a realized silver price of US$16.61/oz for the fourth quarter of 2016. The annual figures have been calculated using a realized silver price of US$17.30/oz for 2016 and US$17.02/oz for 2015. These prices are 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.

(4) During Q1 2015 there was a temporary halt in operations from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe. As such the Q1 2015 operating results are considered abnormal and have not been included in the calculation of the annual 2015 per unit costs as there was nominal production during this time.

Rosario Project Production

In 2016 silver equivalent production from the Rosario Project decreased by 1%, notwithstanding that in 2015 there was nominal production in the first quarter as operations were temporarily suspended due to a tailings pipe malfunction. During 2016 production in the fourth quarter decreased by approximately 169,000 ounces. The decrease reflects a 36% decrease in tonnes milled combined with a 21% decrease in the silver head grade. Both the tonnes produced and silver grade were impacted by the development of the Rosario Mine's Levels 4.5 and 5 where areas of greater structural complexity and narrower veins, resulting in lower tonnes mined, increased mining dilution and lower grades realized during the third and fourth quarter. It is expected that detailed underground mapping and additional exploration work will provide the Company with key data to further assess development.

During the fourth quarter the Company advanced development of the Cinco Estrellas Property so as to complement the mill feed from the Rosario Mine. During the fourth quarter approximately 2,855 tonnes were mined from this property with an estimated average head grade of 3.3 g/t Au and 88 g/t Ag. To date in 2017 approximately 4,841 tonnes of mineralized material has been mined and processed from the property. The mineralized material mined in the fourth quarter and to date in 2017 has been sourced from mine development workings. Importantly, development of the first production stope has just been completed. The stope is located between levels 2 and 3, and is approximately 18 metres high. Geological mapping and chip sampling of the vein over a 150 meter strike length on levels 2 and 3 indicate the vein widths in this stope range from 1.5 to 3.0 metres. Assay results of chip samples collected from the top of the stope (level 2) range from trace up to 6.0 g/t Au and 120 g/t Ag as compared to the bottom of the stope (level 3) that range from trace up to 19 g/t Au and 220 g/t Ag.

The decision to commence production at the Cinco Estrellas Property 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.

The Company is assessing other mineral prospects located in proximity to the Rosario Mine with a view to further increasing high-grade feed to the Rosario mill. Management believes such a strategy will strengthen the Rosario Project operations by providing greater mining flexibility as well as utilizing the available mill capacity.

Cash Cost per Tonne

Cash cost of production per tonne of mineralized material processed decreased by 12% in 2016 to $81.17/t as compared to $92.63/t in 2015. This positive change in unit costs again reflects cost savings measures implemented by management during 2016 together with a 16% increase in tonnage processed.

Cash cost of production per tonne of mineralized material processed decreased by 21% in the fourth quarter to $69.67/t as compared to $88.14/t in 2015. This positive change in unit costs reflects cost savings measures implemented by management during 2016.

Cash Cost per Silver Equivalent Ounce

Cash cost of production per silver equivalent ounce sold decreased by 4% in 2016 to $12.18/oz as compared to $12.66/oz in 2015. This change in unit costs reflects the 12% reduction in cash cost of production per tonne processed (see above) offset by a decrease of 20 % in the silver grade of the mineralized material processed. The decrease in grade is a reflection of the mining issues encountered at the Rosario Mine's Levels 4.5 and 5 as referenced above.

Cash cost of production per silver equivalent ounce sold increased by 47% in the fourth quarter of 2016 to $18.60/oz as compared to $12.62/oz in 2015. This change in unit costs reflects a 54% decrease in the silver head grade of the mineralized material processed which again is a result of the mining issues encountered at the

Rosario Mine's Levels 4.5 and 5 as referenced above offset somewhat by the 21% decrease in the cash cost per tonne processed (see above).

<u>All-In Sustaining Cash Cost per Silver Equivalent Ounce</u>
All-in sustaining cash cost of production per silver equivalent ounce sold decreased by 6% in 2016 to $15.42/oz as compared to $16.34/t in 2015. This change in unit costs reflects the 12% reduction in cash cost of production per tonne processed (see above) offset by a decrease of 20 % in the silver grade of the mineralized material processed. The decrease in grade is a reflection of the mining issues encountered at the Rosario Mine's Levels 4.5 and 5 as referenced above.

All-in sustaining cash cost of production per silver equivalent ounce sold increased by 32% in the fourth quarter of 2016 to $20.96/oz as compared to $15.88/t in 2015. This change in unit costs reflects the 21% reduction in cash cost of production per tonne processed (see above) offset by a decrease of 54 % in the silver grade of the mineralized material processed. The decrease in grade is a reflection of the mining issues encountered at the Rosario Mine's Levels 4.5 and 5 as referenced above.

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%.

Veta Grande Project Production and Operating Results for the Fourth Quarter of 2016

	2016
	Q4
Material Processed (tonnes milled) [1]	26,110
Silver Equivalent Produced (ounces) [1] [2]	100,373
Silver Equivalent Sold (payable ounces) [1] [3]	80,874
Production - Silver (ounces) [1]	28,027
- Gold (ounces) [1]	106
- Lead (tonnes) [1]	220
- Zinc (tonnes) [1]	362
Average Grade – Silver (g/t)	57
– Gold (g/t)	0.17
– Lead (%)	1.02
– Zinc (%)	1.75
Metal Recovery – Silver (%)	58.1
– Gold (%)	72.0
– Lead (%)	82.6
– Zinc (%)	79.1
Cash Cost of Production per Tonne[4]	74.03
Cash Cost per Silver Equivalent ($/oz.) [4]	29.66
All-in Sustaining Cash Cost per Silver Equivalent ($/oz.) [4]	31.65

* Commercial production at the Veta Grande Project was declared effective October 1, 2016. Therefore, production and operating results from the Veta Grande Project before this date are not included in this summary.

(1) During the fourth quarter 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 US$14.50/oz., US$1,100/oz., US$0.76/lb. and US$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.

(3) Silver equivalent sold ounces in the fourth quarter of 2016 have been calculated using a realized silver price of US$16.47/oz., 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.

Mine Development, Commissioning and Commercial Production

During November 2015 through early January 2016 Company staff oversaw the refurbishment of the Veta Grande milling facility including an engineering design change that allows the mill to produce both a lead concentrate and a zinc concentrate as opposed to formerly only producing a single bulk concentrate. Following the refurbishment activities, commissioning of the plant circuits began in early January 2016 and the Veta Grande Project operated in a pre-commercial production phase through the end of the third quarter. Effective October 1, 2016, commercial production was declared after the milling facility throughput achieved 395 tpd (80% of design capacity) over the prior 30-day period with metal recoveries of approximately 85% of design rates. Up until the commencement of commercial production any proceeds on sales of concentrate have been applied against the capitalized mine properties.

During the second quarter mine development and production was hampered at the Garcia mine (comprised of La Flor, Armados, San José, and Veta Grande veins) and the Guadalupana mine (including the La Canterra and La Mecha veins) by the lack of availability of underground equipment. Early in the third quarter the Company took delivery of the required equipment which allowed the Company to increase both mine production and development.

During the third quarter the Company dewatered the Navidad mine (located approximately 3 kms from the Veta Grande mill) and carried-out a preliminary analysis of the viability of sourcing mineralized material for processing in the milling facility.

In early November the Company completed the installation and commissioning of a lead thickener and filter press with 4,000 tpd capacity.

During the fourth quarter significant mine development was completed including approximately 1,400 metres of level development and 480 metres of main access ramp development completed at the Guadalupana mine, and approximately 350 metres of level development in addition to 120 metres of main haulage ramp development completed at the Garcia mine. As a consequence of this development work a substantial amount of the mill feed during the fourth quarter was from lower grade development material. Importantly, during the fourth quarter mineralized material from previously mined stopes ("**Choros**") within the Veta Grande vein was identified and accessed from old workings below Level 3 at the Garcia mine. During the first quarter of 2017 approximately 26,700 tonnes of material at an estimated head grade of 117 g/t Ag, 0.83% Zn, 0.48% Pb and 0.24 g/t Au was processed at the Veta Grande Project, largely sourced from the Choros left behind by previous operators.

Mineralized material from the Choros 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. In connection with this matter during the first half of 2017 the Company plans to drive an access ramp for a vertical depth of 120 metres from the current workings at the Veta Grande vein, the largest of the vein systems contained within the Garcia mine.

In concert with the current optimized mine plan, the Company is deferring 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 second half of 2017.

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.

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 Contracuña, 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.Geo. and Gilles R. Dessureau, P.Geo. 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

Selected Annual Information

The Company's fiscal period ends on December 31. The following is a summary of certain selected audited financial information for the last three completed fiscal years:

(Prepared in accordance with IFRS; Expressed in thousands of US Dollars except per share amounts)	2016	2015	2014
	$	$	$
Cash	40	277	6,016
Working Capital (Deficiency)[2]	(11,668)	(4,050)	(683)
Mineral Property Interests	21,140	36,199	53,567
Total Assets	51,879	63,929	86,965
Total Liabilities	26,425	31,114	29,972
Total Equity	25,454	32,815	56,993
Total Revenues	11,812	8,643	10,626
Net Loss[3]	(18,506)	(24,232)	(8,706)
Net Loss Per Share (basic and diluted)[1][3]	(0.14)	(0.23)	(0.09)

(1) The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants, if any.
(2) The 2016 balance includes $5,000 (2015 -$7,987; 2014 - $$10,120) owing to JMET following the restructuring of the Amended JMET Agreement and/or pursuant to the Amended JMET Agreement.
(3) The 2015 net loss includes an impairment of the San Felipe project of $19,426, and the 2016 net loss includes an impairment of the San Felipe project of $15,615.

Financial Results

Review of Operations

	Three months ended December 31,		Years ended December 31,	
	2016	**2015**	**2016**	**2015**
Revenue	**1,874**	**2,502**	**11,812**	**8,643**
Cost of sales				
Direct cost of sales	(3,111)	(2,189)	(9,404)	(8,952)
Depletion and amortization	(659)	(571)	(2,459)	(1,730)
Adjustment to NRV of mined material and concentrate inventory	-	(144)	-	-
	(3,770)	**(2,904)**	**(11,863)**	**(10,682)**
Gross margin	**(1,896)**	**(402)**	**(51)**	**(2,039)**
Operating expenses				
Administrative	92	12	(295)	(284)
Management and consulting fees	(64)	(110)	(342)	(441)
Professional fees	(186)	(159)	(683)	(624)
Share-based payments	-	(8)	(386)	(77)
Other	(165)	(101)	(513)	(520)
	(323)	**(366)**	**(2,219)**	**(1,946)**
Impairment	**1,073**	**(19,426)**	**(15,615)**	**(19,426)**
Interest earned and other finance income				
Interest earned	3	1	6	12
IVA recovery inflationary gain	(6)	-	166	-
Change in fair value of derivative assets	-	834	-	2,477
Gain on settlement of debt	-	-	6,377	-
Foreign exchange gain	(165)	49	503	463
	(168)	**884**	**7,052**	**2,952**
Interest Expense and Other Finance Expenses				
Accretion of decommissioning and restoration provision	(9)	(11)	(37)	(46)
Change in fair value of derivatives	(1,651)	-	(5,562)	-
Interest expense on loan payable	(7)	(4)	(66)	(4)
Interest expense on silver loan	-	-	(2,057)	(5,044)
Interest expense on JMET note	(232)	(1,653)	(232)	-
	(1,899)	**(1,668)**	**(7,954)**	**(5,094)**
Income tax recovery (expense)	(433)	2,943	281	1,321
Net loss for the period	**(3,646)**	**(18,035)**	**(18,506)**	**(24,232)**

Year ended December 31, 2016

The Company recorded a net loss of $18,506 ($0.14 per share) for the year ended December 31, 2016 compared to a net loss of $24,232 ($0.23 per share) for the year ended December 31, 2015. The decrease in net loss relates largely to an impairment charge on the San Felipe Project of $15,615 in 2016 as compared to an impairment charge on this property of $19,426 in 2015, as well as an increase in the gross margin of $1,988.

Revenues in 2016 of $11,812 related mostly to the Rosario Project ($10,922) and increased by $3,169 (37%) as compared to the year ended December 31, 2015 primarily as a result of an increase in the silver equivalent sold as well as an increase in the realized silver price. The increased silver equivalent sales reflects in part the addition of production from the Veta Grande Project in Q4 of 2016 and in part the fact that only nominal production occurred in Q1 2015 at the Rosario Project due to a tailings dewatering pipe malfunction. As reported elsewhere in the MD&A, the silver grade of the mineralized material processed decreased by 20.1% in 2016 as compared to 2015.

Direct cost of sales of $9,404 recorded during the current year increased by $452 as compared to the year ended December 31, 2015. The increase relates to the addition of direct costs of sales of $1,957 from the Veta Grande mine as it commenced commercial production in the fourth quarter of 2016 offset in large part by cost savings measures initiated by management at the Rosario Project.

Amortization and depletion expenses in the year ended December 31, 2016 amounted to $2,459 (2015 - $1,730). These expenses are based on the assets associated with the commercial mining activities at the Rosario Project as well as the assets associated with the commercial mining activities at the Veta Grande Project in the fourth quarter of 2016. As there were additions to the Rosario Project plant and equipment during 2015 and additions of charges from the Veta Grande Project in Q4 2016, this resulted in increased amortization and depletion expenses in the current year. Further, the amortization and depletion expenses also increased at the Rosario Project in 2016 compared to 2015 as they are directly related to the number of tonnes milled during the period, which increased by 12,603 tonnes.

The operations for the year ended December 31, 2016 resulted in a gross loss of $51 (2015 – $2,039). This increase is primarily the result of increased revenues during the current year as a result of an increase in the silver equivalent sold as well as the realized silver price.

During the year ended December 31, 2016 the Company recorded operating expenses of $2,219 as compared to $1,946 in the year ended December 31, 2015. This is primarily the result of an increase in share-based payments of $309.

As detailed in Note 20(a) to the 2016 Financial Statements, interest earned and other finance income increased for the year ended December 31, 2016 compared to the year ended December 31, 2015 due to a gain on settlement of debt of $6,377 (2015 – $nil), offset by a change in fair value of derivative assets of $2,477 recorded in the year ended December 31, 2015 related to the recognition of the derivative asset on the Amended JMET Agreement.

As detailed in Note 20(b) to the 2016 Financial Statements, interest expense and other finance expenses of $7,954 (2015 - $5,094) increased due to an increase in the loss resulting from the change in fair value of derivative assets of $5,562, offset by the decrease in the interest expense on silver loan of $2,987. The change in derivative assets resulted mostly from the derecognition of the derivative assets related to the JMET loan in the prior year, and the recognition of a derivative liability of $3,716 related to the fair value of the outstanding foreign currency forward contracts.

An income tax recovery of $281 was recorded in 2016 as compared to an income tax recovery of $1,321 in the same period of 2015. The income tax recovery recorded in 2015 was mostly due to a $1,240 true-up to the deferred income tax liability.

Summary of Quarterly Results

	THREE MONTHS ENDED			
(Expressed in thousands of US Dollars except per share amounts)	**Dec 31, 2016**	**Sep 30, 2016**	**Jun 30, 2016**	**Mar 31, 2016**
	$	**$**	**$**	**$**
Revenues	1,874	3,026	3,375	3,537
Cost of sales	3,770	2,240	2,778	3,075
Administrative expenses	323	512	586	798
Net loss(2)(3)	(3,646)	(11,064)	(796)	(3,000)
Net loss per share(1)	(0.02)	(0.08)	(0.01)	(0.03)
	THREE MONTHS ENDED			
	Dec 31, 2015	**Sep 30, 2015**	**Jun 30, 2015**	**Mar 31, 2015**
Revenues	2,502	2,592	3,147	402
Cost of sales	2,904	3,147	3,020	1,611
Administrative expenses	366	558	570	452
Net loss(4)(5)	(18,035)	(1,628)	(2,018)	(2,551)
Net loss per share(1)	(0.17)	(0.02)	(0.02)	(0.02)

(1) The basic and fully diluted calculations result in the same value due to the anti-dilutive effect of outstanding stock options and warrants for all quarters.
(2) The Q3 2016 net loss includes an impairment of the San Felipe Project of $15,615 and a gain on settlement of debt of $6,377.
(3) The Q2 2016 net loss includes increased interest earned and other finance income from the Q1 2016 quarter, the largest of which being a $679 foreign exchange gain.
(4) The Q4 2015 net loss includes an impairment of the San Felipe Project of $19,426.
(5) The Q1 2015 net loss was due primarily to a temporary halt in operations at the Rosario Mine from January 2 to March 25 following a malfunction in the tailings dam dewatering pipe.

Fourth quarter ended December 31, 2016

The Company recorded a net loss of $3,646 ($0.02 per share) for the quarter ended December 31, 2016, as compared to a net loss of $18,035 ($0.17 per share) for the quarter ended December 31, 2015. The decrease in net loss on a quarter over quarter basis arose in large part from the impairment of the San Felipe Project of $19,426 during the fourth quarter of 2015 but also reflects a 25% decrease in revenues and a 42% increase in cash production costs.

The Company recorded revenues of $1,874, a decrease of $628 or 25% in the quarter ended December 31, 2016 as compared to the quarter ended December 31, 2015, primarily because of a 29% decrease in silver equivalent payable ounces sold.

Cash production costs of $3,111 increased by $922 or 42% as compared to the quarter ended December 31, 2015. The increased costs reflect the addition of the Veta Grande Project operating costs as the project began commercial production on October 1, 2016. Cash production costs relating to solely Rosario decreased $1,035 or 47%, mostly due to the decrease of 63% in the silver equivalent ounces sold from Rosario during the quarter.

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 Santacruz is required to pay to Golden Minerals the sum of US$1,100 in installment payments as follows: $300 on or before May 2, 2017; $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.ssntacruzsilver.com.

Manillas Property, Genaro Cidina, 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.

Gavilanes Property, San Dimas, Durango, Mexico

The Gavilanes Property comprises 10 mining concessions located in the rugged Sierra Madre Occidental mountain range in the municipality of San Dimas in the State of Durango, Mexico, approximately 110 kilometres west-north-west of Durango City. The Gavilanes Property covers a total area of 8,832 hectares. Details of the acquisition terms are contained in Note 10(a) of the 2016 Financial Statements.

Current Exploration Activities

On January 23, 2014, the Company filed a technical report in respect of its previously announced independent NI 43-101 Mineral Resource estimate on the Gavilanes Property. The Mineral Resource estimate was prepared by Gary H. Giroux, P.Eng. of Giroux Consultants Ltd. and utilized a geological model completed by Hans Smit, P.Geo and Fletcher Bourke, P.Geo. The effective date of this mineral resource estimate is November 13, 2013. No significant work has been performed on the property since then.

The identified indicated and inferred resource is significant, however engineering and economic studies have not been completed and thus no statement can be made about the project's potential economic viability. Recommended work at Gavilanes includes drilling in the area of current resources with the intent of upgrading resources to Indicated and Measured, drilling the open extent of the area with resources, testing other targets on the property and undertaking preliminary metallurgy, engineering and environmental studies.

Exploration and Acquisition Costs
During the year ended December 31, 2016, mineral property acquisition costs and exploration costs were $144 and $94 respectively for the Gavilanes Property.

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 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)	**Three months ended December 31,**		**Years ended December 31,**	
	2016	**2015**	**2016**	**2015**
Direct cost of sales	1,154	2,189	7,447	7,224
Inventory change	5	96	9	(52)
Cash Cost of Production (A)	1,159	2,285	7,456	7,172
Direct cost of sales	1,154	2,189	7,447	7,224
Concentrate treatment, smelting and refining cost	443	754	2,959	2,177
Cash Cost of Silver Equivalent Sold (B)	1,597	2,943	10,406	9,401
Material processed (tonnes milled) (C)	16,636	25,927	91,852	77,426
Cash Cost of Production per Tonne (A/C)	69.67	88.14	81.17	92.63
Silver Equivalent Sold (payable ounces) (D)	85,860	233,225	854,284	742,538
Cash Cost per Silver Equivalent Ounce (B/D)	18.60	12.62	12.18	12.66

Veta Grande Project

(Expressed in thousands of US Dollars except ounces, tonnes, per ounce and per tonne amounts)	**Q4 2016**
Direct cost of sales	1,957
Inventory change	(24)
Cash Cost of Production (A)	1,933
Direct cost of sales	1,957
Concentrate treatment, smelting and refining cost	442
Cash Cost of Silver Equivalent Sold (B)	2,399
Material processed (tonnes milled) (C)	26,110
Cash Cost of Production per Tonne (A/C)	74.03
Silver Equivalent Sold (payable ounces) (D)	80,874
Cash Cost per Silver Equivalent Ounce (B/D)	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)	**Three months ended December 31,**		**Years ended December 31,**	
	2016	**2015**	**2016**	**2015**
Direct cost of sales	1,154	2,189	7,447	7,224
Concentrate treatment, smelting and refining cost	443	754	2,959	2,177
Sustaining capital expenditures	26	47	183	336
Deferred ramp expenditures	6	339	494	690
General and administrative expenses	162	356	1,667	1,439
Share-based payments	-	8	386	51
Accretion of decommissioning and restoration provision	9	11	37	34
All-in Sustaining Cost	1,800	3,704	13,173	12,133
Silver Equivalent Sold (payable ounces)	85,860	233,225	854,284	742,538
All-in Sustaining Cost per Silver Equivalent Ounce Sold	20.96	15.88	15.42	16.34

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q4 2016**
Direct cost of sales	1,957
Concentrate treatment, smelting and refining cost	442
General and administrative expenses	161
All-in Sustaining Cost	2,560
Silver Equivalent Sold (payable ounces)	80,874
All-in Sustaining Cost per Silver Equivalent Ounce Sold	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)	**Three months ended December 31,**		**Years ended December 31,**	
	2016	**2015**	**2016**	**2015**
Revenues (as reported)	984	2,502	10,922	8,643
Add back: MPPP impact	-	709	901	1,681
Add back: Treatment, smelting and refining charges	443	754	2,959	2,314
Gross Revenues	1,427	3,965	14,782	12,638
Silver Equivalent Sold (ounces)	85,860	233,225	854,284	742,538
Avg Realized Price per Ounce of Silver Equivalent Sold[1]	16.62	17.00	17.30	17.02
Avg Market Price per Ounce of Silver per London Silver Fix	17.18	14.76	17.10	15.71

(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. When the average realized price of silver is below the MPPP price for the respective period, the amount earned on the MPPP is taken into account for the purposes of this calculation. For the fourth quarter of 2015, the MPPP price for silver was $17.00/oz.

Veta Grande Project

(Expressed in thousands of US Dollars except ounces and per ounce amounts)	**Q4 2016**
Revenues (as reported)	890
Add back: Treatment, smelting and refining charges	442
Gross Revenues	1,332
Silver Equivalent Sold (ounces)	80,874
Avg Realized Price per Ounce of Silver Equivalent Sold	16.47
Avg Market Price per Ounce of Silver per London Silver Fix	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 three months and years ended December 31, 2016 and 2015.

	Three months ended December 31,		Years ended December 31,	
	2016	**2015**	**2016**	**2015**
Net loss for the period as reported	(3,646)	(18,035)	(18,506)	(24,232)
Income tax expense (recovery)	433	(2,943)	(281)	(1,321)
Interest earned and other finance income and gain on the settlement of debt	3	(1)	(6,549)	(10)
Interest expense and other finance expenses	1,883	820	7,851	2,567
Interest expense on loan payable	7	4	66	4
Accretion expense	9	11	37	46
Amortization and depletion of mineral properties, plant and equipment	659	572	2,464	1,734
EBITDA	(652)	(19,572)	(14,918)	(21,212)
Impairment of exploration and evaluation properties	(1,073)	19,426	15,615	19,426
Foreign exchange	165	(50)	(503)	(463)
Share-based payments	-	8	386	77
Adjusted EBITDA	(1,560)	(188)	580	(2,172)

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.

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.

On March 10, 2016, Trafigura agreed to amend the terms such that the remaining principal payments now consist of seven monthly installments of $75 commencing May 31, 2016 and one final payment of $19 on December 30, 2016. All other terms and conditions remain unchanged. However, $394 of the principal payments remain unpaid and the Company is currently re-negotiating the extension of the outstanding payments.

Use of Proceeds from Financings

During the year ended December 31, 2016, the Company used the net proceeds of CDN$14,279 from the July 14, 2016 public offering of units to pay JMET a partial payment of $7,777 towards the Amended JMET Agreement. The remaining net proceeds were used for working capital purposes.

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

During the year ended December 31, 2015, the Company used the net proceeds of CDN$1,300 from the October 23, 2015, October 29, 2015 and November 12, 2015 tranches of a non-brokered private placement for working capital purposes.

Capital Expenditures
The Company spent $832 on its mineral properties during the year ended December 31, 2016 (2015 - $2,179). The Company also spent $5,118 on acquisitions of plant and equipment during the year ended December 31, 2016 (2015 - $3,054), and deferred Ramp expenditures of $494 (2015 - $872).

Liquidity and Capital Resources and Going Concern
As at December 31, 2016, the Company had cash and cash equivalents of $40 (December 31, 2015 – $277) and a working capital deficiency of $11,668 (December 31, 2015 – $4,050). During the year ended December 31, 2016, net cash provided by operating activities was $3,988 (2015 – cash used of $321), net cash used in investing activities was $5,950 (2015 - $5,233) including costs relating to the exploration activities on its mineral properties; and net cash provided by financing activities was $1,765 (2015 – cash used of $165).

Pursuant to the terms of the Gavilanes property agreement (Note 10(a) to the 2016 Financial Statements), in order to maintain and exercise the option the Company must make the remaining payment of $575. This payment was due on April 15, 2015. The Company expects to finalize settlement of this balance before the end of June 2017.

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. At December 31, 2016, the Company had outstanding foreign currency forward contracts to buy Mexican pesos in exchange for $31,264 with settlement dates between February 28, 2017 and December 31, 2017 at an exchange rate of 18.874 Mexican pesos per US dollar and was subject to a margin call in the amount of $3,600 of which it had placed on deposit $150. The deposit of $150 in the margin account was classified as restricted cash at December 31, 2016. Since December 31, 2016 the Company has settled $8,755 of the position leaving a current outstanding foreign currency forward contract positon of $22,509. This action in concert with a strengthened Mexican peso as of April 28, 2017, has reduced the amount of the margin call to approximately $533. The Company has a plan in place to fulfill the residual margin requirement.

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

At December 31, 2016, the Company had a working capital deficiency of $11,668, had accumulated an inception to date deficit of $76,772. Subsequent to December 31, 2016, the Company completed the ASC Transaction and the First Majestic Transaction whereby it received gross proceeds of $8,700 from the divestment of certain mineral property interests. Of these funds approximately $8,000 was used to reduce the working capital deficiency. Notwithstanding these subsequent transactions, the working capital deficiency and accumulated deficit still 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 year ended December 31, 2015, geological consulting fees paid to Pref-Ex Geological Inc., a company owned by Marc Prefontaine, a former director of the Company, were also included in related party transactions.

During the years ended December 31, 2016 and 2015, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company:

	2016 $	2015 $
Accounting and corporate secretarial fees [(1)]	252	164
Directors' fees [(2)]	68	73
Management fees [(3)]	186	230
Share-based payments	293	77
Salaries and benefits capitalized [(3)]	113	234

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

[(2)] The charge in 2016 includes directors' fees paid to Federico Villaseñor, Roland Löhner, and Larry Okada. In 2015 this charge includes geological consulting paid to Pref-Ex Geological Inc. and directors' fees paid to Marc Prefontaine, as well as directors' fees paid to Federico Villaseñor, Roland Löhner, and Larry Okada.

[(3)] The charge in 2016 includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, and salaries and benefits paid to César Maldonado, Chief Operating Officer. In 2015 the charge includes management fees paid to Arturo Préstamo Elizondo, the Chief Executive Officer, as well as salaries and benefits paid to Robert Byrd, the former Chief Operating Officer.

At December 31, 2016, directors and officers or their related companies were owed $227 (2015 – $125) 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 and would expire January 11, 2017. The warrants were exercised during 2016.

The Company entered into certain mining equipment leases expiring between 2017 and 2019 with an interest rate between 6.5% and 10.5% per annum. $583 of lease payments were paid during the year ended December 31, 2016 and $1,484 of the leases payable outstanding at December 31, 2016 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 has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

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

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

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

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

December 31, 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Forward contract derivative liability	-	3,716	-	3,716
JMET warrants derivative liability	-	93	-	93

Management of Risks Arising from Financial Instruments

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

Credit Risk – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk consists primarily of cash and cash equivalents, trade receivables and other receivables. The credit risk is minimized by placing cash with major financial institutions. Trade receivables are due from a large, multinational corporation that has conducted business in Mexico for many years. The Company regularly reviews the collectability of its trade receivables and contractually receives up to 90% advance on all payments. The Company considers the credit risk related to cash and cash equivalents and trade receivables to be minimal.

Interest Rate Risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest costs. The sensitivity of the Company's net loss to changes in the interest rate would be as follows: a 10% change in the interest rate would change the Company's net loss by approximately $85.

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

Contractual cash flow requirements as at December 31, 2016 were as follows:

	< 1 year $	1 – 2 years $	2 – 5 years $	>5 years $	Total $
Accounts payable and accrued liabilities	10,137	-	-	-	10,137
Loan payable	394	-	-	-	394
Leases	1,739	800	532	133	3,204
JMET note	1,667	2,438	3,549	-	7,654
Minimum lease payments	22	-	-	-	22
Total	13,959	3,238	4,081	133	21,411

Foreign Exchange Rate Risk – The Company operates in Canada and Mexico and is exposed to foreign exchange risk due to fluctuations in the US dollar and Mexican peso. Foreign exchange risk arises from financial assets and liabilities denominated in these foreign currencies. The sensitivity of the Company's net loss to changes in the exchange rate between the US dollar and the Canadian dollar would be as follows: a 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by approximately $395.

The Company's financial assets and liabilities as at December 31, 2016 are denominated in Canadian dollars, US dollars, and Mexican pesos as follows:

	Canadian dollar $	US dollar $	Mexican peso $	Total $
Financial assets				
Cash and cash equivalents	14	2	24	40
Restricted cash	-	150	-	150
Trade receivables	-	198	-	198
Other receivables	-	-	55	55
	14	350	79	443
Financial liabilities				
Accounts payable and accrued liabilities	(477)	-	(9,660)	(10,137)
Loan payable	-	(394)	-	(394)
JMET note	-	(5,749)	-	(5,749)
JMET warrants derivative liability	(93)	-	-	(93)
	(570)	(6,143)	(9,660)	(16,373)
Net financial liabilities	(556)	(5,793)	(9,581)	(15,930)

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

Critical Judgements in Applying Accounting Policies

The critical judgements that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Economic Recoverability and Probability of Future Economic Benefits of Exploration, Evaluation and Development Costs

Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Commencement of Commercial Production

When a project nears the end of construction, management has to exercise judgement to determine the date in which the asset was in the location and condition necessary to operate as intended by management at which point commercial production is considered to have commenced. The identification of this date is important since it establishes the point in time at which costs cease to be capitalized unless they provide an enhancement to the economic benefits of the asset, borrowing costs cease to be capitalized, processing costs begin to stabilize, the capitalization of pre-production revenue ceases and depreciation of the asset begins. Criteria used to assess when a property has commenced commercial production include, among other considerations:

- the level of capital expenditures incurred relative to the expected costs to complete;
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce saleable metals;
- the attainment of relevant permits;
- the ability to sustain ongoing production; and
- the achievement of pre-determined production targets.

Management determined the start date of the Veta Grande Mine commercial production to be October 1, 2016.

Functional Currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency involves certain judgements to determine the primary economic environment of an entity. The Company re-evaluates the functional currency of its entities when there is a change in events and conditions which previously determined the primary economic environment of an entity.

Collectability and Classification of Value Added Tax ("VAT") Recoverable

VAT recoverable is collectible from the government of Mexico. The collection of VAT is subject to risk due to the complex application and collection process and therefore, risk related to the collectability and timing of payment from the Mexican government. The Company uses its best estimates based on the facts known at the time and its experience to determine its best estimate of the collectability and timing of these recoveries. At December 31, 2016, the entire balance of $4,367 is expected to be recoverable and collectible within twelve months from the year end. Changes in the assumptions regarding collectability and the timing of collection could impact the valuation and classification of VAT recoverable.

Key Sources of Estimation Uncertainty

The preparation of consolidated financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

Mineral resources estimate

The lives of the Rosario Project and the Veta Grande Project are determined from the tonnes of mineralized material that are available to be extracted at the end of each reporting period. The Company initially estimates the tonnes of mineralized material available based on either the findings of qualified, independent, mining professionals, or on the findings of its own technical staff. These estimates are updated from time to time as additional technical and economic information becomes available. Factors that impact the computation of tonnes of mineralized material available include the geological data on the size, depth and shape of the mineralized body, the prevailing and expected market price for the underlying metals to be extracted and the expected costs to extract and process the mined material. Changes in the mineable tonnes of mineralized material available may impact the carrying values of mine properties, exploration and evaluation properties, plant and equipment, site closure and reclamation provision and changes in the recognition of deferred tax amounts in addition to changes in the recognition of depreciation and depletion.

Review of asset carrying values and impairment assessment

The assessment of the fair value of plant and equipment, mine properties and exploration and evaluation properties requires the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair values could impact the impairment analysis.

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less costs of disposal ("**FVLCTD**") or value in use ("**VIU**").

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, metal prices and forecasts, production budgets and forecasts, and life-of-mine estimates.

The determination of FVLCTD and VIU requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, discount rates, mineral resources, operating costs, taxes and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

Based on the review of the Rosario Mine CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred at the Rosario Mine CGU, primarily as a result of the actual performance being less than expected. The recoverable amount for Rosario Mine was determined by reference to a FVLCD model and exceeded the carrying value of the CGU at December 31, 2016 by $1,866. As such is the case, no impairment charge has been recognized on the Rosario Mine in the profit or loss in 2016.

The recoverable amount of the Rosario Mine CGU is classified as level 3 under the fair value hierarchy. In arriving at FVLCD, post-tax cash flows expressed in real terms have been estimated until the end of the life of mine plan and discounted using an asset specific post-tax discount rate of 10%.

Significant assumptions included within the FVLCD for Rosario Mine include silver, gold, lead and zinc future prices, forecast production rates, discount rate, operating and capital costs and estimates of mineral resources including measured, indicated and a portion of inferred.

Year End Commodity Price Assumptions	2017 $	2018 $	2019 $	2020 $	2021 and after $
Silver (per oz)	16.38	17.00	17.00	17.00	17.00
Gold (per oz)	1,163	1,100	1,100	1,100	1,100
Lead (per lb)	1.00	0.80	0.80	0.80	0.80
Zinc (per lb)	1.00	1.00	1.00	1.00	1.00

The assumptions subject to the most estimation uncertainty for the FVLCD calculation is the commodity prices. To illustrate this sensitivity, the recoverable amount would be reduced by $685 if the commodity prices declined by 1% and the carrying value would exceed the recoverable amount if commodity prices declined greater than 10% with all other assumptions remaining equal.

Management's impairment evaluation did not result in the identification of an impairment loss on the Rosario Mine as at December 31, 2016. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

Based on the review of the San Felipe project CGU for impairment indicators, it was identified that there were indicators that an impairment loss may have occurred, primarily as a result of the subsequent disposition of the San Felipe project.

Fair value of derivative assets and liabilities

The fair value of the derivative assets and liabilities are determined using the Black-Scholes pricing model at each reporting period and changes in fair value recorded in profit and loss. The Black-Scholes pricing model utilizes assumptions including silver, gold, lead and zinc commodity price volatility, and counterparty credit adjusted discount rate. Changes in these input assumptions can significantly affect the fair value estimate. Fair value of the foreign exchange forward contacts is determined based on the discounted payoff on maturity date.

Decommissioning and restoration provision

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. In addition, future changes to environmental laws and regulations may increase the extent of reclamation and remediation work required to be performed by the

Company. Increases in future costs could materially impact the amounts charged to operations for site closure and reclamation. The provision represents management's best estimate of the present value of the future site closure and reclamation obligation.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases and changes in interest rates, changes in mine life, and as new information concerning the Company's closure and reclamation obligations becomes available.

Deferred taxes

The determination of the tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on its best estimate of the probable outcome of these matters.

Share-based Payments

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award’s vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility, expected life of the option, risk free interest rates, and forfeiture rates. Different estimates of input assumptions could have resulted in a significantly different fair value estimate.

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 May 1, 2017 in the following table.

Issued and Outstanding Common Shares				154,490,984
	Expiry Date	Exercise Price (CDN$)		
Options				
	February 10, 2021	0.15	4,500,000	4,500,000
Warrants				
	December 31, 2018	$0.55	3,750,000	
	January 14, 2019	$0.55	18,965,000	22,715,000
Fully Diluted				181,705,984

Subsequent Events

San Felipe Project
On March 2, 2017, pursuant to the ASC Transaction the Company assigned 100% of its interest in the San Felipe project to Americas Silver for $7,000 paid on execution of the agreement, comprised of $5,000 to the Company and $2,000 to Hochschild.

From the proceeds of $5,000 received by the Company, $4,250 was paid to JMET, thereby reducing the amount outstanding on the JMET Note to approximately $750. Upon closing of the First Majestic Transaction, the residual balance on the JMET Note of $750 was repaid in full with $1.5 million in restructuring fees remaining outstanding.

In consideration for financial advisory services rendered in connection with the transaction, the Company issued 390,000 common shares, at an issue price of CAD$0.335 per share, to an arms-length consultant.

El Gachi Property
On March 28, 2017, the Company sold its interest in the El Gachi property in Sonora State, Mexico to First Majestic for total consideration of $2,500. Of the total proceeds received by the Company, approximately $750 was be paid to JMET as partial re-payment of its outstanding loan and $580 was be paid to Hochschild, the optionor of the San Felipe project.

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 year ended December 31, 2016 and this accompanying MD&A (together, the "Annual Filings").

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

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.

Outlook

Starting in the fourth quarter of 2015 and carrying on through the first quarter of 2017 management's key objective has been to de-risk the Company's operations. This process has involved several steps including:

Mineral property acquisition and development

- Acquiring the rights to mine and explore a high quality, advanced stage development project, being the Veta Grande Project located in Zacatecas, Mexico;
- Building on its operational base in Zacatecas with the addition of the Zacatecas Properties from Golden Minerals bringing the Company's total land package in Zacatecas to approximately 8,900 hectares;
- Methodically developing the Veta Grande Project to the point that it has achieved commercial production status;

- Completing a NI 43-101 compliant resource estimate on the Panuco Deposit providing the first independent evidence of the mineral potential of the Veta Grande Project and surrounding properties;
- Acquiring the right to mine and explore another high quality, advanced stage development project, being the Cinco Estrellas Property located in San Luis Potosi, Mexico, proximate to the Rosario Mine;
- Accelerating the development of the Cinco Estrellas Property such that it is now providing mineralized material to the Rosario Project milling facility augmenting the material mined and milled from the Rosario property;

Deleveraging the Company's balance sheet

- Completing the Offering which provided the Company with working capital as well as allowing it to restructure its senior debt facility with JMET such that the revised terms allowed the Company to more appropriately manage its operations while also servicing its indebtedness;
- Completing the ASC Transaction and First Majestic Transaction in the first quarter of 2017 which substantially reduced it senior debt facility with JMET;

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;
- Continue to assess the availability and acquire if economically viable additional prospective mineral properties proximate to the Rosario Project milling facility so as to utilize to full capacity that facility;
- Complete surface and if appropriate underground drilling campaigns at the Veta Grande Project, Cinco Estrellas Property and Rosario Project 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 decisions to commence the production phase at the Rosario Mine, the Veta Grande Project and the Cinco Estrellas property 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.

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.